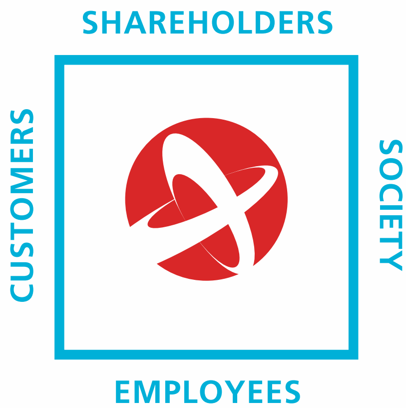
中油燃氣集團有限公司
CHINA OIL AND GAS GROUP LIMITED

(Incorporated in Bermuda with Limited Liability)
Stock Code: 603

Annual Report 2012

Contents

Enterprise Culture



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!

OUR CULTURE:

- Integrity
- Rewards
- Excellency
- Harmony

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 VISION:

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

Financial Highlights

	Notes	**2012**	2011	**(+/-)**	2010	(+/-)	2009	(+/-)
Revenue (HK$ million)		**4,889**	4,391	**11%**	2,626	67%	1,721	53%
Gross Profit (HK$ million)		**1,102**	901	**22%**	578	56%	408	42%
Total Sales on Gas Volume (million m^3)		**1,930**	1,585	**22%**	1,273	25%	965	32%
Total Transmission Gas Volume (million m^3)		**1,731**	1,228	**41%**	824	49%	762	8%
Total Transportation Gas Volume (million m^3)		**100**	92	**9%**	86	7%	62	39%
Profit for the Year (HK$ million)		**734**	500	**47%**	354	41%	253	40%
Profit attributable to equity holders of the Company (HK$ million)		**366**	209	**75%**	165	27%	132	25%
Earnings per share (HK cents)		**7.40**	4.22	**75%**	3.35	26%	2.96	13%
EBITDA	*(a)*	**1,134**	807	**41%**	558	45%	403	39%
Total Assets (HK$ million)		**9,188**	7,102	**29%**	4,466	59%	3,365	33%
Net Assets (HK$ million)		**5,027**	4,198	**20%**	3,252	29%	2,223	46%
Net Assets Value per share (HK cents)	*(b)*	**64**	56	**14%**	49	14%	37	32%
Cash per share (HK cents)	*(c)*	**49**	41	**20%**	24	71%	24.00	–

Notes:

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

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

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

Operation Map

Main trunk pipelines

- West-to-East line 1
- West-to-East line 2
- West-to-East line 3 (under construction)
- Se-Ning-Lan line
- Shaan-Jing line 4
- Shaan-Jing line 3
- Chang-Zi Line
- Zhong-Wu Line
- China-Burma line (under construction)

Company operating assets/data

- Branch pipeline
- City gas project with concession right
- LNG processing plant
- CNG/LNG station
- Province with natural gas sales volume > 500mn m³ in 2012
- Province with natural gas sales volume between 50-500mn m³ in 2012
- Province with natural gas sales volume < 50mn m³ in 2012
- Province to enter in near term

Note: For illustrative purpose only, actual scale and location might differ slightly

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") and liquefied natural gas ("LNG").

As a piped city natural gas service provider, the Group supplies city natural gas through long-distance transmission pipelines. With 51 concession 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 plants in Qinghai Province, People's Republic of China ("PRC"). 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 29 CNG stations, 6 LNG stations and 1 L/CNG station 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 completed 822 km branch lines in Qinghai, Hunan, Jiangsu, Jiangxi and Shandong Province. Apart from bringing stable natural gas transmission revenue, the branch line constructions will also help the development of projects along the down-stream.

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

Corporate Profiles

(continued)

MAIN PROVINCES

Qinghai Province

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 250,000m^3 each, have allowed end users to enjoy natural gas in areas where pipelines have not been reached.

Shandong Province

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 Company Limited 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 have been put into operation in 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.

Hunan Province

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.

Jiangsu Province and Anhui Province

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 few CNG stations will be put into operations in the coming year. Two major branch lines were built within this district: namely 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).

Other Provinces (Guangdong, Jiangxi, Hubei, Ningxia, Shanxi Provinces)

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. The 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

CORPORATE GOVERNANCE COMMITTEE

XU Tie-liang *(chairman)*
ZHU Yuan
GUAN Yijun
CHEUNG Shing
LAW Yin Shan Jenny
CHAN Yuen Ying Stella

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
26 Burnaby Street
Hamilton HM 11
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

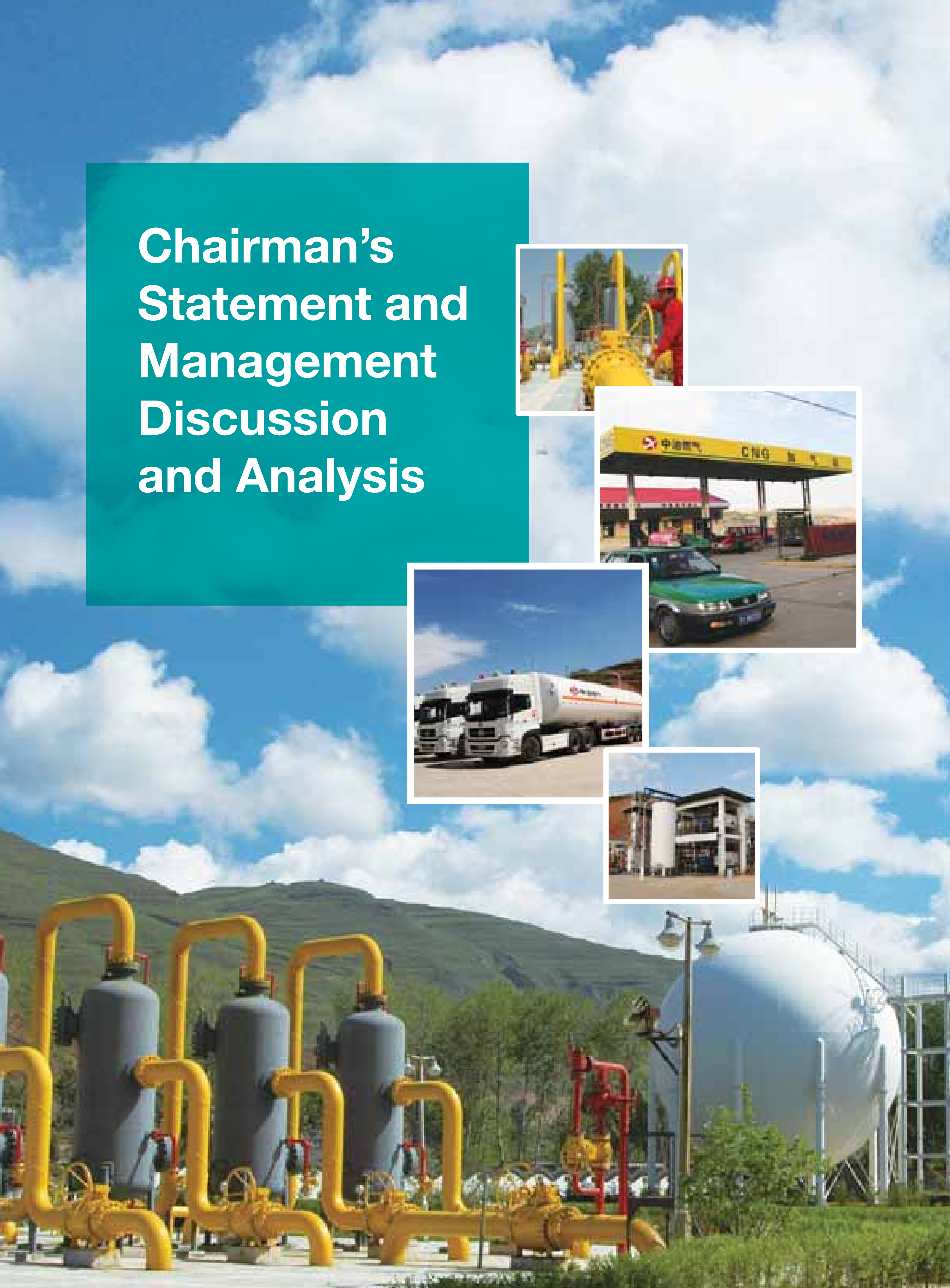
STOCK CODE

603

WEBSITE AND E-MAIL ADDRESS

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

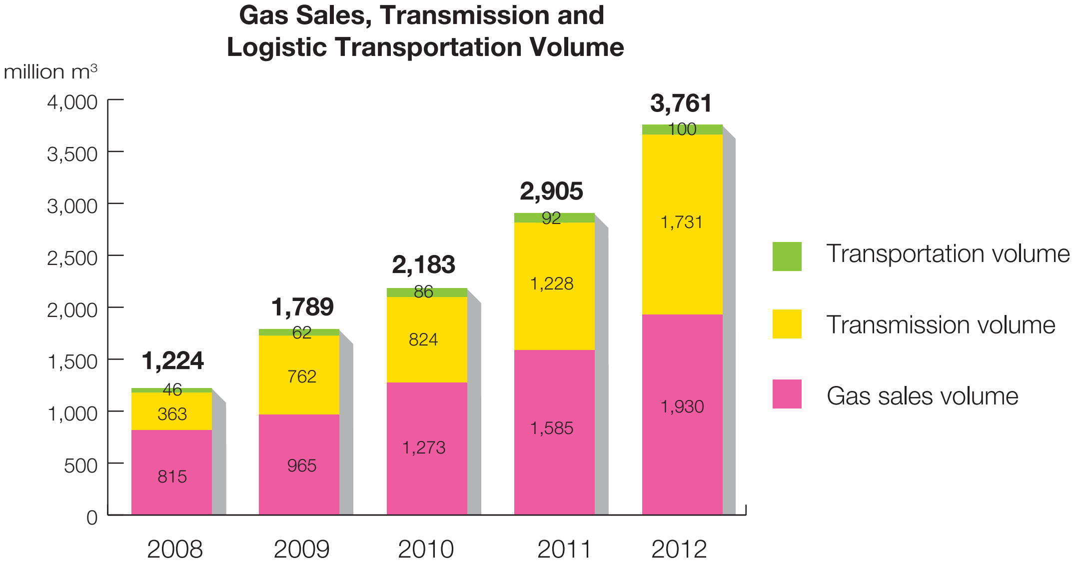
Chairman's Statement and Management Discussion and Analysis



Chairman's Statement and Management Discussion and Analysis

BUSINESS REVIEW

In 2012, facing amid complicated and volatile economic conditions and market competition, the Group devoted effort on market development and enhancing management, together with our motivated employees, the Group successfully maintained its rapid growth in various business. The Group recorded a revenue of HK$4,889 million, representing an increase of 11% from last year. Profit for the year was HK$734 million, of which, the Group's profit attributable to the owners to the Company was HK$366 million, representing a jump of 75% from HK$209 million of 2011. Total gas sales and transmission volume reached 3.761 billion m^3 during the Year, where gas sales volume increased by 22% to 1.930 billion m^3 and gas transmission volume increase by 41% to 1.731 billion m^3 from last year. As at 31 December 2012, the Group had total assets of HK$9,188 million, representing an increase of 29%, and net assets at the end of 2012 was HK$5,027 million, representing an increase of 20%.



Chairman's Statement and Management Discussion and Analysis

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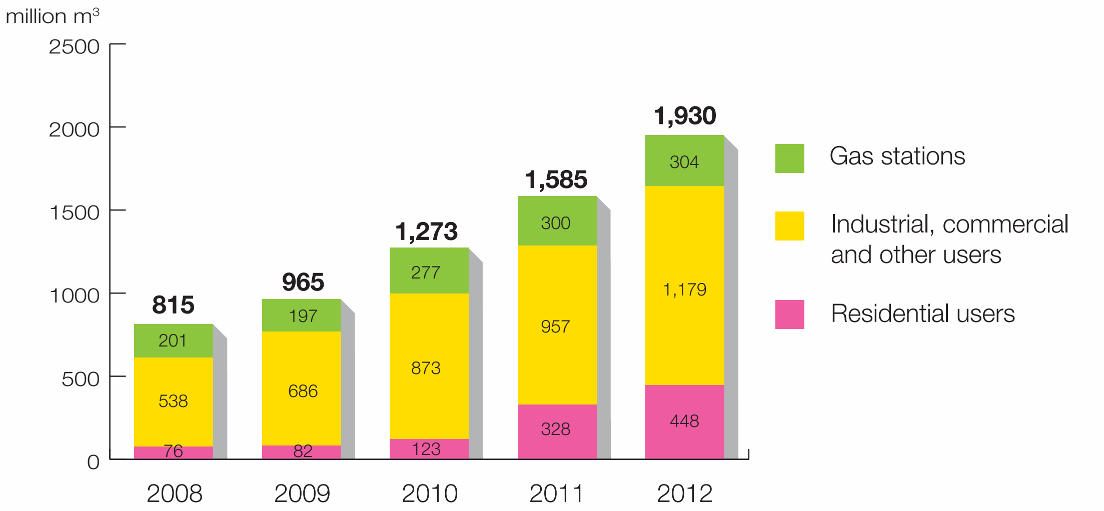
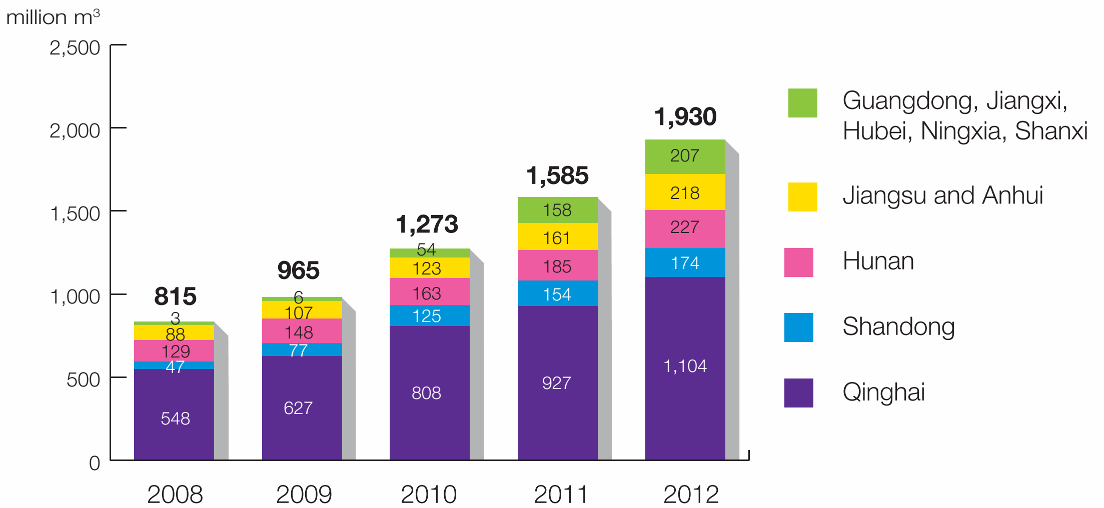
Gas Sales Volume (By Category)



Gas Sales Volume (By Region)



City gas projects

During 2012, the Group fully utilized its advantages in resources and management, actively selected projects, and achieved a significant result in market development. 10 project companies were newly incorporated, and 1 project company was acquired and 6 city gas concession rights were granted in Zhanhua County of Shandong, Shangji town, Zunyi County of Guizhou, Dongtai City of Jiangsu, Haian County of Jiangsu, Zhuzhou City of Hunan and Ledu Industrial Park of Qinghai. Currently, the Group has established a total of 91 gas project companies in 14 provinces of China and possessed 51 city gas concession rights. The Group completed new connections to 100,940 residential households, and 1,209 industrial, commercial and other users during the year, and had aggregate connections to approximately 523,400 residential households, and 4,690 industrial, commercial and other users. The city and courtyard pipeline network was extended by 977 km, and in aggregate 4,428 km.

