

## IMPORTANT NOTICE

### NOT FOR DISTRIBUTION IN THE UNITED STATES

You must read the following disclaimer before continuing. The following disclaimer applies to the document following this page and you are therefore advised to read this disclaimer carefully before accessing, reading or making any other use of the attached document. In accessing the attached document, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

You acknowledge that the attached document and the information contained therein are strictly confidential and intended for you only. You are not authorized to and you may not forward or deliver the attached document, electronically or otherwise, to any other person or reproduce such document in any manner whatsoever, nor may you disclose the information contained in the attached document to any third-party or use it for any other purpose. Any forwarding, distribution, publication or reproduction of the attached document in whole or in part or disclosure of any information contained therein or any use of such information for any other purpose is unauthorized. Failure to comply with this directive may result in a violation of the securities laws of applicable jurisdictions.

Nothing in this electronic transmission constitutes an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction where it is unlawful to do so. The securities referred to in the attached document have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), or under any securities laws of any state or other jurisdiction of the United States, and may not be offered, sold, resold, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from the registration requirements of the U.S. Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

The attached document is not a prospectus for the purposes of the European Union's Regulation (EU) 2017/1129.

The communication of the attached offering memorandum and any other document or materials relating to the issue of the securities offered in the attached offering memorandum is not being made, and such documents and/or materials have not been approved, by an authorized person for the purposes of section 21 of the United Kingdom's Financial Services and Markets Act 2000, as amended. Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the United Kingdom. The communication of such documents and/or materials as a financial promotion is only being made to those persons in the United Kingdom who have professional experience in matters relating to investments and who fall within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Financial Promotion Order")), or who fall within Article 49(2)(a) to (d) of the Financial Promotion Order, or who are any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as "relevant persons"). In the United Kingdom, the securities offered in the attached offering memorandum are only available to, and any investment or investment activity to which the attached offering memorandum relates will be engaged in only with, relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on the attached offering memorandum or any of its contents.

**CONFIRMATION OF YOUR REPRESENTATION:** IN ORDER TO BE ELIGIBLE TO VIEW THE ATTACHED DOCUMENT, INVESTORS MUST COMPLY WITH THE FOLLOWING PROVISIONS. YOU HAVE BEEN SENT THE ATTACHED DOCUMENT ON THE BASIS THAT YOU HAVE CONFIRMED TO MORGAN STANLEY & CO. INTERNATIONAL PLC (THE "INITIAL PURCHASER") THAT YOU (I) ARE OUTSIDE THE UNITED STATES, AND, TO THE EXTENT YOU PURCHASE THE SECURITIES DESCRIBED IN THE ATTACHED DOCUMENT, YOU WILL BE DOING SO IN AN OFFSHORE TRANSACTION, AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT ("REGULATION S"), IN COMPLIANCE WITH REGULATION S; AND (II) CONSENT TO DELIVERY BY ELECTRONIC TRANSMISSION.

If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

This document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither the Initial Purchaser nor any person who controls it or any of its directors, employees, representation or affiliates accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version.

You are responsible for protecting against viruses and other destructive items. Your receipt of this electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** — The securities described in the attached offering memorandum are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended ("MiFID II"); or (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the "PRIIPs Regulation") for offering or selling the securities described in the attached offering memorandum or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the securities described in the attached offering memorandum or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA") — the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).



中油燃氣集團有限公司  
CHINA OIL AND GAS GROUP LIMITED  
(incorporated in Bermuda with limited liability)

**US\$30,000,000**  
**5.5% Senior Notes due 2023**  
**(to be consolidated and form a single class with the US\$320,000,000**  
**5.5% Senior Notes due 2023 issued on July 25, 2019)**  
**Issue Price: 102.00%**  
**plus accrued interest from (and including) July 25, 2019 to (but excluding) October 31, 2019**