Chairman's Statement and Management Discussion and Analysis
(continued)

Promotion of LNG business

The Group established a special LNG leading group and achieved remarkable result in LNG business. To speed up the promotion and use of gas instead of oil, the Group established demonstration project for "Converting vehicles to natural gas" in Chenzhou of Hunan, Shaoguan of Guangdong and Binzhou of Shandong and demonstration project for "Converting vessels to natural gas" in the basins of Gan River in Jiangxi. As of 31 December 2012, 1,600 LNG vehicles were developed, and there were 4,100 vehicles with the intention for conversion; 5 LNG vessels in the Gan River basin were converted and commenced operation and 10 trial vessels were in the progress of conversion. The Group has been planning for the construction of LNG stations in Qinghai, Guangdong and Shandong. The Group also expanded the scale of the logistics fleet by acquired a number of mobile LNG fueling tankers and transport vehicles to strengthen the LNG transport and distribution capacity.

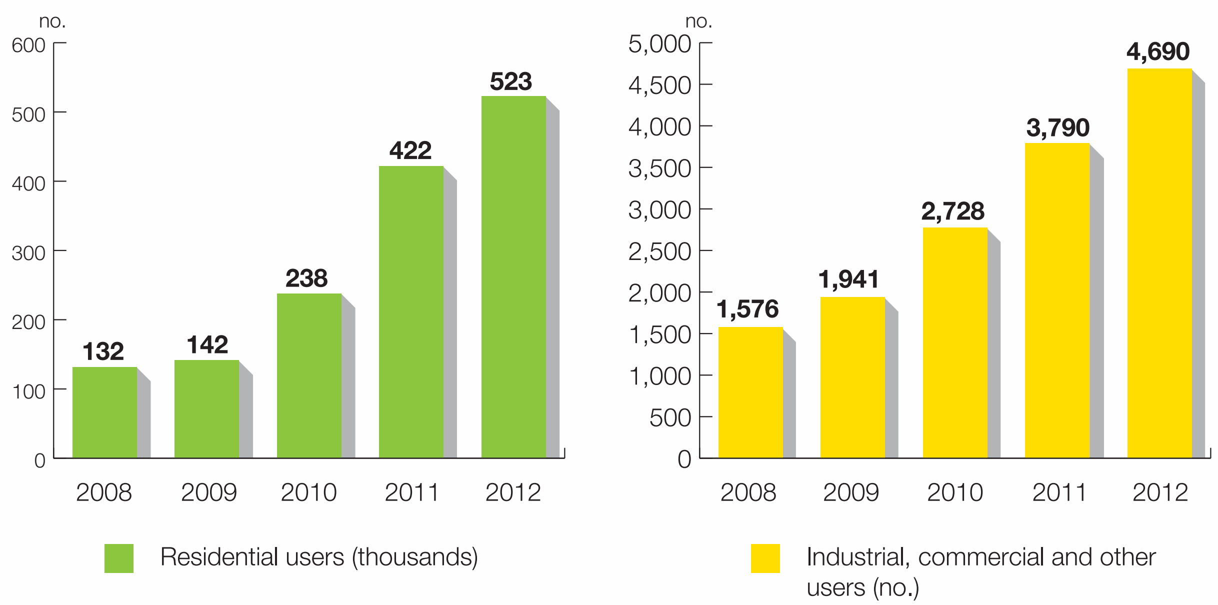
Natural gas branch line projects

During 2012, as an operator for the construction and operation of natural gas branch pipelines, the Group completed the construction of Zouping natural gas utilization project, Gaoqing – Binzhou High-tech Zone pipeline project, Xining piped city network, the Gan River branch pipeline, Xinyi high-pressure pipeline and Pingdong Economic Zone high-pressure pipeline. 251 km new high-pressure pipeline was added in the year, and 822 km was completed in aggregate, with a total designed transmission capacity of 11.7 billion m^3 per year. Approximately 200 km of branch lines will be constructed in 2013.

Station projects

The Group currently has 2 LNG plants, 29 CNG stations, 6 LNG stations, 1 L/CNG station, 10 stations under construction (including 9 CNG stations and 1 LNG station) and over 10 stations under preparation, all expected to be completed by the end of 2013.

Number of Users



Chairman's Statement and Management Discussion and Analysis

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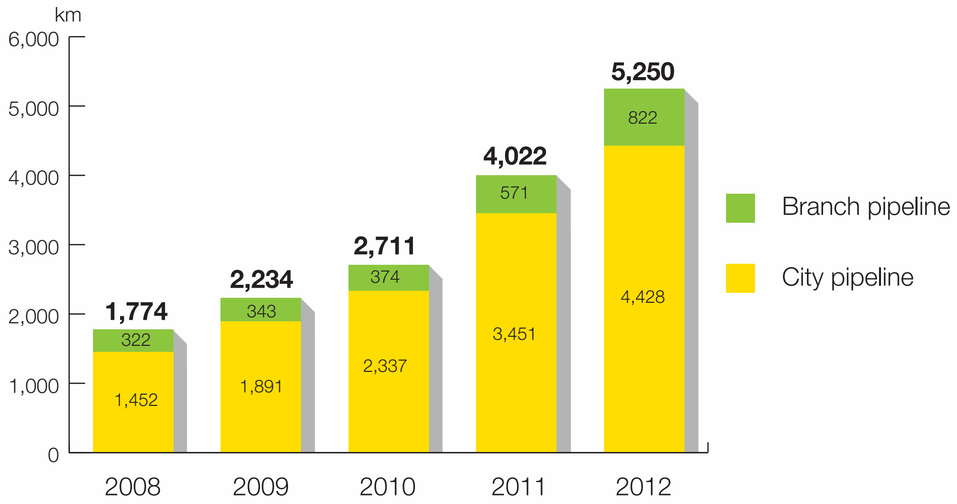
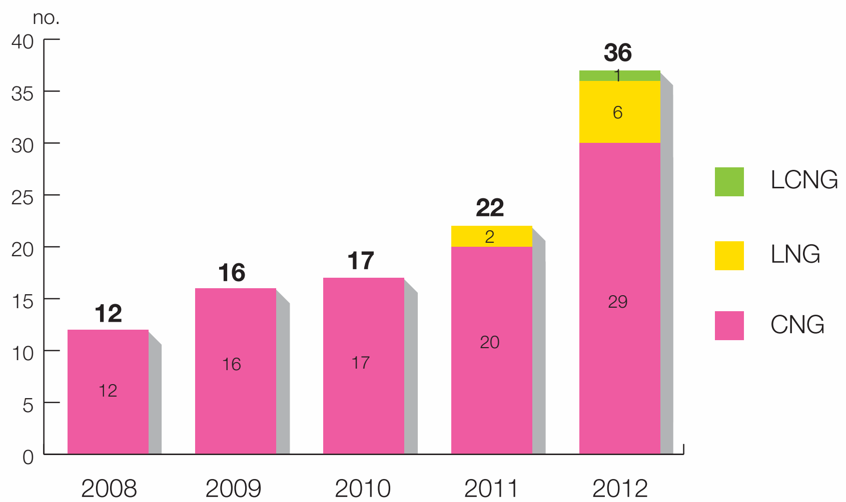
Length of Pipeline



Number of Gas Stations



BUSINESS PROSPECT

The natural gas business of the Group is now in a period with abundant strategic opportunities for rapid development. The main reasons are:

1. The enhanced natural gas supplies capacity. The outbreak of the international financial crisis and the breakthrough in U.S. shale gas development had made a significant impact on the supply pattern of global natural gas market and displayed a trend of decrease in the correlation of natural gas spot price and oil prices. The further enhancement in the global natural gas supply capability could fully satisfy the needs of economic development. According to the signed contracts, the amount of annual imported natural gas of China will reach approximately 93.5 billion m^3 in 2015. Domestic natural gas production maintains rapid growth for ten years and the supply capability will reach 176 billion m^3 in 2015.

Chairman's Statement and Management Discussion and Analysis

(continued)

2. Rapid growth in natural gas demand in China. With the in-depth development of urbanisation in China, the demand for natural gas will be further enhanced by the expanding urban population. The speed up of the natural gas development and the increase in proportion of natural gas in the China primary energy consumption pattern could significantly reduce the emission of greenhouse gases such as carbon dioxide and other pollutants such as fine particulate and achieve the targets of energy conservation and emission reduction and environment improvement, which was the realistic choice for China to achieve the optimal adjustment in energy structure and the urgent need of strengthening energy conservation and emission reduction. Currently, natural gas accounted for 4.6% in the primary energy consumption of China, which was far from the average international level of 23.8%. During the Twelfth Five-Year period, it was expected that the average annual additional natural gas consumption will be over 20 billion m^3 and reach 230 billion m^3 in 2015. The natural gas population in city and county of China will reach approximately 250 million or 18% of the total population in 2015.

3. Enhancement of the natural gas infrastructure capability in China. As of the end of 2011, natural gas trunk pipelines reached 50,000 km. During the Twelfth Five-Year period, newly built natural gas pipelines (including branch lines) will reach 44,000 km and the transmission capacity of the newly built pipelines will reach 150 billion m^3 per year. Working volume of gas storage facilities will reach 22 billion m^3 and account for 9% of the total natural gas consumption in 2015. The storage capacity for urban emergency and supply adjustments will reach 1.5 billion m^3. At the end of the Twelfth Five-Year period, the main artery of West to East, Sichuan to East Gas Transmission, Shaanxi-Beijing Pipeline and Coastal Main pipeline will be initially formed and connecting the nationwide trunk pipeline network of four major strategic import channels, major production areas, consumption areas and gas storage facilities, thus forming a gas supply landscape of multi-gas supply, multi-way adjustments and smooth and safe supply.

4. Sufficient LNG supply in China. Currently, 6 LNG terminals were built in China with an annual handling volume of 30 million tones. During the Twelfth Five-Year period, about 30 LNG factories will be built in China with an aggregate daily handling scale of 40 million m^3.

5. After years of development, the Group gained extensive experience in market development and management, and owned a pool of technical, professional and management talents, at the same time, with the joint venture with China Petroleum, the Group possessed advantage of natural gas resources, which jointly laid a solid foundation for the Group's development.

Chairman’s Statement and Management Discussion and Analysis
(continued)

2013 is a critical year for the Group to implement the development planning for the Twelfth Five-Year Plan. The Group will insist on the “one body with two wings” strategy, that is taking city gas as the body and natural gas branch line construction and operation and LNG business as the two wings, and stick to the Twelfth Five-Year development plan. It will adopt a result oriented approach, taking the market as the key while basing on good management and emphasising on safety. In this way, the Group will endeavor to become a first class gas enterprise through actively expanding its market and enhancing management standard. In 2013, the Group will closely monitor the construction of branch pipelines, and increase sales and volume of projects which have commenced operation with focus on gas usage by households, industrial and commercial users. For projects completed recently, we will seek to build up their scale of gas supply quickly. We will target Guangxi, Fujian, Gansu, Shaanxi and Xinjiang as our key market, and focus on major project in Gan River of Jiangxi that are in line with the natural gas utilisation policy and advance such projects with great effort. Meanwhile, the Group will coordinate the LNG business and the market development of city gas, and leverage on the LNG business to secure city gas concession rights and at the same time promote the steady development of LNG business with the concession rights. For regions not yet covered by our pipelines, we will seize and cultivate the market with LNG and develop LNG business inside and outside the regions at a fast pace. The Group will focus on strengthening the cooperation with public transportation, long-distant transportation, shipping and logistics companies, and accelerate the construction of LNG demonstration projects to build up the business arising from using natural gas to replace oil.

Future Business Strategies

In order to maintain the Group’s sustainability and presentation of value over the longer term, the Group will continue to look for suitable investment opportunities and projects in other areas characterised by stable cash inflows and simple management mechanism.

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 2012 (“Year”).