China Oil And Gas Group Limited, a company incorporated in Bermuda with limited liability (the “Company”), is proposing to offer US\$30,000,000 aggregate principal amount of its 5.5% Senior Notes due 2023 (the “New Notes”). The New Notes will be issued under the indenture (the “Indenture”) governing the Company’s outstanding US\$320,000,000 aggregate principal amount of 5.5% Senior Notes due 2023 issued on July 25, 2019 (the “Original Notes”). The New Notes constitute Additional Notes under the Indenture and are identical in all respects with the Original Notes, other than with respect to the date of issuance and issue price. The New Notes will form a single class with the Original Notes. The Original Notes and the New Notes are referred to collectively as the “Notes”. Upon completion of this offering, the aggregate principal amount of outstanding New Notes and Original Notes will be US\$350,000,000. Terms not defined in this supplemental offering memorandum have the meanings given to them in the offering memorandum dated July 18, 2019 (the “Offering Memorandum”).

This supplemental offering memorandum incorporates the information contained in the Offering Memorandum and should be read in conjunction with the Offering Memorandum. To the extent that there is any inconsistency between any information in this supplemental offering memorandum and the information in the Offering Memorandum, the information in this supplemental offering memorandum shall prevail.

The New Notes will bear interest from July 25, 2019 at 5.5% per annum payable semi-annually in arrears on the business day on or nearest to January 25 and July 25 of each year, beginning January 25, 2020. The Notes will mature on January 25, 2023.

The Notes are senior obligations of the Company, guaranteed by certain of our existing subsidiaries (the “Subsidiary Guarantors”), other than (1) those organized under the laws of the PRC and (2) certain other subsidiaries specified in the section entitled “Description of the Notes” in the Offering Memorandum. We refer to the guarantees by the Subsidiary Guarantors as Subsidiary Guarantees.

We may at our option redeem the Notes, in whole or in part, at any time and from time to time on or after July 25, 2021, at redemption prices set forth in this offering memorandum plus accrued and unpaid interest, if any, to (but not including) the redemption date. At any time and from time to time prior to July 25, 2021, we may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company at a redemption price of 105.5% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. In addition, we may redeem the Notes, in whole but not in part, at any time prior to July 25, 2021, at a price equal to 100% of the principal amount of the applicable Notes plus a premium as set forth in this offering memorandum. Upon the occurrence of a Change of Control Triggering Event (as defined herein), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase. We may at our option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) the redemption date at any time on or after the date when no more than 10% of the aggregate principal amount of the Notes issued on the Original Issue Date remains outstanding.

The Notes will (1) rank senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes, (2) be at least *pari passu* in right of payment with the 2014 Notes, the 2017 Notes and all other unsecured, unsubordinated Indebtedness (as defined below) of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law), (3) be effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries, and (4) be effectively subordinated to all existing and future secured obligations of the Company and the Subsidiary Guarantors to the extent of the collateral securing such obligations (other than the collateral securing the Notes). However, applicable law may limit the enforceability of the Subsidiary Guarantees and the pledge of any collateral. See “Risk Factors — Risks relating to the Subsidiary Guarantees and the Collateral.”

For a more detailed description of the Notes, see the section entitled “Description of the Notes” in the Offering Memorandum.

Investing in the Notes involves risks. See the section entitled “Risk Factors” in this supplemental offering memorandum and the Offering Memorandum.

The Original Notes are listed and quoted on the Singapore Exchange Securities Trading Limited (the “SGX-ST”) and application will be made to the SGX-ST for the listing and quotation of the New Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of any New Notes on, the SGX-ST are not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors or any other subsidiary or associated company of the Company, the New Notes or the Subsidiary Guarantees. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.

The New Notes and the Subsidiary Guarantees have not been and will not be registered under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The New Notes are being offered and sold by the Initial Purchaser only outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act (“Regulation S”). For a description of certain restrictions on resale or transfer, see the section entitled “Transfer Restrictions.”