FINAL DIVIDEND

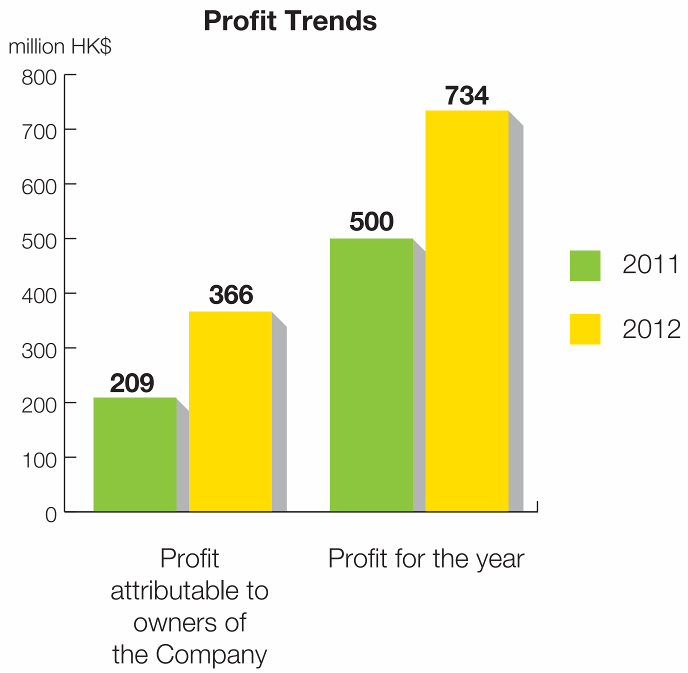
The board of Directors of the Company (the “Board”) resolved to recommend to the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Monday, 29 April 2013 a final dividend of HK cent 0.65 (2011: Nil) per share to be paid on Tuesday, 21 May 2013 to those shareholders whose names appear on the register of members of the Company on Wednesday, 8 May 2013. The final dividend will amount to approximately HK$32,275,140 (2011: Nil).

Chairman's Statement and Management Discussion and Analysis

(continued)

FINANCIAL RESULTS

For the Year, the Group recorded a revenue of HK$4,889 million (2011: HK$4,391 million), representing an increase of approximately 11%. The Group's cost of sales was HK$3,787 million (2011: HK$3,490 million), representing an increase of approximately 9%. Gross profit amounted to HK$1,102 million (2011: HK$901 million) with an increase of approximately 22%. The Group's profit attributable to the owners of the Company was HK$366 million (2011: HK$209 million), which recorded an increase of approximately 75%. Basic earnings per share were HK cents 7.40 and HK cents 4.22 for the two years respectively, representing an increase of 75% compared with the same period of last year.



The revenue of the sales of natural gas amounted to HK$4,310 million representing an increase of 21% as compared with HK$3,548 million in last year and 88% of overall revenue. Gas pipeline construction and connection income amounted to HK$496 million representing an increase of 26% as compared with HK$395 million in last year and 10% of the total revenue. The increase in gross profit margin by 2% to 23% was mainly attributable to the changes in the income structure of the Group, in particular, the Group paid more emphasis on the development of the sales and distribution of natural gas business.

During 2012, the Group's total gas sales, transmission and transportation volume reached 3,761 million m^3, increased by 29% as compared to 2,905 million m^3 for last year. Total gas sales increased by 22% from last year's 1,585 million m^3 to the Year's 1,930 million m^3; whereas transmission volume increased by 41% from 1,227 million m^3 to 1,731 million m^3; transportation gas volume was up by 9% from last year's 92 million m^3 to current year's 100 million m^3.

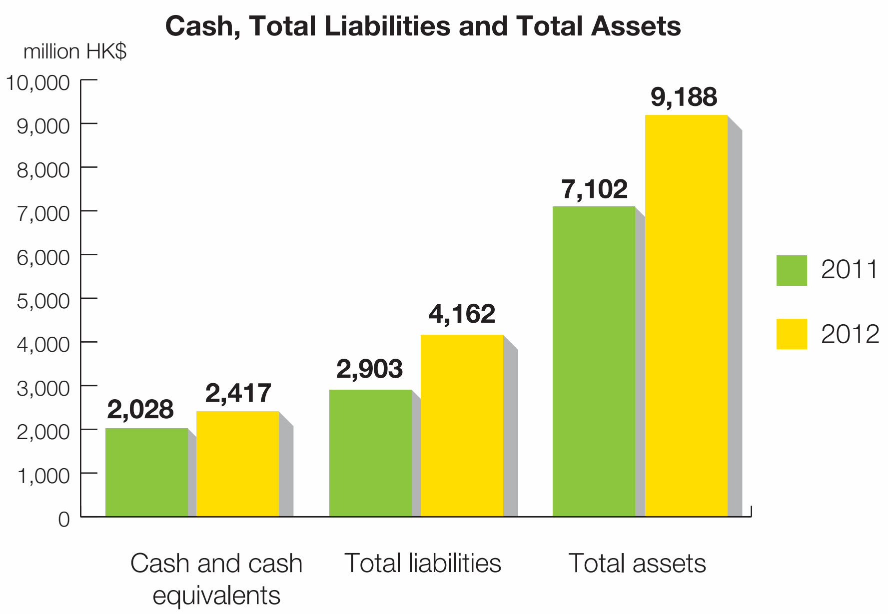
The Group's administrative expenses for the Year were HK$248 million (2011: HK$204 million), representing approximately 5% of the total revenue of the Group. Finance cost increased by 15% to HK$38 million from last year's HK$33 million.

Chairman's Statement and Management Discussion and Analysis
(continued)

FINANCIAL POSITION

As at 31 December 2012, the Group had cash and cash equivalents of approximately HK$2,417 million (2011: HK$2,028 million). The Group's total borrowings amounted to HK$2,357 million (2011: HK$1,350 million). All bank borrowings were unsecured with average interest rate at 3.1% (2011: 6.5%) per annum. Save for the borrowings mentioned above, the Group has no other bank borrowings or overdrafts.

As at 31 December 2012, the Group had total assets of HK$9,188 million (2011: HK$7,102 million), and among which current assets were HK$4,071 million (2011: HK$3,078 million). Total liabilities of the Group were HK$4,162 million (2011: HK$2,903 million), and among which current liabilities were HK$2,945 million (2011: HK$1,937 million). The debt ratio of the Group, measured on the basis of total liabilities as a percentage to total assets, was 45% (2011: 41%). The current ratio of the Group was 1.38 (2011: 1.59) and quick ratio was 1.31 (2011: 1.50). Attention is drawn to the Group's current liabilities which included receipt in advance of approximately HK$1,147 million (2011: HK$1,005 million).



EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2012, the Group employed a total workforce of approximately 3,435 (2011: 2,915) where mostly were stationed in the PRC. The staff costs for the Year amounted to HK$206 million (2011: HK$164 million). 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 part of its equity interest (actual capital investment at the time of drawdown) in China City Natural Gas Co., Ltd. ("CCNG"), a subsidiary owned as to 51% by the Group, as security for a borrowing of HK$700,000,000 granted by China Petroleum HongKong (Holding) Limited.

Apart from the above, no other assets of the Group have been pledged as at 31 December 2012.

Chairman's Statement and Management Discussion and Analysis
(continued)

CONTINGENT LIABILITY

The Group has no material contingent liability as at 31 December 2012.

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 2012, 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

The Company announced on 20 March 2012 the proposal relating to the reduction of the share premium from approximately HK$1,964,143,000 to HK$1,564,143,000 by cancelling the amount of HK$400,000,000 standing to the credit of the share premium account of the Company, with part of the credit arising therefrom being applied towards offsetting the entire amount of the accumulated losses of the Company and the remaining balance being credited to the contributed surplus account of the Company. A special resolution for approving the aforesaid proposal was passed by the shareholders of the Company at the annual general meeting of the Company held on 9 May 2012 ("2012 AGM"). Details of the proposal are set out in the circular of the Company dated 5 April 2012.

During the Year, a total of 13,290,000 share options had been exercised by the employees of the Group at the exercise price of HK$0.43 per share.

As at 31 December 2012, the issued share capital of the Company was HK$49,654,062.13 divided into 4,965,406,213 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, 12 March 2013

Biographical Details of Directors

CHAIRMAN, CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR

Mr. Xu Tie-liang, aged 49, 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. Mr. Xu is the chairman of the Corporate Governance Committee of the Company (the "CG Committee"). He is currently the managing director of CCNG, and 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, 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. 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. Xu is the spouse of Ms. Guan Yijun (an executive Director of the Company). Mr. Xu is the sole director and the ultimate beneficial owner of Sino Advance Holdings Limited and Sino Vantage Management Limited which hold 321,018,300 and 794,260,000 ordinary shares of the Company respectively (totally representing approximately 22.46% of the total issued shares of the Company as at the date of this annual report).

EXECUTIVE DIRECTORS

Mr. Zhu Yuan, aged 60, 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. Mr. Zhu is a member of the CG Committee. 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 Pingxiang China Oil And Gas Company Limited (萍鄉中油燃氣有限公司), Shaoguan China City Natural Gas Company Limited (韶關中油中泰燃氣有限公司), Zhuhai China City Natural Gas Logistics Company Limited (中油中泰物流(珠海)有限公司), Jining Zhongtai Coal-Chemical Company (濟寧中泰煤化有限公司) and Alta International Finance Lease Company Limited (恒泰國際融資租賃有限公司) (all are subsidiaries of the Company) and etc. He has deep research and extensive experience in investment and operation of the usage of natural gas, city gas and liquefied natural gas projects. Mr. Zhu did not hold directorships in other listed public companies in the past three years.

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

Biographical Details of Directors

(continued)

Ms. Guan Yijun, aged 48, 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. Ms. Guan is a member of the CG Committee. 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 19 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. 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.

Ms. Guan is the spouse of Mr. Xu Tie-liang (the Chairman, the Chief Executive Officer and an executive Director of the Company), and therefore, is deemed to be interested in 321,018,300 and 794,260,000 ordinary shares of the Company (totally representing approximately 22.46% of the total issued shares of the Company) held by Mr. Xu through Sino Advance Holdings Limited and Sino Vantage Management Limited indirectly as at the date of this annual report.

Mr. Cheung Shing, aged 60, was appointed as an executive Director of the Company on 13 January 2006. He is a director of certain subsidiaries of the Company. Mr. Cheung is a member of each of the CG Committee, 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 (now known as 'Yanchang Petroleum International Limited'), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") up to 3 September 2010 and 6 October 2010 respectively. He is currently a visiting lecturer of Jiangxi University of Finance and Economics, the vice president of Hong Kong General Association of International Investment (香港國際投資總商會) and the vice president 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.

Biographical Details of Directors
(continued)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Yunlong, aged 61, 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 16 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.

Mr. Shi Xun-zhi, aged 78, 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 (北京石油學院) (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, 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. 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 49, 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 28 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 2012.

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 2012 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 41 to 111.

The Board resolved to recommend to the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Monday, 29 April 2013 ("2013 AGM") a final dividend of HK cent 0.65 (2011: Nil) per share to be paid on Tuesday, 21 May 2013 to those shareholders whose names appear on the register of members of the Company on Wednesday, 8 May 2013. The final dividend will amount to approximately HK$32,275,140 (2011: Nil).

CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the shareholders to attend and vote at the 2013 AGM, the register of members of the Company will be closed from Friday, 26 April 2013 to Monday, 29 April 2013 (both days inclusive) during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 2013 AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 25 April 2013.

For determining the entitlement of the shareholders to the proposed final dividend, the register of members of the Company will be closed from Tuesday, 7 May 2013 to Wednesday, 8 May 2013 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited for registration no later than 4:30 p.m. on Monday, 6 May 2013.

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 112. 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 for the year ended 31 December 2012 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.

Report of the Directors
(continued)

SHARE CAPITAL

Details of movement in the Company's share capital during the year are set out in note 31 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 31(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 31(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 recognize 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 31(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 2012, other than those purchased by its trustee for the Restricted Share Award Scheme adopted on 4 November 2011.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the amount standing to the credit of the Company's share premium account in the amount of HK$1,572,081,000 may also be distributed in the form of fully paid bonus shares, and the Company's contributed surplus account in the amount of HK$118,464,000 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:

	2012	2011
	%	%
Purchases		
– the largest supplier	**49.7**	56.5
– five largest supplier combined	**86.5**	89.3
Turnover		
– the largest customer	**2.7**	2.4
– five largest customers combined	**11.7**	10.6

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

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) of the Bye-Laws, Mr. CHEUNG Shing, Ms. GUAN Yijun and Mr. SHI Xun-zhi shall retire from office as Directors by rotation at the 2013 AGM and, being eligible, offer themselves for re-election.

INDEPENDENCE CONFIRMATION

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "SHARE OPTION SCHEME" and "RESTRICTED SHARE AWARD SCHEME" above and in note 31 to the consolidated financial statements, 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.

Report of the Directors
(continued)

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the 2013 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2012, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), are set out below:

Interests in shares, underlying shares and debentures of the Company

Name of Director	Capacity	Long position/ short position	*Notes*	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
XU Tie-liang	Interest in controlled corporations	Long position	1	1,115,278,300	22.461%
GUAN Yijun	Interest of spouse	Long position	1	1,115,278,300	22.461%
ZHU Yuan	Beneficial owner	Long position	2	2,500,000	0.050%

Notes:

1. 321,018,300 ordinary shares and 794,260,000 ordinary shares of the Company are held through Sino Advance Holdings Limited ("Sino Advance") and Sino Vantage Management Limited ("Sino Vantage") respectively, both of which were incorporated in the British Virgin Islands with limited liability and are 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.

   Ms. Guan Yijun is the spouse of Mr. Xu Tie-liang and is deemed to be interested in these 321,018,300 ordinary shares and 794,260,000 ordinary shares of the Company held through Sino Advance and Sino Vantage respectively.

2. These 2,500,000 shares include (1) 1,050,000 share options granted by the Company to Mr. Zhu Yuan exercisable into 1,050,000 shares of the Company; and (2) 1,000,000 restricted shares granted to Mr. Zhu Yuan pursuant to the Restricted Share Award Scheme.

Save as disclosed above, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company which were recorded on the register required to be kept under section 352 of the SFO or notified to the Company and the Stock Exchange pursuant to the Model Code as at 31 December 2012.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2012, 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	6.465%
Sino Vantage *(Note)*	Beneficial owner	Long position	794,260,000	15.996%
Sino Best *(Note)*	Interest in controlled corporations	Long position	1,115,278,300	22.461%

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 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the 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

The following connected transaction that has balance at the end of the year 2012:

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 for five years at an annual interest rate of 3.7% payable half yearly.

The Guarantors have pledged their actual capital investment 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 61.92% 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.

Report of the Directors
(continued)

For the year ended 31 December 2012, the Group has the following continuing connected transactions:

Exempt Continuing Connected Transaction

The following continuing connected transaction constitutes an exempt continuing connected transaction of the Company under Chapter 14A of the Listing Rules:

Appointment of Trustee for Restricted Share Award Scheme

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. Service fee will be payable by the Company to the Trustee according to the share award trust deed entered into between the Company and the Trustee on 4 November 2011. The payment of the service fees to the Trustee constitutes a continuing connected transaction of the Company, but is exempt from reporting, annual review, announcement and independent shareholders' approval requirements under Rule 14A.33(3) of the Listing Rules.