With reference to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委 關於推進企業發行外債備案登記制管理改革的通知)(the “NDRC Notice”) promulgated by National Development and Reform Commission (the “NDRC”) of the PRC on September 14, 2015 which came into effect on the same day, we have registered the issuance of the Notes with the NDRC and obtained a certificate from the NDRC dated May 14, 2019 evidencing such registration. Pursuant to the registration certificate, we will cause relevant information relating to the issue of the New Notes to be reported to the NDRC within ten working days after the issue date of the New Notes. We have reported the relevant information relating to the issue of the Original Notes to the NDRC within ten working days after the issue date of the Original Notes.

It is expected that the delivery of the New Notes will be made on or about October 31, 2019 through the book-entry facilities of the Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”), against payment therefor in immediately available funds.

*Sole Global Coordinator, Sole Lead Manager and Sole Bookrunner*

**Morgan Stanley**

The date of this supplemental offering memorandum is October 28, 2019

**TABLE OF CONTENTS OF THIS SUPPLEMENTAL OFFERING MEMORANDUM**

THE OFFERING . . . . .	S-1	DESCRIPTION OF THE NEW NOTES . . . . .	S-7
RECENT DEVELOPMENT . . . . .	S-3	PLAN OF DISTRIBUTION . . . . .	S-8
RISK FACTOR . . . . .	S-4	LEGAL MATTERS . . . . .	S-13
USE OF PROCEEDS . . . . .	S-5	GENERAL INFORMATION . . . . .	S-14
CAPITALIZATION AND INDEBTEDNESS . . . . .	S-6		

**TABLE OF CONTENTS OF THE ACCOMPANYING OFFERING MEMORANDUM**

	Page		Page
SUMMARY . . . . .	1	PRINCIPAL SHAREHOLDERS . . . . .	122
THE OFFERING . . . . .	4	RELATED PARTY TRANSACTIONS . . . . .	123
SUMMARY CONSOLIDATED		DESCRIPTION OF OTHER MATERIAL	
FINANCIAL INFORMATION . . . . .	13	INDEBTEDNESS . . . . .	124
RISK FACTORS . . . . .	17	DESCRIPTION OF THE NOTES . . . . .	130
USE OF PROCEEDS . . . . .	61	TAXATION . . . . .	204
EXCHANGE RATE INFORMATION . . . . .	62	PLAN OF DISTRIBUTION . . . . .	207
CAPITALIZATION . . . . .	65	TRANSFER RESTRICTIONS . . . . .	212
SELECTED CONSOLIDATED		RATINGS . . . . .	214
FINANCIAL INFORMATION . . . . .	66	LEGAL MATTERS . . . . .	214
CORPORATE STRUCTURE . . . . .	74	INDEPENDENT AUDITOR . . . . .	214
BUSINESS . . . . .	78	GENERAL INFORMATION . . . . .	215
REGULATORY OVERVIEW . . . . .	103	INDEX TO CONSOLIDATED	
MANAGEMENT . . . . .	116	FINANCIAL INFORMATION . . . . .	F-1

You should rely only on the information contained in this supplemental offering memorandum and the accompanying Offering Memorandum. The accompanying Offering Memorandum contains important information with respect to an investment in the New Notes. This supplemental offering memorandum is not complete without the accompanying Offering Memorandum. Terms not defined in this supplemental offering memorandum have the meanings assigned to them in the accompanying Offering Memorandum. To the extent any information in this supplemental offering memorandum (including any information incorporated by reference in it) is inconsistent with the accompanying Offering Memorandum, you should rely on this supplemental offering memorandum, including information incorporated by reference.

This supplemental offering memorandum and the accompanying Offering Memorandum do not constitute an offer to sell to, or a solicitation of an offer to buy from, any person in any jurisdiction to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this supplemental offering memorandum and the accompanying Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this supplemental offering memorandum and the accompanying Offering Memorandum or that the information contained in this supplemental offering memorandum and the accompanying Offering Memorandum is correct as of any time after that date.

This supplemental offering memorandum and the accompanying Offering Memorandum are not a prospectus for the purposes of the European Union’s Regulation (EU) 2017/1129.