No service fee has been paid to the Trustee for the financial year ended 31 December 2012.

Non-exempt Continuing Connected Transactions

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

Exclusive Strategic Framework Agreement for the Provision of Coalbed Methane

1. 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 Company Limited ("PetroChina") which indirectly owns approximately 58.50% of the issued share capital of KunLun Energy, 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 2012 is RMB4,100,000,000.

   RMB2,347,000 was paid to PetroChina CBM for the provision of CBM for the year ended 31 December 2012.

Tenancy Agreement

2. 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, 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, hence, is a connected person of the Company.

Report of the Directors
(continued)

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 2012 is RMB2,000,000.

Rental payment of RMB650,000 has been made to PetroChina Anhui for the year ended 31 December 2012.

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 29 December 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 and its subsidiaries (collectively, "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 2012 are as follows:

	Revised caps	**Actual fees paid and payable**
	RMB'000	RMB'000
Qingyun Contract	55,000	12,379
Liling Contract	580,000	434,217
Huimin Contract	75,000	47,856
Xining Contract	1,500,000	1,156,104
Binzhou Contract	575,000	224,685
Anhui Contract	130,000	97,400
Jiangdu Contract	380,000	45,695

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 dated 14 March 2009 as supplemented by the supplemental agreement entered into on 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 2012 are as follows:

	Caps	**Actual fees paid and payable**
	RMB'000	RMB'000
Taizhou Contract	280,000	72,686
Nantong Contract	150,000	104,633
Xiantao Contract	120,000	50,939
Wuhan East Letter of Intent	60,000	22,856
Yinchuan Contract	85,000	57,354

Report of the Directors
(continued)

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 International") 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 International agreed to provide Shuanghe Coal Mine with finance lease services for the three years ending 31 December 2013.

   70% equity interest of Shuanghe Coal Mine is indirectly owned by Sino Director Limited of which 8% equity interest 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 2012 is RMB290,000,000.

   The actual finance lease amount to Shuanghe Coal Mine for the year ended 31 December 2012 is RMB75,410,000.

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

(i) in the ordinary and usual course of the Group's business;

(ii) on normal commercial terms or on terms no less favourable to the Company than terms available to independent third parties; and

(iii) have been carried out in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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 26 to 28 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.

PUBLIC FLOAT

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

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 30 to 39 of the annual report.

AUDIT COMMITTEE

The Company established the Audit Committee in 1998 with written terms of reference in compliance with Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises three independent non-executive Directors, namely Mr. Li Yunlong (as chairman), Mr. Shi Xun-zhi and Mr. Wang Guangtian. The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2012.

AUDITORS

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.

The consolidated financial statements of the Group for the year ended 31 December 2012 have been audited by PricewaterhouseCoopers. A resolution will be submitted to the 2013 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, 12 March 2013

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("Former CG Code") as set out in Appendix 14 to the Listing Rules, which came into effect on 1 January 2005 and was revised and renamed as Corporate Governance Code and Corporate Governance Report ("New CG Code") with effect from 1 April 2012.

During the year ended 31 December 2012, the Company was in compliance with all code provisions set out in the Former CG Code except for the deviations from code provisions A.2.1 and A.4.1, which are explained below.

Code provision A.2.1 of the Former 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 Former CG Code provides that non-executive directors should be appointed for a specific term and subject to re-election. The independent non-executive Directors are not appointed for a specific term, but they are subject to retirement from office by rotation at least once every three years in accordance with the Bye-Laws.

During the period from 1 April 2012 to 31 December 2012, the Company has also complied with the code provisions set out in the New CG Code except for the deviations from code provisions A.5.5, A.6.7, D.1.4 and E.1.2, which are explained below.

Code provision A.5.5 of the New CG Code requires that where the board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, it should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe he should be elected and the reasons why they consider him to be independent. Such information has not been included in the circular to the shareholders of the Company dated 5 April 2012 which provided the information in respect of the resolutions proposed for re-election of independent non-executive Directors.

Code provision A.6.7 of the New CG Code requires that independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Shi Xun-zhi and Mr. Wang Guangtian, independent non-executive Directors, did not attend the 2012 AGM due to their engagement in their own official business.

Code provision D.1.4 of the New CG Code requires that issuers should have formal letters of appointment for directors setting out the key terms and conditions of their appointment. The Company did not have formal letters of appointment for Directors (except that Mr. Xu Tie-liang entered into a service contract with the Company on 30 August 2006 for an initial fixed term of two years and his appointment shall continue thereafter until it is terminated pursuant to the terms under the service contract). However, the Directors shall be subject to retirement by rotation in accordance with the Bye-Laws. In addition, the Directors are required to refer to the guidelines set out in "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-executive Directors" (if applicable) published by the Hong Kong Institute of Directors in performing their duties and responsibilities as Directors. Besides, the Directors are required to comply with the requirements under statute and common law, the Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

Code provision E.1.2 of the New CG Code requires that the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. Mr. Wang Guangtian, the chairman of the Nomination Committee, did not attend the 2012 AGM due to his engagement in his own official business.

Save as the aforesaid and in the opinion of the Directors, the Company has met all code provisions as set out in the Former CG Code and the New CG Code during the year ended 31 December 2012.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code. 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.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company, and is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group. The Board reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual and interim results, recommendations on Directors' appointment or re-appointment, approval of major capital transactions and other significant operational and financial matters. The management was delegated the authority and responsibility by the Board for the daily 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. 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 18 to 20 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.

Corporate Governance Report
(continued)

Directors' Training

According to the code provision A.6.5 of the New CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant.

All Directors have participated in continuous professional development and provided a record of training they received for the financial year ended 31 December 2012 to the Company.

The individual training record of each Director received for the year ended 31 December 2012 is set out below:

Name of Director	Briefing on the amendments to the Listing Rules relating to corporate governance matters and associated Listing Rules
Mr. XU Tie-liang	√
Mr. ZHU Yuan	√
Ms. GUAN Yijun	√
Mr. CHEUNG Shing	√
Mr. LI Yunlong	√
Mr. SHI Xun-zhi	√
Mr. WANG Guangtian	√

Chairman and Chief Executive Officer

The Company does not have a separate chairman and chief executive officer, 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, but are subject to retirement by rotation in accordance with the Bye-Laws.

Corporate Governance Report
(continued)

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 2012, the Board held 7 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
Mr. XU Tie-liang	7/7
Mr. ZHU Yuan	7/7
Ms. GUAN Yijun	7/7
Mr. CHEUNG Shing	7/7
Mr. LI Yunlong	7/7
Mr. SHI Xun-zhi	7/7
Mr. WANG Guangtian	7/7

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.

General Meetings

During the year ended 31 December 2012, 1 general meeting of the Company, being 2012 AGM, was held on 9 May 2012.

Name of Director	Number of attendance
Mr. XU Tie-liang	1/1
Mr. ZHU Yuan	1/1
Ms. GUAN Yijun	1/1
Mr. CHEUNG Shing	1/1
Mr. LI Yunlong	1/1
Mr. SHI Xun-zhi	0/1
Mr. WANG Guangtian	0/1

The Board is responsible for maintaining an on-going dialogue with shareholders and in particular, uses annual general meetings or other general meetings to communicate with them and encourage their participation. The Chairman of the Board and the chairmen of the Audit Committee, the Remuneration Committee and the CG Committee attended the 2012 AGM to answer questions and collect views of shareholders.

Corporate Governance Report
(continued)

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 terms of reference of the Nomination Committee is currently made available on the Stock Exchange's website and the Company's website.

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

The function of the Nomination Committee are to review and monitor the structure, size and composition of the Board and made recommendations on any proposed changes to the Board to complement the Group's strategy; to identify qualified individuals to become members of the Board; to assess the independence of the independent non-executive Directors; and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive Officer.

During the year ended 31 December 2012, the Nomination Committee held 1 meeting to assess the independence of the independent non-executive Directors and to consider the re-election of Directors.

Name of member	Number of attendance
Mr. WANG Guangtian	1/1
Mr. LI Yunlong	1/1
Mr. 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 terms of reference of the Remuneration Committee is currently made available on the Stock Exchange's website and the Company's website.

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

The functions of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure on the remuneration packages for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy.

During the year ended 31 December 2012, the Remuneration Committee held 1 meeting for reviewing the remuneration packages of the Directors and senior management.

Name of member	Number of attendance
Mr. LI Yunlong	1/1
Mr. WANG Guangtian	1/1
Mr. 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 31(b) and 31(c) to the consolidated financial statements.

The emolument payable to Directors and senior management will depend on their respective contractual terms under the employment agreements, if any, and is fixed by the Board with reference to the recommendation of the Remuneration Committee of the Company, the performance of the Group and the prevailing market conditions. Details of the remuneration of the Directors and senior management 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 terms of reference of the Audit Committee is currently made available on the Stock Exchange's website and the Company's website.

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

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 interim and annual reports and financial statements of the Group; and overseeing the Company's financial reporting system including the adequacy of resources, qualifications and experience of staff in charge of the Company's financial reporting function and their training arrangement and budget, and internal control procedures.

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 reports.

During the year ended 31 December 2012, the Audit Committee held 2 meetings.

Name of member	Number of attendance
Mr. LI Yunlong	2/2
Mr. SHI Xun-zhi	2/2
Mr. WANG Guangtian	2/2

During the year ended 31 December 2012, 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.

Corporate Governance Report

(continued)

CORPORATE GOVERNANCE COMMITTEE

The Company established the CG Committee, with written terms of reference, on 20 March 2012. The CG Committee comprises four executive Directors, namely Mr. XU Tie-liang (as chairman), Mr. ZHU Yuan, Ms. GUAN Yijun and Mr. CHEUNG Shing, the Chief Financial Officer of the Company, Ms. LAW Yin Shan, Jenny and the Company Secretary of the Company, Ms. CHAN Yuen Ying, Stella.

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

The functions of the CG Committee are to develop and review the Company's policies and practices on corporate governance to comply with the New CG Code and other legal or regulatory requirements and make recommendations to the Board; to oversee the Company's orientation program for new Director; to review and monitor the training and continuous professional development of Directors and senior management; to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and to review the Company's disclosure in the Corporate Governance Report.

During the financial year ended 31 December 2012, the CG Committee held 1 meeting to review the Company's policies and practices on corporate governance; to review the training and continuous professional development of Directors and senior management; and to review the Company's compliance with the Former CG Code and the New CG Code.

Name of member	Number of attendance
Mr. XU Tie-liang	1/1
Mr. ZHU Yuan	1/1
Ms. GUAN Yijun	1/1
Mr. CHEUNG Shing	1/1
Ms. LAW Yin Shan, Jenny	1/1
Ms. CHAN Yuen Ying, Stella	1/1

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	1,534
Non-audit services	5
	1,539

COMPANY SECRETARY

The Company engaged an external professional company secretarial services provider, Uni-1 Corporate Services Limited ("Uni-1"), to provide compliance and full range of company secretarial services to the Group in order to assist the Group to cope with the changing regulatory environment and to suit difference commercial needs.

Ms. CHAN Yuen Ying, Stella ("Ms. Chan"), the representative of Uni-1, was appointed as the named Company Secretary of the Company.

Ms. LAW Yin Shan, Jenny, the Chief Financial Officer of the Company, is the primary point of contact at the Company for the Company Secretary.

According to the requirements of Rule 3.29 of the Listing Rules, Ms. Chan had taken no less than 15 hours of relevant professional training for the financial year ended 31 December 2012.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called a special general meeting.

Shareholders to convene a special general meeting

Shareholders may convene a special general meeting of the Company according to the provisions as set out in the Bye-Laws and the Companies Act of Bermuda. The procedures shareholders can use to convene a special general meeting are set out in the document entitled "Procedures for a Shareholder to Propose a Person for Election as a Director", which is currently available on the Company's website.

Putting enquiries by shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the Company Secretary at the Company's principal place of business in Hong Kong.

Procedures for putting forward proposals by shareholders at shareholders' meeting

The number of members necessary for a requisition for putting forward a proposal at a general meeting shall be:

(a) any number of members representing not less than one-twentieth of the total voting rights at the date of the requisition; or

(b) not less than one hundred members.

Corporate Governance Report
(continued)

A copy or copies of requisition signed by all requisitionists shall be deposited, with a sum reasonably sufficient to meet the Company's expenses in giving notice of the proposed resolution or circulating any necessary statement, at the Company's principal place of business in Hong Kong in the case of:–

(a) a requisition requiring notice of a resolution, not less than six weeks before the meeting; and

(b) any other requisition, not less than one week before the meeting.

The Company will verify the requisition and upon confirming that the requisition is proper and in order, the Board will proceed with the necessary procedures.

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. As such, all the resolutions to be set out in the notice of 2013 AGM will be vote by poll.

INVESTOR RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders.

Information of the Company is disseminated to the shareholders in the following manner:

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

The Chairman of the Board and the chairmen of the Audit Committee, the Remuneration Committee and the CG Committee attended the 2012 AGM to answer questions of the meeting and collect views of shareholders.

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 2012, 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 2012, the Board has conducted a review of the system of internal control to ensure the effectiveness and adequacy of the system. The Board shall conduct such review at least once annually.

Independent Auditor's Report

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

We have audited the consolidated financial statements of China Oil And Gas Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 41 to 111, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 judgment, 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 preparation of 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 2012, 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, 12 March 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Revenue	6	**4,889,428**	4,390,955
Cost of sales		**(3,786,974)**	(3,490,292)
Gross profit		**1,102,454**	900,663
Other income	7	**34,513**	16,057
Other gains/(losses)	8	**54,675**	(30,410)
Selling and distribution costs		**(44,822)**	(37,785)
Administrative expenses		**(248,213)**	(204,314)
Operating profit	9	**898,607**	644,211
Interest income	10	**76,943**	35,026
Finance costs	10	**(38,011)**	(33,098)
Share of loss of a jointly controlled entity		**(1,156)**	–
Share of loss of an associate		**(597)**	–
Profit before taxation		**935,786**	646,139
Taxation	12	**(201,600)**	(145,757)
Profit for the year		**734,186**	500,382
Other comprehensive income:			
Currency translation differences		**47,735**	164,764
Fair value changes from available-for-sale financial assets		**22,385**	–
Other comprehensive income, net of tax		**70,120**	164,764
Total comprehensive income for the year		**804,306**	665,146
Profit for the year attributable to:			
Owners of the Company		**365,705**	208,932
Non-controlling interests		**368,481**	291,450
		734,186	500,382
Total comprehensive income for the year attributable to:			
Owners of the Company		**412,241**	338,544
Non-controlling interests		**392,065**	326,602
		804,306	665,146
Earnings per share for profit attributable to owners of the Company	15		
– Basic (HK cents)		**7.396**	4.221
– Diluted (HK cents)		**7.343**	4.202

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

Consolidated Statement of Financial Position

As at 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Property, plant and equipment	16	**2,952,712**	2,314,583
Land use rights	17	**140,093**	118,860
Intangible assets	18	**1,046,333**	1,033,883
Interest in an associate	20	**6,843**	–
Interest in a jointly controlled entity	21	**43,393**	43,831
Available-for-sale financial assets	22	**523,674**	288,095
Other non-current assets	24	**404,754**	224,184
		5,117,802	4,023,436
Current assets			
Inventories	23	**224,577**	174,954
Deposits, trade and other receivables	24	**563,044**	448,688
Financial assets at fair value through profit or loss	25	**134,398**	426,543
Time deposits with maturity over three months	26	**731,762**	–
Cash and cash equivalents	26	**2,416,911**	2,027,915
		4,070,692	3,078,100
Current liabilities			
Trade and other payables	27	**569,423**	487,200
Receipt in advance	28	**1,146,758**	1,005,382
Short-term borrowings	29	**1,160,868**	397,799
Current tax payable		**67,786**	46,414
		2,944,835	1,936,795
Net current assets		**1,125,857**	1,141,305
Total assets less current liabilities		**6,243,659**	5,164,741
Non-current liabilities			
Long-term borrowings	29	**1,196,000**	952,540
Deferred tax liabilities	30	**20,829**	14,097
		1,216,829	966,637
Net assets		**5,026,830**	4,198,104

Consolidated Statement of Financial Position

(continued)
As at 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Equity			
Equity attributable to owners of the Company			
Share capital	31	**49,654**	49,521
Reserves		**3,130,137**	2,709,954
		3,179,791	2,759,475
Non-controlling interests		**1,847,039**	1,438,629
Total equity		**5,026,830**	4,198,104

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 12 March 2013.

Xu Tie-liang
Director

Cheung Shing
Director

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

Statement of Financial Position

As at 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Non-current assets			
Intangible assets	18	**1,702**	1,702
Interests in subsidiaries	19	**2,300,628**	1,924,179
Available-for-sale financial assets	22	**–**	97,643
		2,302,330	2,023,524
Current assets			
Other receivables	24	**19,314**	8,437
Financial assets at fair value through profit or loss	25	**51,528**	200,814
Cash and cash equivalents	26	**83,936**	204,559
		154,778	413,810
Current liabilities			
Other payables	27	**2,720**	2,197
Net current assets		**152,058**	411,613
Total assets less current liabilities		**2,454,388**	2,435,137
Non-current liabilities			
Long-term borrowings	29	**700,000**	700,000
Net assets		**1,754,388**	1,735,137
Equity			
Equity attributable to owners of the Company			
Share capital	31	**49,654**	49,521
Reserves	32	**1,704,734**	1,685,616
Total equity		**1,754,388**	1,735,137

The financial statements were approved and authorised for issue by the Board of Directors on 12 March 2013.

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 2012

	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$'000	Share-based compensation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2011	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:										
Profit for the year	–	–	–	–	–	–	208,932	208,932	291,450	500,382
Other comprehensive income:										
Exchange differences on translating foreign operations	–	–	–	–	129,612	–	–	129,612	35,152	164,764
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 33)	–	–	–	–	–	–	–	–	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 34(a))	–	–	–	(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
Change in equity for 2012:										
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**365,705**	**365,705**	**368,481**	**734,186**
Other comprehensive income:										
Exchange differences on translating foreign operations	**–**	**–**	**–**	**–**	**24,151**	**–**	**–**	**24,151**	**23,584**	**47,735**
Fair value changes from available-for-sale financial assets	**–**	**–**	**–**	**22,385**	**–**	**–**	**–**	**22,385**	**–**	**22,385**
Total comprehensive income for the year	**–**	**–**	**–**	**22,385**	**24,151**	**–**	**365,705**	**412,241**	**392,065**	**804,306**
Issue of shares upon exercise of share options	**133**	**7,938**	**–**	**–**	**–**	**(2,356)**	**–**	**5,715**	**–**	**5,715**
Equity-settled share-based payments	**–**	**–**	**118**	**–**	**–**	**4,795**	**–**	**4,913**	**–**	**4,913**
Shares purchased for share award scheme	**–**	**–**	**(135)**	**–**	**–**	**–**	**–**	**(135)**	**–**	**(135)**
Capital injection by non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**214,359**	**214,359**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(193,705)**	**(193,705)**
Set-off against accumulated losses (Note 32(b))	**–**	**(400,000)**	**–**	**68,711**	**–**	**–**	**331,289**	**–**	**–**	**–**
Changes in the ownership interests in subsidiaries that do not result in a loss of control (Note 34(a))	**–**	**–**	**–**	**4,309**	**–**	**–**	**–**	**4,309**	**(4,309)**	**–**
Others	**–**	**–**	**–**	**(6,727)**	**–**	**–**	**–**	**(6,727)**	**–**	**(6,727)**
At 31 December 2012	**49,654**	**1,572,081**	**(10,993)**	**167,394**	**228,360**	**15,461**	**1,157,834**	**3,179,791**	**1,847,039**	**5,026,830**

Note: As at 31 December 2012, other reserves mainly comprise capital reserve amounting to HK$81,480,000 (2011: HK$81,480,000) and contributed surplus amounting to HK$68,711,000 (2011: nil).

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Cash flows from operating activities		
Profit for the year	734,186	500,382
Adjustments for:		
Taxation	201,600	145,757
Finance costs	38,011	33,098
Interest income	(76,943)	(35,026)
Dividend income from listed securities	(2,447)	(1,583)
Share of loss of a jointly controlled entity	1,156	–
Share of loss of an associate	597	–
Bad debts written off	5,775	2,274
Equity-settled share-based payments	4,913	5,508
Amortisation of other intangible assets	659	140
Depreciation of property, plant and equipment	155,087	124,950
Amortisation of land use rights	4,079	2,527
Losses on disposals of property, plant and equipment	3,001	1,175
Fair value (gains)/losses on financial assets at fair value through profit or loss	(54,675)	30,410
	1,014,999	809,612
Changes in working capital:		
Decrease/(increase) in financial assets at fair value through profit or loss	346,820	(197,710)
Increase in inventories	(46,755)	(89,597)
(Increase)/decrease in deposits, trade and other receivables	(71,406)	16,040
Decrease in trade and other payables	(102,736)	(3,334)
Increase in receipt in advance	124,894	339,742
Cash generated from operations	1,265,816	874,753
Taxation paid	(174,077)	(127,847)
Net cash generated from operating activities	1,091,739	746,906

Consolidated Statement of Cash Flows

(continued)
For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Cash flows from investing activities			
Interest received		**76,943**	35,026
Dividend received		**2,447**	1,583
Purchases of property, plant and equipment and land use rights and prepaid construction costs		**(731,112)**	(749,442)
Proceeds from disposal of property, plant and equipment		**8,509**	85,306
Purchases of other intangible assets and prepaid of intangible assets		**(20,153)**	(586)
Purchases of available-for-sale financial assets		**(213,194)**	(97,643)
Acquisition of an associate		**(7,440)**	–
Acquisition of subsidiaries, net of cash and cash equivalents acquired	33	**–**	(345,219)
Settlement of consideration payable		**(51,746)**	–
(Increase)/decrease in time deposits with maturity over three months		**(731,762)**	44,460
Net cash used in investing activities		**(1,667,508)**	(1,026,515)
Cash flows from financing activities			
Share issued upon exercise of share options		**5,715**	541
Interest paid		**(73,562)**	(56,955)
New borrowings raised		**1,632,100**	1,488,564
Repayments of borrowings		**(636,232)**	(448,431)
Net cash paid from changes in the ownership interests in subsidiaries	34	**–**	(7,198)
Capital injection by non-controlling interests		**214,359**	160,032
Dividend paid to non-controlling interests		**(193,705)**	(67,521)
Purchase of own shares for share award scheme		**(135)**	(10,976)
Net cash generated from financing activities		**948,540**	1,058,056
Net increase in cash and cash equivalents		**372,771**	778,447
Cash and cash equivalents at 1 January		**2,027,915**	1,202,013
Effect of foreign exchange rate changes		**16,225**	47,455
Cash and cash equivalents at 31 December	26	**2,416,911**	2,027,915

Major non-cash transaction:

During the year, there is cancellation of the amount of approximately HK$400,000,000 standing to the credit of the share premium account of the Company towards offsetting the accumulated losses of the Company of HK$331,289,000 while the remaining balance of HK$68,711,000 is credited to contribution surplus.

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

Notes to the Consolidated Financial Statements

31 December 2012

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") and liquefied natural gas ("LNG") of the People's Republic of China (the "PRC"). The Company and its subsidiaries are collectively referred to the "Group".

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 2012:

HKFRS 7 (Amendment) "Financial instruments: Disclosures". The amendments promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial asset. The amendment did not have any significant impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

(continued)
31 December 2012

2 BASIS OF PREPARATION *(continued)*

(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 2013 or later periods and have not been early adopted by the Group:

HKAS 19 (Amendment)	Employee benefits [1]
HKAS 27 (Revised 2011)	Separate financial statements [1]
HKAS 28 (Revised 2011)	Associates and joint ventures [1]
HKAS 32 (Amendment)	Financial instruments: Presentation – offsetting financial assets and financial liabilities [2]
HKFRS 7 (Amendment)	Financial instruments: Disclosures – offsetting financial assets and financial liabilities [1]
HKFRS 9	Financial instruments [3]
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date and transition disclosures [3]
HKFRS 10	Consolidated financial statements [1]
HKFRS 11	Joint arrangements [1]
HKFRS 12	Disclosures of interests in other entities [1]
HKFRS 13	Fair value measurement [1]

1 Effective for the Group for annual period beginning 1 January 2013

2 Effective for the Group for annual period beginning 1 January 2014

3 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 2013 or later periods. The Group anticipates that the application of the above new, revised or amended standards and interpretations have no material impact on the results and the financial position of the Group.

Notes to the Consolidated Financial Statements

(continued)
31 December 2012

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) Subsidiaries

(i) Consolidation

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. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise from circumstances where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

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.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(1) Business combinations

The Group applies the acquisition method 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 to the former owners of the acquiree 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Subsidiaries *(Continued)*

(i) Consolidation (Continued)

(1) Business combinations *(Continued)*

Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(2) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of 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) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in 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 profit or loss.

(ii) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. 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.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary 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.

Notes to the Consolidated Financial Statements

(continued)
31 December 2012

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

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 is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss 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 with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the consolidated profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are 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 associates are recognised in the consolidated profit or loss.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) 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 jointly controlled entities 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.

(d) Impairment testing of investments in associates or jointly controlled entities

Impairment testing of the investments in associates or jointly controlled entities is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the associates or jointly controlled entities 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.

(e) 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 executive directors that makes strategic decisions.

Notes to the Consolidated Financial Statements

(continued)
31 December 2012

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) 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 (HK$), 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.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in consolidated profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

(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 statement of financial position;

– 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.

When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the year-end closing rate. Exchange difference arising are recognised in other comprehensive income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) 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 "administrative expenses" 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.

(h) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually and more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Notes to the Consolidated Financial Statements

(continued)
31 December 2012

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Intangible assets *(Continued)*

(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.

(i) 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 that are subject to amortisation 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.

(j) 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.

Notes to the Consolidated Financial Statements

(continued)
31 December 2012

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) 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, time deposits with maturity over three months 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.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) 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 gains/(losses), 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.

(l) 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 'loss 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)*

(l) 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 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 consolidated profit or loss. Impairment losses recognised in the consolidated profit or loss on equity instruments are not reversed through the 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 consolidated profit or loss.

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

(m) 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.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) 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.

(o) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include 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.

(p) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables 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.

(q) 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 consolidated profit or loss 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)*

(r) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in consolidated profit or loss in the period in which they are incurred.

(s) 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 using the percentage of completion method, but when the period of construction works is short, the revenue 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.

(v) Rental income

Rental income is recognised on a straight-line basis over the tenant lease.

Notes to the Consolidated Financial Statements

(continued)
31 December 2012

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Employee benefits

(i) Retirement benefit costs

In accordance with the rules and regulations in 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.

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 statement of financial position 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 a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of share options or restricted shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options or restricted shares 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).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Employee benefits *(Continued)*

(iii) Share-based payments (Continued)

Non-market vesting conditions are included in assumptions about the number of options or restricted shares 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 or restricted shares that are expected to vest based on the non-market 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.

Share option scheme

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.

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.

Share award scheme

When restricted shares are granted, the fair value of restricted shares are recongised as expense with a corresponding adjustment to equity over the vesting period.

Where the Group 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.

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.

(u) Provisions

Provisions for 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.

Notes to the Consolidated Financial Statements

(continued)
31 December 2012

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) 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, associate and jointly controlled entity 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.

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, jointly controlled entity and associate, 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.

(w) 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.

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 present value of the minimum lease payments.