The communication of this supplemental offering memorandum and the Offering Memorandum and any other document or materials relating to the issue of the New Notes offered hereby is not being made, and such documents and/or materials have not been approved, by an authorized person for the purposes of

section 21 of the United Kingdom's Financial Services and Markets Act 2000, as amended. Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the United Kingdom. The communication of such documents and/or materials as a financial promotion is only being made to those persons in the United Kingdom who have professional experience in matters relating to investments and who fall within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Financial Promotion Order")), or who fall within Article 49(2)(a) to (d) of the Financial Promotion Order, or who are any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as "Relevant Persons"). In the United Kingdom, the New Notes offered hereby are only available to, and any investment or investment activity to which this supplemental offering memorandum and the Offering Memorandum relate will be engaged in only with, Relevant Persons. Any person in the United Kingdom that is not a Relevant Person should not act or rely on this supplemental offering memorandum and the Offering Memorandum or any of its contents.

IN CONNECTION WITH THIS OFFERING, MORGAN STANLEY & CO. INTERNATIONAL PLC AS STABILIZING MANAGER OR ANY PERSON ACTING FOR IT, MAY PURCHASE AND SELL THE NEW NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE NEW NOTES. AS A RESULT, THE PRICE OF THE NEW NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME. THESE ACTIVITIES WILL BE UNDERTAKEN SOLELY FOR THE ACCOUNT OF THE INITIAL PURCHASER, AND NOT FOR US OR ON OUR BEHALF.

We, having made all reasonable inquiries, confirm that: (i) this supplemental offering memorandum and the accompanying Offering Memorandum contain all information with respect to us, our subsidiaries and affiliates referred to in this supplemental offering memorandum and the accompanying Offering Memorandum and the New Notes and the Subsidiary Guarantees that is material in the context of the issue and offering of the New Notes; (ii) the statements contained in this supplemental offering memorandum and the accompanying Offering Memorandum relating to us and our subsidiaries and our affiliates are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this supplemental offering memorandum and the accompanying Offering Memorandum with regard to us and our subsidiaries and affiliates are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to us, our subsidiaries and affiliates, the New Notes and the Subsidiary Guarantees, the omission of which would, in the context of the issue and offering of the New Notes, make this supplemental offering memorandum and the accompanying Offering Memorandum, as a whole, misleading in any material respect; and (v) we have made all reasonable enquiries to ascertain such facts and to verify the accuracy of all such information and statements. We accept responsibility accordingly.

This supplemental offering memorandum and the accompanying Offering Memorandum are highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the New Notes. You should read this supplemental offering memorandum and the accompanying Offering Memorandum before making a decision whether to purchase the New Notes. You must not use this

supplemental offering memorandum and the accompanying Offering Memorandum for any other purpose, or disclose any information in this supplemental offering memorandum and the accompanying Offering Memorandum to any other person.

We have prepared this supplemental offering memorandum and the accompanying Offering Memorandum, and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the New Notes. By purchasing the New Notes, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section entitled “Transfer Restrictions” below.

No representation or warranty, express or implied, is made by the Initial Purchaser and Citicorp International Limited (the “Trustee”), Citibank, N.A., London Branch (the “Paying and Transfer Agent” and the “Registrar”) or any of their respective affiliates, directors or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this supplemental offering memorandum and accompanying Offering Memorandum is, or should be relied upon as, a promise or representation, whether as to the past or the future.

Each person receiving this supplemental offering memorandum and the accompanying Offering Memorandum acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Initial Purchaser or any person affiliated with the Initial Purchaser in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates, the New Notes or the Subsidiary Guarantees (other than as contained herein and information given by our duly authorized officers and employees in connection with investors’ examination of our company and the terms of the issue and offering of the New Notes) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us or the Initial Purchaser.

The New Notes and the Subsidiary Guarantees have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this supplemental offering memorandum and the accompanying Offering Memorandum. Any representation to the contrary is a criminal offense in the United States.