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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 2012					
Available-for-sale financial assets	*22*	**523,674**	**–**	**–**	**–**
Deposits, trade and other receivables	*24*	**–**	**–**	**483,123**	**–**
Financial assets at fair value through profit or loss	*25*	**–**	**134,398**	**–**	**–**
Time deposits, bank balances and cash	*26*	**–**	**–**	**3,148,673**	**–**
Trade and other payables	*27*	**–**	**–**	**–**	**569,423**
Borrowings	*29*	**–**	**–**	**–**	**2,356,868**
		523,674	**134,398**	**3,631,796**	**2,926,291**
As at 31 December 2011					
Available-for-sale financial assets	*22*	288,095	–	–	–
Deposits, trade and other receivables	*24*	–	–	299,175	–
Financial assets at fair value through profit or loss	*25*	–	426,543	–	–
Time deposits, bank balances and cash	*26*	–	–	2,027,915	–
Trade and other payables	*27*	–	–	–	487,200
Borrowings	*29*	–	–	–	1,350,339
		288,095	426,543	2,327,090	1,837,539

Notes to the Consolidated Financial Statements

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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 2012					
Deposits, trade and other receivables	*24*	**–**	**–**	**19,314**	**–**
Financial assets at fair value through profit or loss	*25*	**–**	**51,528**	**–**	**–**
Time deposits, bank balances and cash	*26*	**–**	**–**	**83,936**	**–**
Other payables	*27*	**–**	**–**	**–**	**2,720**
Borrowings	*29*	**–**	**–**	**–**	**700,000**
		–	**51,528**	**103,250**	**702,720**
As at 31 December 2011					
Available-for-sale financial assets	*22*	97,643	–	–	–
Deposits, trade and other receivables	*24*	–	–	8,437	–
Financial assets at fair value through profit or loss	*25*	–	200,814	–	–
Time deposits, bank balances and cash	*26*	–	–	204,559	–
Other payables	*27*	–	–	–	2,197
Borrowings	*29*	–	–	–	700,000
		97,643	200,814	212,996	702,197

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 *(Continued)*

(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 2012 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.

At 31 December 2012, it is estimated that a general increase or decrease of 5% in price of the debt and equity investments classified as financial assets at fair value through profit or loss, with all other variables held constant, would increase/decrease the Group's profit after taxation by approximately HK$6,720,000 (2011: HK$16,821,000).

(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 29.

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

Notes to the Consolidated Financial Statements

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4 FINANCIAL RISK MANAGEMENT *(continued)*

4.2 Financial risk factors *(Continued)*

(a) Market risk (Continued)

(iii) Interest rate risk *(Continued)*

At 31 December 2012, it is estimated that a general increase or decrease of 100 basis points in interest rates on floating rate borrowings, with all other variables held constant, would decrease/increase the Group's profit after taxation by approximately HK$7,835,000 (2011: HK$2,184,000). 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 statement of financial position date. The analysis was performed on the same basis for 2011.

(b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, the debt instruments under 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 2012 and 2011, 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 2012 and 2011 were as follows:

	2012	2011
	HK$'000	HK$'000
State-owned banks	**2,037,369**	1,416,840
Listed banks	**955,588**	380,895
Other banks	**153,832**	228,710
	3,146,789	2,026,445

Credit risk is management on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and excludes cash on hand of HK$1,884,000 and HK$1,470,000, as at 31 December 2012 and 2011 respectively. Credit risk also arises from outstanding trade and other receivables from customers and a number of counter parties.

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

Notes to the Consolidated Financial Statements

(continued)
31 December 2012

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.

Debt instruments held by the Group 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:

Notes to the Consolidated Financial Statements
(continued)
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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 2012					
Trade and other payables	**569,423**	**569,423**	**569,423**	**–**	**–**
Borrowings	**2,356,868**	**2,529,716**	**1,229,304**	**299,778**	**1,000,634**
	2,926,291	**3,099,139**	**1,798,727**	**299,778**	**1,000,634**
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
Company					
As at 31 December 2012					
Other payables	**2,720**	**2,720**	**2,720**	**–**	**–**
Borrowings	**700,000**	**787,413**	**25,900**	**25,900**	**735,613**
	702,720	**790,133**	**28,620**	**25,900**	**735,613**
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

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.

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)*

4.4 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 statement of financial position 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.

Notes to the Consolidated Financial Statements

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4 FINANCIAL RISK MANAGEMENT *(continued)*

4.4 Fair value estimation *(Continued)*

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

Group	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
As at 31 December 2012				
Available-for-sale financial assets:				
– Listed equity investments	**2**	**–**	**–**	**2**
– Listed debt instruments	**333,222**	**–**	**–**	**333,222**
– Unlisted debt instruments	**–**	**450**	**–**	**450**
Financial assets at fair value through profit or loss:				
– Listed equity investments	**74,436**	**–**	**–**	**74,436**
– Listed debt instruments	**32,833**	**–**	**–**	**32,833**
– Unlisted debt instruments	**–**	**27,129**	**–**	**27,129**
	440,493	**27,579**	**–**	**468,072**
As at 31 December 2011				
Available-for-sale financial assets:				
– Listed equity investments	2	–	–	2
– Unlisted debt instruments	–	98,093	–	98,093
Financial assets at fair value through profit or loss:				
– Listed equity investments	229,377	–	–	229,377
– Listed debt instruments	58,348	–	–	58,348
– Unlisted debt instruments	–	138,818	–	138,818
	287,727	236,911	–	524,638
Company				
As at 31 December 2012				
Available-for-sale financial assets:				
– Unlisted debt instruments	**–**	**–**	**–**	**–**
Financial assets at fair value through profit or loss:				
– Listed equity investments	**51,528**	**–**	**–**	**51,528**
	51,528	**–**	**–**	**51,528**
As at 31 December 2011				
Available-for-sale financial assets:				
– Unlisted debt 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.

4 FINANCIAL RISK MANAGEMENT *(continued)*

4.4 Fair value estimation *(Continued)*

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

The carrying amounts of the Group's and the Company's financial instruments, including non-current assets carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 2011.

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 statement of financial position 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 borrowingss. 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.

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 and goodwill are also 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.

Notes to the Consolidated Financial Statements

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5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(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 position 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) 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 current income tax and deferred income 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.

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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. Revenue for the year comprises the following:

	2012 HK$'000	2011 HK$'000
Sales and distribution of natural gas and other related products	4,309,717	3,548,355
Sales of liquefied petroleum gas	84,197	447,906
Gas pipeline connection and construction services income	495,514	394,694
	4,889,428	4,390,955

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

The Group has presented the following three reportable segments:

– sales and distribution of natural gas and other related products

– sales of liquefied petroleum gas

– gas pipeline construction and connection

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

The executive directors assess the performance of the business segments based on profit before taxation without allocation of other gains/(losses), net, interest income, finance costs, share of loss of a jointly controlled entity and other unallocated corporate expenses, which is consistent with these in the financial statements. Meanwhile, the Group does not allocate assets or liabilities to its segments, as the executive directors do not use this information to allocate resources to or evaluate the performance of operating segment. Therefore, the Group does not report a measure of segment assets and segment liabilities for each reportable segment.

Information regarding the Group's reportable segments as provided to the executive directors for the purpose of resources allocation and assessment of segment performance for the years ended 31 December 2012 and 2011 is set out below.

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31 December 2012

6 REVENUE AND SEGMENT INFORMATION *(continued)*

For the year ended 31 December 2012:

	Sales and distribution of natural gas and other related products HK$'000	Sales of liquefied petroleum gas HK$'000	Gas pipeline construction and connection HK$'000	Group HK$'000
Segment revenue and results				
Sales to external customers	4,309,717	84,197	495,514	4,889,428
Segment results	648,716	(7,255)	217,758	859,219
Interest income				76,943
Other gains/(loss)				54,675
Finance costs				(38,011)
Share of loss of a jointly controlled entity				(1,156)
Share of loss of an associate				(597)
Unallocated corporate expenses				(15,287)
Profit before taxation				935,786
Taxation				(201,600)
Profit for the year				734,186

For the year ended 31 December 2011:

	Sales and distribution of natural gas and other related products HK$'000	Sales of liquefied petroleum gas HK$'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	519,693	5,011	175,737	700,441
Interest income				35,026
Other gains/(loss)				(30,410)
Finance costs				(33,098)
Unallocated corporate expenses				(25,820)
Profit before taxation				646,139
Taxation				(145,757)
Profit for the year				500,382

Notes to the Consolidated Financial Statements

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31 December 2012

6 REVENUE AND SEGMENT INFORMATION *(continued)*

No external customers of the Group contributed over 10% of the Group's revenue for the years ended 31 December 2012 and 2011.

Analysis of the Group's revenue and results by geographical market has not been presented as over 90% of the Group's revenue and business activities are conducted in the PRC.

Substantially all of the non-current assets are located in the PRC.

7 OTHER INCOME

	2012	2011
	HK$'000	HK$'000
Dividend income from listed securities	**2,447**	1,583
Government subsidies	**18,411**	4,911
Rental income	**6,639**	–
Service income	**3,932**	7,360
Others	**3,084**	2,203
	34,513	16,057

8 OTHER GAINS/(LOSSES)

During the year ended 31 December 2012 and 2011, the balances represent the fair value gains/(losses) on financial assets at fair value through profit or loss.

9 OPERATING PROFIT

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

	2012	2011
	HK$'000	HK$'000
Staff costs (excluding directors' remuneration (Note 11)):		
Salaries and wages	**156,332**	126,798
Equity-settled share-based payments	**4,853**	5,329
Retirement benefits scheme contributions	**44,365**	32,127
	205,550	164,254
Minimum lease payments under operating leases for leasehold land and buildings	**11,344**	9,773
Cost of inventories recognised as expense	**3,238,575**	3,074,745
Auditors' remuneration	**1,534**	1,300
Depreciation of property, plant and equipment (Note 16)	**155,087**	124,950
Bad debts written off	**5,775**	2,274
Amortisation of land use rights (Note 17)	**4,079**	2,527
Amortisation of intangible assets (Note 18)	**659**	140
Losses on disposals of property, plant and equipment	**3,001**	1,175
Net exchange (gains)/losses	**(3,172)**	2,980

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10 INTEREST INCOME AND FINANCE COSTS

	2012 HK$'000	2011 HK$'000
Interest income from:		
Bank deposits	**47,495**	24,201
Advance to Shuanghe Coal Mine (Note 24 (c))	**28,456**	10,418
Loan to a third party (Note 24 (e))	**992**	407
	76,943	35,026
Finance costs:		
Interest on:		
Bank borrowings, wholly repayable within five years	**(46,947)**	(38,926)
Other borrowings, wholly repayable within five years	**(26,615)**	(18,029)
Less: Amounts capitalised	**35,551**	23,857
	(38,011)	(33,098)
Finance income, net	**38,932**	1,928

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 4.8% (2011: 5.9%) per annum for the year ended 31 December 2012.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Details of remuneration of directors for the year ended 31 December 2012 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 (Chief Executive Officer)	120	2,880	12	–	3,012
Cheung Shing	120	–	–	–	120
Guan Yijun	120	585	14	–	719
Zhu Yuan	120	841	–	60	1,021
Independent non-executive directors:					
Shi Xun-zhi	120	–	–	–	120
Li Yun-long	120	–	–	–	120
Wang Guang-tian	120	–	–	–	120
Total	840	4,306	26	60	5,232

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

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 (Chief Executive Officer)	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

During the year, no remuneration was waived by any directors (2011: Nil).

Of the five individuals with the highest remunerations in the Group, one (2011: one) was a director of the Company whose emoluments is included in the above disclosures. The emoluments of the remaining four (2011: four) individuals were as follows:

	2012 HK$'000	2011 HK$'000
Salaries, allowances and benefits in kind	**3,470**	1,715
Equity-settled share-based payments	**2,634**	2,841
Retirement benefits scheme contributions	**71**	70
	6,175	4,626

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

	Number of employees 2012	2011
Nil to HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**3**	1
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,500,001 to HK$3,000,000	**1**	–

No emoluments were paid or payable to the directors and 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 2012 and 2011.

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

Details of remuneration paid to members of senior management fell within the following bands:

	Number of individuals	
	2012	2011
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,500,001 to HK$3,000,000	**1**	–

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 (2011: Nil).

In accordance with the relevant PRC corporate income tax laws, regulations and implementation guidance note, subsidiaries in Mainland China are subject to the PRC corporate income tax rate at 25% (2011: 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% (2011: 15%).

	2012	2011
	HK$'000	HK$'000
Current tax:		
PRC corporate income tax – current year	**195,099**	143,346
Deferred tax (Note 30)	**6,501**	2,411
Taxation	**201,600**	145,757

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2012 (2011: Nil).

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:

	2012	2011
	HK$'000	HK$'000
Profit before taxation	**935,786**	646,139
Tax calculated at the applicable rates in the tax jurisdictions concerned	**223,732**	173,156
Tax effect of income not subject to taxation	**(14,835)**	(12,325)
Tax effect of expenses not deductible for tax purpose	**29,013**	17,088
Tax effect of tax concessions	**(36,310)**	(32,162)
Taxation	**201,600**	145,757

The weighted average applicable tax rate is 23.9% (2011: 26.8%). The decrease is caused by a change in the profitability of the Group's subsidiaries in the respective jurisdictions.

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13 DIVIDEND

	2012 **HK$'000**	2011 HK$'000
Final dividend proposed at HK cent 0.65 (2011: nil) per share	**32,275**	–

Note:

At the meeting on 12 March 2013, the Board proposed a final dividend attributable to owners of the Company in respect of 2012 of HK cent 0.65 per share amounting to a total of approximately HK$32,275,000. The amount is based on approximately 4,965,406,000 shares in issue as at 12 March 2013. These consolidated financial statements do not reflect this dividend payable as the final dividend were proposed after the date of the statement of financial position and will be accounted for in equity as an appropriation of contributed surplus in the year ending 31 December 2013 when approved at the forthcoming Annual General Meeting (2011: nil).

Included in the proposed final dividend an amount of approximately HK$122,000, being the dividend to be distributed to the shares held by the trustee for the benefits of the eligible grantees under the restricted share award scheme of the Company adopted on 4 November 2011.

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 profit of approximately HK$8,758,000 (2011: a loss of HK$58,745,000).

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$365,705,000 (2011: HK$208,932,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the year of approximately 4,944,502,000 shares (2011: 4,949,503,000 shares).

(b) Diluted earnings per share is calculated based on the profit attributable to owners of the Company of approximately HK$365,705,000 (2011: HK$208,932,000), and the weighted average number of ordinary shares of approximately 4,980,319,000 shares (2011: 4,972,588,000 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 35,487,000 shares (2011: 23,085,000 shares) and the effect of awarded shares of approximately 330,000 shares (2011: nil shares) deemed to be issued at no consideration if all outstanding share options granted had been exercised.

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16 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Pipelines	(Note (i)) Others	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2011						
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
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 33)	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)	–
Disposals	(3,769)	(38,214)	(17,785)	(26,713)	–	(86,481)
Depreciation for the year	(11,405)	(36,613)	(44,754)	(32,178)	–	(124,950)
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

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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 2012						
At 1 January 2012	272,442	436,948	942,145	165,750	497,298	2,314,583
Currency realignment	4,466	7,163	15,445	2,676	7,758	37,508
Additions	18,391	2,215	11,449	39,814	695,349	767,218
Transfers	111,202	74,067	277,948	38,258	(501,475)	–
Disposals	(3,193)	(3,304)	(4,629)	(384)	–	(11,510)
Depreciation for the year	(15,551)	(39,431)	(60,254)	(39,851)	–	(155,087)
At 31 December 2012	387,757	477,658	1,182,104	206,263	698,930	2,952,712
As at 31 December 2012						
Cost	447,204	627,331	1,475,547	337,416	698,930	3,586,428
Accumulated depreciation	(59,447)	(149,673)	(293,443)	(131,153)	–	(633,716)
Net book value	387,757	477,658	1,182,104	206,263	698,930	2,952,712

Notes:

(i) Others mainly represent motor vehicles, furniture, fixtures and equipment, and tool and moulds with net book values amounting to approximately HK$123,306,000 (2011: HK$123,835,000), HK$46,293,000 (2011: HK$18,390,000) and HK$36,664,000 (2011: HK$23,525,000) respectively.

(ii) Depreciation of approximately HK$134,810,000 (2011: HK$109,841,000), HK$1,816,000 (2011: HK$1,094,000) and HK$18,461,000 (2011: HK$14,015,000) have been charged in cost of sales, selling and distribution costs and administrative expenses respectively.

17 LAND USE RIGHTS

	2012 HK$'000	2011 HK$'000
Net book value		
At 1 January	118,860	77,332
Currency realignment	1,949	3,305
Additions	23,363	40,750
Amortisation for the year	(4,079)	(2,527)
At 31 December	140,093	118,860

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.

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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 2011				
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 33)	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
Year ended 31 December 2012				
At 1 January 2012	**1,026,460**	**7,423**	**1,033,883**	**1,702**
Currency realignment	**6,534**	**62**	**6,596**	**–**
Additions	**–**	**6,513**	**6,513**	**–**
Amortisation for the year	**–**	**(659)**	**(659)**	**–**
At 31 December 2012	**1,032,994**	**13,339**	**1,046,333**	**1,702**
As at 31 December 2012				
Cost	**1,032,994**	**14,591**	**1,047,585**	**1,702**
Accumulated amortisation	**–**	**(1,252)**	**(1,252)**	**–**
Net book value	**1,032,994**	**13,339**	**1,046,333**	**1,702**

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18 INTANGIBLE ASSETS *(continued)*

Note:

Goodwill is allocated to a group of CGUs identified for sales and distribution of natural gas and other related products business, which is also an operating segment, representing the lowest level within the Group at which Goodwill is monitored for internal management purposes.

The recoverable amount of the group of CGUs is 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 12.9% (2011: 13.6%) using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to this group of CGUs. The growth rate of 6.1% (2011: 3.0% to 23.6%) for the next five years 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% (2011: 3.0%) per annum, which is based on industry growth forecasts. The Board considered no impairment loss is necessary as at 31 December 2012.

19 INTERESTS IN SUBSIDIARIES – COMPANY

	2012 **HK$'000**	2011 HK$'000
Unlisted shares, at cost	**1**	1
Amounts due from subsidiaries	**2,300,627**	1,924,178
	2,300,628	1,924,179

Except for the amount due from 南昌中油燃氣有限責任公司, which is unsecured, interest bearing at 5% per annum and is expected to be repaid more than 12 months after the respective year ends, all the remaining amounts due from subsidiaries are not expected to be settled or repayable in the foreseeable future and are therefore treated as part of the equity investments in subsidiaries.

20 INTEREST IN AN ASSOCIATE

	2012 **HK$'000**	2011 HK$'000
Share of net assets:		
At 1 January	**–**	–
Acquisition (Note 35)	**7,440**	–
Share of loss of an associate	**(597)**	
At 31 December	**6,843**	–

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20 INTEREST IN AN ASSOCIATE *(continued)*

Details of the Group's share of the results of its associate, an unlisted company and its assets and liabilities as at 31 December 2012 are as follows:

Name	Registered capital	Country of establishment	Principal activities	Assets	Liabilities	Revenue	Results	Percentage of interest held indirectly
				HK$'000	HK$'000	HK$'000	HK$'000	
南通中石油昆侖壓縮天然氣有限公司	RMB20,000,000	PRC	Trading of natural gas	7,265	422	85	(597)	30%

21 INTEREST IN A JOINTLY CONTROLLED ENTITY

	2012 HK$'000	2011 HK$'000
Share of net assets:		
At 1 January	**43,831**	–
Currency realignment	**718**	–
Acquisition	**–**	43,831
Share of loss of a jointly controlled entity	**(1,156)**	–
At 31 December	**43,393**	43,831

The Group has a 35% interest in a jointly controlled entity, 山西國興煤層氣輸配有限公司, established in the PRC, which provides construction of coalbed methane pipelines. The following amounts represent the Group's 35% share of the assets and liabilities, and sales and results of the jointly controlled entity for the year ended 31 December 2012:

	2012 HK$'000	2011 HK$'000
Assets:		
– Non-current assets	**92,689**	76,470
– Current assets	**27,117**	30,309
	119,806	106,779
Liabilities:		
– Non-current liabilities	**–**	17,360
– Current liabilities	**80,952**	49,411
	80,952	66,771
Net assets	**38,854**	40,008
Income	**83,853**	–
Expenses	**(85,009)**	–
Loss after tax	**(1,156)**	–

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22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Equity securities:				
– listed outside Hong Kong	**2**	2	**–**	–
– unlisted outside Hong Kong	**190,000**	190,000	**–**	–
Debt securities:				
– listed in Hong Kong	**126,317**	–	**–**	–
– listed outside Hong Kong	**206,905**	–	**–**	–
– unlisted	**450**	98,093	**–**	97,643
	523,674	288,095	**–**	97,643

At the date of the statement of financial position, all the listed equity securities and all debt securities are stated at fair values. The unlisted equity securities to the extent of approximately HK$190,000,000 (2011: HK$190,000,000) are stated at cost less impairment, if any. Those securities do not have quoted market price in an active market and whose fair value cannot be reliably measured.

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**231,566**	250,636	**–**	60,186
Hong Kong dollar	**2**	29,730	**–**	29,728
US dollar	**281,985**	7,729	**–**	7,729
Euro	**10,121**	–	**–**	–
	523,674	288,095	**–**	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 debt securities is either past due or impaired.

23 INVENTORIES

	2012	2011
	HK$'000	HK$'000
Raw materials	**67,675**	62,822
Work-in-progress	**113,609**	79,642
Finished goods and natural gas	**43,293**	32,490
	224,577	174,954

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24 DEPOSITS, TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables (Note (b))	**146,658**	128,427	**–**	–
Advance to Shuanghe Coal Mine (Note (c))	**155,508**	61,000	**–**	–
Loan to non-controlling interests (Note (d))	**12,400**	12,200	**–**	–
Loan to a third party (Note (e))	**24,800**	24,400	**–**	–
	339,366	226,027	**–**	–
Prepaid construction costs	**171,941**	121,451	**–**	–
Prepaid natural gas costs	**107,620**	124,478	**–**	–
Prepaid material and equipment costs	**89,002**	77,596	**–**	–
Interest receivables (Note (c))	**53,950**	15,768	**–**	–
Other prepayments	**116,112**	50,172	**–**	–
Other receivables	**89,807**	57,380	**19,314**	8,437
	967,798	672,872	**19,314**	8,437
Less: Non-current portion	**(404,754)**	(224,184)	**–**	–
Current portion	**563,044**	448,688	**19,314**	8,437

Notes:

(a) The Board considers that the carrying amounts of deposits, trade and other receivables approximate 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	
	2012	2011
	HK$'000	HK$'000
Neither past due nor impaired	**133,824**	115,197
Past due but not impaired:		
– 91 to 180 days	**6,646**	5,574
– Over 180 days	**6,188**	7,656
Total	**146,658**	128,427

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

Notes *(Continued)*:

(b) *(Continued)*

As at 31 December 2012, trade receivables of approximately HK$12,834,000 (2011: HK$13,230,000) 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 2012, the Group advanced to Shuanghe Coal Mine amounted to approximately HK$155,508,000 (2011: 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. This transaction constituted connected transaction in accordance with Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange.

As at 31 December 2012 and 2011, interest receivables of HK$39,159,000 and HK$10,418,000, respectively, related to the above arrangement.

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

(e) The balance of approximately HK$24,800,000 (2011: HK$24,400,000) represented a loan to 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.

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Equity securities:				
– listed in Hong Kong	**60,876**	220,714	**42,515**	192,151
– listed outside Hong Kong	**13,560**	8,663	**9,013**	8,663
	74,436	229,377	**51,528**	200,814
Debt securities:				
– listed in Hong Kong	**2,266**	14,667	**–**	–
– listed outside Hong Kong	**30,567**	43,681	**–**	–
– unlisted	**27,129**	138,818	**–**	–
	134,398	426,543	**51,528**	200,814

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25 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**6,606**	22,054	**–**	6,311
Hong Kong dollar	**58,817**	211,698	**42,515**	185,840
US dollar	**68,975**	192,791	**9,013**	8,663
	134,398	426,543	**51,528**	200,814

26 TIME DEPOSITS, BANK BALANCES AND CASH

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and on hand	**2,397,249**	1,974,701	**83,936**	194,533
Short-term bank deposits	**751,424**	53,214	**–**	10,026
	3,148,673	2,027,915	**83,936**	204,559
Less: Time deposits with maturity over three months	**(731,762)**	–	**–**	–
Cash and cash equivalents	**2,416,911**	2,027,915	**83,936**	204,559

The interest rates for short-term bank deposits was approximately 0.01% to 1.90% (2011: 0.01% to 1.91%) 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$2,306,479,000 or RMB1,860,064,000 (2011: HK$1,677,931,000 or RMB1,375,353,000) 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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**3,054,030**	1,690,120	**16,817**	10,725
Hong Kong dollar	**74,102**	278,223	**67,103**	193,619
US dollar	**9,358**	59,267	**16**	215
Other currencies	**11,183**	305	**–**	–
	3,148,673	2,027,915	**83,936**	204,559

27 TRADE AND OTHER PAYABLES

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**167,394**	229,237	**–**	–
Consideration payables	**1,240**	52,132	**–**	–
Construction cost payables	**229,007**	126,083	**–**	–
Other payables and accruals	**171,782**	79,748	**2,720**	2,197
	569,423	487,200	**2,720**	2,197

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

The ageing analysis of trade payables is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Current to 90 days	**124,124**	178,154
91 to 180 days	**17,538**	35,169
Over 180 days	**25,732**	15,914
Total	**167,394**	229,237

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

28 RECEIPT IN ADVANCE

	2012	2011
	HK$'000	HK$'000
Receipt in advance for sales of natural gas and other related products	**808,434**	767,686
Amounts due to customers for connections of gas pipelines	**338,324**	237,696
	1,146,758	1,005,382

As at 31 December 2012, included in receipt in advance for sales of natural gas was the amount received from customers using I/C cards amounting to approximately HK$575,698,000 (2011: HK$605,334,000), in which the movements are as follows:

	2012	2011
	HK$'000	HK$'000
At 1 January	**605,334**	442,303
Currency realignment	**9,924**	18,902
Payments received in advance	**1,833,934**	1,487,936
Redemption during the year	**(1,873,494)**	(1,343,807)
At 31 December	**575,698**	605,334

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29 BORROWINGS

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Long-term				
Bank borrowings, unsecured	**–**	8,540	**–**	–
Other borrowings, unsecured	**496,000**	244,000	**–**	–
Other borrowings, secured	**700,000**	700,000	**700,000**	700,000
	1,196,000	952,540	**700,000**	700,000
Short-term				
Bank borrowings, unsecured	**1,133,125**	368,440	**–**	–
Other borrowings, unsecured	**27,743**	29,359	**–**	–
	1,160,868	397,799	**–**	–
Total borrowings	**2,356,868**	1,350,339	**700,000**	700,000

Other borrowings are mainly loans from subsidiaries of China National Petroleum Corporation ("CNPC"). Details of the loans from subsidiaries of CNPC are set out in Note 38(a)(iii) and (iv).

The Group's borrowings are repayable as follows:

	Bank borrowings		Other borrowings	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 1 year	**1,133,125**	368,440	**27,743**	29,359
Between 1 and 2 years	**–**	8,540	**248,000**	–
Between 2 and 5 years	**–**	–	**948,000**	944,000
Wholly repayable within 5 years	**1,133,125**	376,980	**1,223,743**	973,359

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29 BORROWINGS *(continued)*

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Renminbi	**1,009,823**	650,339	**–**	–
Hong Kong dollar	**700,000**	700,000	**700,000**	700,000
United States dollar	**637,275**	–	**–**	–
Euro	**9,770**	–	**–**	–
	2,356,868	1,350,339	**700,000**	700,000
At fixed rates	**1,190,184**	1,049,364	**700,000**	700,000
At floating rates	**1,166,684**	300,975	**–**	–
	2,356,868	1,350,339	**700,000**	700,000
Weighted average effective interest rates (per annum):				
– Bank borrowings	**3.1%**	6.5%	**–**	–
– Other borrowings	**4.5%**	6.2%	**3.7%**	3.7%

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

Group

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank borrowings	**–**	8,540	**–**	9,314
Other borrowings	**1,196,000**	944,000	**1,169,305**	913,905
	1,196,000	952,540	**1,169,305**	923,219

Company

	Carrying amounts		Fair values	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other borrowings	**700,000**	700,000	**686,002**	667,493

The fair values are based on cash flows discounted using a rate based on the effective interest rate of 4.5% (2011: 4.3%) per annum.

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

As at 31 December 2012, borrowings to the extent of approximately HK$700,000,000 (2011: HK$700,000,000) was secured by the pledge of the entire equity interests in a non-wholly owned subsidiary of the Group.

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30 DEFERRED TAX LIABILITIES

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

	2012	2011
	HK$'000	HK$'000
At 1 January	**14,097**	11,207
Currency realignment	**231**	479
Charged to consolidated profit and loss (Note 12)	**6,501**	2,411
At 31 December	**20,829**	14,097

Deferred income tax liabilities to the extent of approximately HK$57,550,000 (2011: HK$48,588,000) 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$1,070,470,000 (2011: HK$904,944,000) as at 31 December 2012.