**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** — The New Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended (“MiFID II”); or (ii) a customer within the meaning of Directive (EU) 2016/97, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the “PRIIPs Regulation”) for offering or selling the New Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the New Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”)** — the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

We are not, and the Initial Purchaser is not, making an offer to sell the New Notes, including the Subsidiary Guarantees, in any jurisdiction except where an offer or sale is permitted. The distribution of this supplemental offering memorandum and the accompanying Offering Memorandum and the offering of the securities, including the New Notes and the Subsidiary Guarantees, may in certain jurisdictions be restricted by law. Persons into whose possession this supplemental offering memorandum and the accompanying Offering Memorandum come are required by us and the Initial Purchaser to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the securities, including the New Notes and the Subsidiary Guarantees, and distribution of this supplemental offering memorandum and the accompanying Offering Memorandum, see the sections entitled “Plan of Distribution” in this supplemental offering memorandum and accompanying Offering Memorandum.

This supplemental offering memorandum and the accompanying Offering Memorandum summarize certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this supplemental offering memorandum and the accompanying Offering Memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. We are not making any representation to you regarding the legality of an investment in the New Notes by you under any legal, investment or similar laws or regulations. You should not consider any information in this supplemental offering memorandum and the accompanying Offering Memorandum to be legal, business or tax advice. You should consult your own professional advisors for legal, business, tax and other advice regarding an investment in the New Notes.

We reserve the right to withdraw the offering of New Notes at any time, and the Initial Purchaser reserves the right to reject any commitment to subscribe for the New Notes in whole or in part and to allot to any prospective purchaser less than the full amount of the New Notes sought by such purchaser. The Initial Purchaser and certain related entities may acquire for their own account a portion of the New Notes.

## THE OFFERING

Terms used in this summary and not otherwise defined shall have the meanings given to them in “Description of the Notes” in the accompanying Offering Memorandum.

Issuer . . . . .	China Oil And Gas Group Limited (the “Company”).
New Notes to be issued . . . . .	US\$30,000,000 aggregate principal amount of 5.5% Senior Notes due 2023 (the “New Notes”), to be consolidated and form a single class with the US\$320,000,000 5.5% Senior Notes due 2023 issued by the Company on July 25, 2019 (the “Original Notes” and, together with the New Notes, the “Notes”). The terms for the New Notes are the same as those for the Original Notes in all respects except for the issue date and issue price.
Issue Price . . . . .	102.00% of the principal amount of the New Notes, plus accrued interest from (and including) July 25, 2019 to (but excluding) October 31, 2019.
Issue Date of New Notes . . . . .	October 31, 2019.
Maturity Date . . . . .	January 25, 2023,
Interest . . . . .	The New Notes will bear interest from and including July 25, 2019 at the rate of 5.5% per annum, payable semi-annually in arrears.
Interest Payment Dates . . . . .	January 25 and July 25 of each year, commencing on January 25, 2020,
Use of Proceeds . . . . .	We intend to use the net proceeds from this offering to repay certain existing indebtedness and for general corporate purposes.
Transfer Restrictions . . . . .	The New Notes will not be registered under the U.S. Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See “Transfer Restrictions.”
Form, Denomination and Registration . . . . .	The New Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 of principal amount and integral multiples of US\$1,000 in excess thereof and will be initially represented by one or more global notes registered in the name of a nominee of a common depository for Euroclear and Clearstream.
Delivery of the Notes . . . . .	The Company expects to make delivery of the New Notes, against payment in same-day funds on or about October 31, 2019 which the Company expects will be the third business day following the date of this supplemental offering memorandum referred to as “T+3.” You should note that initial trading of the New Notes may be affected by the T+3 settlement.

Listing ..... Application will be made to the SGX-ST for the listing and quotation of the New Notes on the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.

Ratings. .... The Original Notes are rated Ba2 by Moody’s Investors Service and BB by Standard and Poor’s Rating Services and we do not expect the rating to change as a result of the issuance of the New Notes. We cannot assure investors that these rating will not be adversely revised or withdrawn either before or after delivery of the New Notes.