As at 31 December 2012, the Group had unrecognised tax losses of approximately HK$96,062,000 (2011: HK$47,131,000) to carry forward against future taxable income. No deferred tax assets in respect of such losses have been recognised as at 31 December 2012 and 2011 due to the uncertainty of their future recoverability. All the tax losses will be expired within the next 5 years.

31 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 2011, 31 December 2011 and 31 December 2012	125,000,000	1,250,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 January 2011	4,950,856	49,509
Issue of shares upon exercise of share options (Note)	1,260	12
At 31 December 2011	4,952,116	49,521
Issue of shares upon exercise of share options (Note)	13,290	133
At 31 December 2012	4,965,406	49,654

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

(a) Share capital *(continued)*

Note:

During the year ended 31 December 2012, the Company allotted and issued 13,290,000 (2011: 1,260,000) shares of HK$0.01 each for cash at the exercise price of HK$0.43 (2011: HK$0.43) per share as a result of the exercise of share options.

(b) Share option scheme

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.

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.

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

(b) Share option scheme *(continued)*

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 Old Share Option Scheme has been refreshed pursuant to a resolution passed by the shareholders of the Company at the annual general meeting of the Company held on 22 September 2006), subject to acceptance by the grantees.

(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 on 31 July 2011	Expire at the close of business on 30 July 2014
– on 30 July 2009	HK$0.43	30,000	Vesting on 31 July 2012	Expire at the close of business on 30 July 2014
– on 30 July 2009	HK$0.43	40,000	Vesting on 31 July 2013	Expire at the close of business on 30 July 2014
Total share options		100,000		

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

	2012		2011	
	Weighted average exercise price HK$	**Number of option '000**	Weighted average exercise price HK$	Number of option '000
Outstanding at 1 January	**0.43**	**98,180**	0.43	100,000
Forfeited	**0.43**	**(400)**	0.43	(560)
Exercised (Note (a))	**0.43**	**(13,290)**	0.43	(1,260)
Outstanding at 31 December	**0.43**	**84,490**	0.43	98,180
Exercisable at 31 December	**0.43**	**44,520**	0.43	28,740

Notes:

(a) The closing prices of the Company's shares at the dates on which the share options were exercised for the year ended 31 December 2012 were HK$0.66 and HK$0.76 (2011: HK$0.56).

(b) The options outstanding at 31 December 2012 had a weighted average remaining contractual life of 1.58 years (2011: 2.58 years).

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

(b) Share option scheme *(continued)*

(iii) The following table discloses details of the Company's share options held by a director and employees for the years ended 31 December 2012 and 2011:

For the year ended 31 December 2012:

				Number of option ('000)			
	Date of grant	Exercise price per share HK$	Exercisable period	Outstanding at 1 January 2011	Exercised during the year	Forfeited during the year	Outstanding at 31 December 2012
A director of the Company	30 July 2009	0.43	31 July 2011 to 30 July 2014	450	(450)	–	–
	30 July 2009	0.43	31 July 2012 to 30 July 2014	450	–	–	450
	30 July 2009	0.43	31 July 2013 to 30 July 2014	600	–	–	600
Sub-total				1,500	(450)	–	1,050
Employees	30 July 2009	0.43	31 July 2011 to 30 July 2014	28,290	(12,840)	(120)	15,330
	30 July 2009	0.43	31 July 2012 to 30 July 2014	29,310	–	(120)	29,190
	30 July 2009	0.43	31 July 2013 to 30 July 2014	39,080	–	(160)	38,920
Sub-total				96,680	(12,840)	(400)	83,440
Total				98,180	(13,290)	(400)	84,490

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

(b) Share option scheme *(continued)*

(iii) The following table discloses details of the Company's share options held by a director and employees for the years ended 31 December 2012 and 2011: (continued)

For the year ended 31 December 2011:

				Number of option ('000)			
	Date of grant	Exercise price per share HK$	Exercisable period	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 2014	450	–	–	450
	30 July 2009	0.43	31 July 2012 to 30 July 2014	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 2014	29,550	(1,260)	–	28,290
	30 July 2009	0.43	31 July 2012 to 30 July 2014	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

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.

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

(b) Share option scheme *(continued)*

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 2012.

(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 appointed by the Company (Note 39(b)) 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 Restricted Share Award Scheme operates in parallel with the Old Share Option Scheme and the Existing Share Option Scheme. All options granted under the Old Share Option Scheme and the Existing Share Option Scheme continue to be valid and exercisable subject to and in accordance with the terms of the Old Share Option Scheme and the Existing Share Option Scheme, respectively.

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.

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31 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.

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, 2,700,000 (2011: nil) restricted shares has been awarded to the director and employees for their services rendered to the Group, and of which 200,000 restricted shares granted to certain employees and immediately vested.

Movement in the number of shares awarded was as follows:

				Number of share ('000)			
	Date of grant	Fair value per share as at date of award	Vesting date	Outstanding at 1 January 2012	Awarded during the year	Vested during the year	Outstanding at 31 December 2012
		HK$					
A director of the Company	17 August 2012	0.76	1 April 2013	–	300	–	300
	17 August 2012	0.76	1 April 2014	–	300	–	300
	17 August 2012	0.76	1 April 2015	–	400	–	400
			Sub-total	–	1,000	–	1,000
Employees	17 August 2012	0.76	1 April 2013	–	450	–	450
	17 August 2012	0.76	1 April 2014	–	450	–	450
	17 August 2012	0.76	1 April 2015	–	600	–	600
	27 December 2012	1.22	Immediate	–	200	(200)	–
			Sub-total	–	1,700	(200)	1,500
			Total	–	2,700	(200)	2,500

During the year, the Company purchased 200,000 shares (2011: 18,880,000 shares) under the share award scheme.

Notes to the Consolidated Financial Statements

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31 December 2012

32 RESERVES

Company

	Share premium HK$'000	Capital redemption reserve HK$'000	Share held for share award scheme HK$'000	Share-based compensation reserve HK$'000	(Note (a)) Contributed surplus HK$'000	(Accumulated losses)/ Retained profit HK$'000	Total HK$'000
At 1 January 2011	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
Issue of shares upon exercise of share options	**7,938**	**–**	**–**	**(2,356)**	**–**	**–**	**5,582**
Purchase of own shares for share award scheme	**–**	**–**	**(135)**	**–**	**–**	**–**	**(135)**
Equity-settled share-based payments	**–**	**–**	**118**	**4,795**	**–**	**–**	**4,913**
Set-off against accumulated loss (Note (b))	**(400,000)**	**–**	**–**	**–**	**68,711**	**331,289**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**8,758**	**8,758**
At 31 December 2012	**1,572,081**	**963**	**(10,993)**	**15,461**	**118,464**	**8,758**	**1,704,734**

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 2012, a special resolution was passed on the special general meeting to approve the cancellation of the amount of approximately HK$400,000,000 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.

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33 BUSINESS COMBINATIONS

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

33 BUSINESS COMBINATIONS *(continued)*

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$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.

There is no acquisition for the year ended 31 December 2012.

34 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Acquisitions of additional interests in subsidiaries

In May 2012, the Group made a capital injection of RMB31,710,000 (equivalent to approximately HK$39,320,000) in its subsidiary, 泰州中油管輸天然氣有限公司. As the other shareholder of 泰州中油管輸天然氣有限公司 did not make a proportionate capital injection, the Group's interests in 泰州中油管輸天然氣有限公司 increased from 41.3% to 45.5%. The aggregate carrying amount of the non-controlling interests in the subsidiary on the date of acquisition was approximately HK$4,309,000. The Group recognised a decrease in non-controlling interests of approximately HK$4,309,000 and an increase in equity attributable to owners of the Company of approximately HK$4,309,000.

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 RMB5,900,000 (equivalent to approximately HK$7,198,000), 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 amount of the non-controlling interests in the subsidiary on the date of acquisition was approximately HK$3,944,000. The Group recognised a decrease in non-controlling interests of approximately HK$3,944,000 and a decrease in equity attributable to owners of the Company of approximately HK$3,254,000.

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:

	2012	2011
	HK$'000	HK$'000
Carrying amount of non-controlling interests acquired	**4,309**	3,944
Consideration paid to non-controlling interests	**–**	(7,198)
Excess of consideration paid recognised within equity	**4,309**	(3,254)

Notes to the Consolidated Financial Statements

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

(b) Effects of transactions with non-controlling interests on the equity attributable to owners of the Company for the year ended 31 December 2012 and 2011

	2012 **HK$'000**	2011 HK$'000
Total comprehensive income for the year attributable to owners of the Company	**412,241**	338,544
Changes in equity attributable to owners of the Company arising from:		
– Acquisitions of additional interests in subsidiaries	**4,309**	(3,254)
Net effect for transactions with non-controlling interests on equity attributable to owners of the Company	**4,309**	(3,254)
	416,550	335,290
Consideration paid to non-controlling interests	**–**	(7,198)
Net cash paid arising from changes in ownership interests in subsidiaries	**–**	(7,198)

35 ACQUISITION OF AN ASSOCIATE

In July 2012, the Group acquired 30.0% equity interests in 南通中石油昆侖壓縮天然氣有限公司 from a third party for a cash consideration of approximately RMB6,000,000 (equivalent to approximately HK$7,440,000). 南通中石油昆侖壓縮天然氣有限公司 is principally engaging in the trading of natural gas 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	7,440
Less: 30% share of identifiable assets acquired and liabilities acquired	(7,440)
	–

There was no acquisition of associate in 2011.

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36 BANKING FACILITIES

As at 31 December 2012, the Group had aggregate banking facilities of approximately HK$1,061,750,000 (2011: nil) for bank loans, of which approximately HK$414,705,000 (2011: nil) was unutilised at the same date.

37 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 2012, the Group had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Land and buildings expiring:		
Within one year	**6,976**	5,080
After one year but within five years	**12,436**	10,541
After five years	**36,187**	38,239
	55,599	53,860

Included in the operating leases commitment above, there is lease commitment to a related party amounted to HK$47,120,000 (2011: HK$48,800,000) (Note 38(a)(ii)).

(b) Capital commitments

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

	Group	
	2012	2011
	HK$'000	HK$'000
Contracted but not provided for:		
Acquisition of a subsidiary	**141,236**	–
Property, plant and equipment	**10,557**	88,922
	151,793	88,922

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38 RELATED PARTY TRANSACTIONS

As at 31 December 2012, 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 they are members of the key management personnel of the Company.

Related parties also include 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. ("CCNG").

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 RMB2,326,804,000 (equivalent to HK$2,885,237,000) (2011: RMB1,886,800,000 (equivalent to HK$2,301,896,000)) for the year ended 31 December 2012.

(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, rental payment amounted to HK$806,000 (2011: nil).

(iii) On 5 January 2011, the Company entered into a loan agreement with China Petroleum HongKong (Holding) Limited, 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.

(iv) On 8 June 2011 and 27 December 2012, a subsidiary of the Company entered into loan agreements with China Petroleum Finance, a subsidiary of CNPC, pursuant to which China Petroleum Finance granted the Company loans amounting to RMB200,000,000 (equivalent to HK$248,000,000) for 3 years at a fixed interest rate of 5.8% per annum and RMB200,000,000 (equivalent to HK$248,000,000) for 3 years at a fixed interest rate of 5.5% per annum, respectively.

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

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38 RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with key management personnel

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.

39 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
China Oil And Gas Group (BVI) Limited	BVI, Wholly foreign-owned enterprise	US$1	100.0%	–	Investment holding
China Oil And Gas Management Limited	Hong Kong, Wholly foreign-owned enterprise	HK$1	–	100.0%	Investment holding
CCNG	PRC, Wholly foreign-owned enterprise	RMB700,00,000	–	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

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39 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	Percentage of equity attributable to the Company Indirectly	Principal activities
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
惠民中油燃氣有限責任公司	PRC, Limited liability company	RMB10,000,000	–	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	RMB25,000,000	–	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

Notes to the Consolidated Financial Statements

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39 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	Percentage of equity attributable to the Company Indirectly	Principal activities
中油中泰物流(珠海)有限公司	PRC, Limited liability company	RMB30,000,000	–	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$10,000,000	–	45.5%(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
鄒平中油燃氣有限責任公司	PRC, Limited liability company	RMB20,000,000	–	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
仙桃市潔能天然氣有限公司	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

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31 December 2012

39 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
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%	Provision for finance
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 venture	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

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

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

Notes:

(i) The Group holds controlling interests in these subsidiaries through a 51.0% owned subsidiary, CCNG. 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 CCNG 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.

(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
Best Thinker Limited ("Trustee")	Purchases, administers and holds the Company's shares for the Restricted Share Award Scheme for the benefit of eligible the Group's employees

As the Trustee is set up solely for the purpose of purchasing, administrating and holding the Company's shares for the Restricted Share Award Scheme (Note 31(c)), the Company has the power to govern the financial and operating policies of the Trustee 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 Trustee are included in the consolidated statement of financial position from its adoption and the Company's shares held by the Trustee are presented as a deduction in equity as "shares held for share award scheme".

40 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board on 12 March 2013.

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				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**4,889,428**	4,390,955	2,626,007	1,721,138	1,471,364
Profit before taxation	**935,786**	646,139	439,498	305,381	221,128
Taxation	**(201,600)**	(145,757)	(85,668)	(52,609)	(34,085)
Profit for the year	**734,186**	500,382	353,830	252,772	187,043
Attributable to:					
Owners of the Company	**365,705**	208,932	164,560	132,090	73,025
Non-controlling interests	**368,481**	291,450	189,270	120,682	114,018
	734,186	500,382	353,830	252,772	187,043

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Total assets	**9,188,494**	7,101,536	4,466,006	3,364,619	2,792,668
Total liabilities	**(4,161,664)**	(2,903,432)	(1,214,329)	(1,141,871)	(888,840)
Total equity	**5,026,830**	4,198,104	3,251,677	2,222,748	1,903,828
Non-controlling interests	**(1,847,039)**	(1,438,629)	(822,565)	(590,676)	(405,004)
Equity attributable to owners of the Company	**3,179,791**	2,759,475	2,429,112	1,632,072	1,498,824