Security Codes .....	ISIN	Common Code
	XS2016070190	201607019

For all other terms, please refer to the section entitled “The Offering” in the accompanying Offer Memorandum.

## RECENT DEVELOPMENT

### Unaudited and Unreviewed Financials as of and for the Six Months Ended June 30, 2019

On September 11, 2019, we released the 2019 interim report in accordance with the rules of the Hong Kong Stock Exchange as applicable to us, which include the unaudited and unreviewed consolidated interim financial information as of and for the six months ended June 30, 2019 (the “2019 Interim Financial Information”).

For the six months ended June 30, 2019, we recorded increases in our revenue compared to that of the same period in 2018. The increase in our revenue was primarily due to an increase in the revenue generated from sales and distribution of natural gas and other related products, partially offset by decreases in revenue from gas pipeline construction and connection and exploitation and production of crude oil and natural gas. The increase in our revenue from sales and distribution of natural gas and other related products was primarily due to increases in the volume of natural gas and other related products sold and the average selling prices. The decrease in our revenue from gas pipeline construction and connection was primarily due to a decrease in the number of connection users. The decrease in our revenue from exploitation and production of crude oil and natural gas was primarily due to a decrease in oil price. Both gross profit and profit for the period for the six months ended June 30, 2019 decreased compared to that of the same period in 2018, primarily due to the decrease in revenue from gas pipeline construction and connection and exchange rate losses. For the six months ended June 30, 2019, we achieved a lower gross profit margin as compared to that for the same period in 2018, primarily due to a decrease in the revenue from gas pipeline construction and connection, which had a relatively higher gross margin.

The 2019 Interim Financial Information is not included in and does not form a part of this supplemental offering memorandum. The 2019 Interim Financial Information has not been audited or reviewed by our independent accountants or any other independent accountants and may be subject to adjustments if audited or reviewed. The 2019 Interim Financial Information may not be indicative of our future performance and results of operations. Consequently, potential investors must exercise caution when using such data to evaluate our financial condition and results of operations. See “Risk Factor — Our Interim Financial Information as of and for the six months ended June 30, 2019 has not been audited or reviewed by our auditor and is not contained in and does not form part of this supplemental offering memorandum” in this supplemental offering memorandum.

### Redemption of 2014 Notes

On August 21, 2019, we redeemed our 2014 Notes in full. Upon the completion of the redemption, all the 2014 Notes have been cancelled and no 2014 Notes remain outstanding.

## RISK FACTOR

**Our 2019 Interim Financial Information has not been audited or reviewed by our auditor and is not contained in and does not form part of this supplemental offering memorandum.**

On September 11, 2019, we released the 2019 interim report in accordance with the rules of the Hong Kong Stock Exchange as applicable to us, which include the 2019 Interim Financial Information. The 2019 Interim Financial Information has not been subject to an audit or review and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit or review. Such financial information, similar to any previously published unaudited and unreviewed financial information, could be adjusted if audited or reviewed. In addition, you should note that the 2019 Interim Financial Information is preliminary in nature and includes only some condensed notes. Accordingly, other than the discussion on the 2019 Interim Financial Information (see “Recent Developments — Unaudited and Unreviewed Financials as of and for the Six Months Ended June 30, 2019”), the 2019 Interim Financial Information is not part of this supplemental offering memorandum and should not be used for comparison with any financial information disclosed herein. Furthermore, the 2019 Interim Financial Information should not be taken as an indication of the expected financial condition, results of operations and performance of our Group for the full year ending December 31, 2019. Potential investors are advised to exercise caution when using such data to evaluate our financial condition and results of operations, and should not place undue reliance upon such data.

## USE OF PROCEEDS

We plan to use the net proceeds from this offering to repay certain existing indebtedness and for general corporate purposes.

## CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our indebtedness and capitalization as of December 31, 2018 on an actual basis and on an adjusted basis after giving effect to the issuances of the New Notes in this offering after taking into account the issue price but before deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering and the accrued interest, as well as the issuance of the Original Notes after taking into account the issue price but before deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection therewith. The following table should be read in conjunction with our consolidated financial information and related notes included in the accompanying Offering Memorandum.

	As of December 31, 2018			
	Actual		As Adjusted	
	HK\$	US\$	HK\$	US\$
	<i>(in thousands)</i>			
<b>Cash and cash equivalents</b> . . . . .	<b>2,508,223</b>	<b>320,315</b>	<b>5,237,935</b>	<b>668,915</b>
Short-term borrowings <sup>(1)</sup> . . . . .	1,455,839	185,919	1,455,839	185,919
Total short-term borrowings . . . . .	1,455,839	185,919	1,455,839	185,919
Long-term borrowings				
Senior notes <sup>(2)</sup> . . . . .	5,029,991	642,359	5,029,991	642,359
Long-term borrowings . . . . .	63,642	8,127	63,642	8,127
Original Notes . . . . .	—	—	2,490,099	318,000
New Notes offered hereby . . . . .	—	—	239,613	30,600
Total long-term borrowings . . . . .	5,093,633	650,486	7,823,345	999,086
<b>Total borrowings</b> <sup>(3)</sup> . . . . .	<b>6,549,472</b>	<b>836,405</b>	<b>9,279,184</b>	<b>1,185,005</b>
<b>Total equity</b> <sup>(4)</sup> . . . . .	<b>5,912,060</b>	<b>755,004</b>	<b>5,912,060</b>	<b>755,004</b>
<b>Total capitalization</b> <sup>(5)</sup> . . . . .	<b>11,005,693</b>	<b>1,405,490</b>	<b>13,735,405</b>	<b>1,754,090</b>

*Notes:*

- (1) Included in short-term bank borrowings, unsecured, are certain balances relating to which we may be required to provide collateral from time to time. See “Description of Other Material Indebtedness — Offshore Loans.”
- (2) Included the 2014 Notes and the 2017 Notes. We have redeemed the 2014 Notes in full on August 21, 2019, which has not been reflected in the table above.
- (3) Our borrowings do not include capital commitments. As of December 31, 2018, we had capital commitments of HK\$127.1 million (US\$16.2 million). As of the same date, we did not have any contingent liabilities.
- (4) HKFRS 16 “Leases” was issued in 2016 and effective for annual periods beginning on or after January 1, 2019. The total equity of our Group presented above does not take into account the adjustment to retained earnings as of January 1, 2019 for the adoption of HKFRS 16 with the simplified transition approach. Please refer to Note 2 to our consolidated financial statements as of and for the year ended December 31, 2018 included elsewhere in this offering memorandum for disclosure of the impact on adoption of HKFRS 16.
- (5) Total capitalization represents the sum of the total long-term borrowings and total equity.
- (6) The exchange rate of HK\$7.8305 to US\$1 as of December 31, 2018 as stated on page iv of the accompanying Offering Memorandum is adopted for the purpose of the table above.

Except as otherwise disclosed in this supplemental offering memorandum, there has been no material adverse change in our indebtedness or capitalization since December 31, 2018.

## DESCRIPTION OF THE NEW NOTES

*The following provisions should be read in conjunction with the section entitled “Description of the Notes” in the accompanying Offering Memorandum.*

The Company will issue the New Notes as Additional Notes under the Indenture.

The Company is issuing US\$30,000,000 aggregate principal amount of New Notes in this offering. The New Notes constitute Additional Notes under the Indenture and are identical in all respects to the Original Notes, other than with respect to the issue date and issue price, and will be consolidated and form a single class with the Original Notes. Upon completion of this offering, the aggregate principal amount of outstanding New Notes and Original Notes will be US\$350,000,000. Interest on the New Notes will accrue from July 25, 2019. All references to the Notes in the accompanying Offering Memorandum include the New Notes and the Original Notes, except as otherwise stated.

The New Notes issued will have the same ISIN and Common Code as those that are assigned to the Original Notes previously sold to investors. The New Notes will be subject to restrictions on transfer as set forth in a legend appearing thereon as described in the section entitled “Transfer Restrictions” in the accompanying Offering Memorandum.

Unless otherwise defined below, you can find the definitions of terms used in this section under “Description of the Notes — Definitions” in the accompanying Offering Memorandum.

## PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated October 28, 2019 (the “Purchase Agreement”), Morgan Stanley & Co. International plc (the “Initial Purchaser”) has agreed to purchase from us, and we have agreed to sell to the Initial Purchaser, US\$30,000,000 principal amount of the New Notes.

The Purchase Agreement provides that the Company will pay the Initial Purchaser a customary commission. This commission will be based on the principal amount of the New Notes so distributed, and may be deducted from the proceeds of the issue of the New Notes upon settlement. The Purchase Agreement provides that the obligations of the Initial Purchaser to purchase the New Notes are subject to approval of legal matters by counsel and to other conditions. The initial purchaser is committed to take and pay for all of the New Notes if any are taken.

The Initial Purchaser proposes to resell the New Notes at the offering price set forth on the cover page of this supplemental offering memorandum outside the United States in reliance on Regulation S under the Securities Act. See “Transfer Restrictions.” The price at which the New Notes are offered may be changed at any time without notice. The Initial Purchaser may offer and sell the New Notes through certain of its affiliates.

We have agreed that, for a period of 30 days from the date of this supplemental offering memorandum, we will not offer, sell, contract to sell, pledge, otherwise dispose of, or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by us or any of our affiliates, directly or indirectly, or announce the offering, of any securities issued or guaranteed by us (other than the New Notes and the Subsidiary Guarantees) (i) in the case of securities offerings made outside of the PRC, without the prior written consent of the Initial Purchaser and (ii) in the case of securities offerings made within the PRC, without prior consultation with the Initial Purchaser.

The Original Notes are listed and quoted on the SGX-ST. Application will be made to the SGX-ST for the listing and quotation of the New Notes on the SGX-ST. However, we cannot assure you that the prices at which the New Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the New Notes will develop and continue after this offering. The Initial Purchaser has advised us that it currently intends to make a market in the New Notes. However, it is not obligated to do so and it may discontinue any market-making activities with respect to the New Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the New Notes. If an active public trading market for the New Notes does not develop, their market price and liquidity may be adversely affected.

Morgan Stanley & Co. International plc (or its affiliates) may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids to the extent permitted by applicable laws and regulations. Over-allotment involves sales in excess of the offering size, which creates a short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchase of the New Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit Morgan Stanley & Co. International plc (as stabilizing manager) to reclaim a selling concession from a dealer when the New Notes originally sold by such dealer are purchased in a stabilizing transaction or a covering transaction to cover short positions. Neither we nor the Initial Purchaser makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have

on the price of the New Notes. In addition, neither we nor the Initial Purchaser makes any representation that Morgan Stanley & Co. International plc (as stabilizing manager) will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

We expect to deliver the New Notes against payment for the New Notes on or about the date specified in the last paragraph of the cover page of this supplemental offering memorandum, which will be the third business day following the date of the pricing of the New Notes (such settlement arrangement being referred to as “T+3”). Purchasers of the New Notes who wish to trade the New Notes prior to such settlement should consult their own adviser or settlement logistics.

The Initial Purchaser or its affiliate has performed commercial banking, investment banking or advisory services for us from time to time for which they have received customary fees and reimbursement of expenses. The Initial Purchaser or its affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of business for which they may receive customary fees and reimbursement of expenses. For example, Morgan Stanley Asia International Limited, an affiliate of Morgan Stanley & Co. International plc, the Initial Purchaser, is a lender under an existing credit facility of one of our subsidiaries and will receive customary fees and interest payments in connection therewith. We may enter into hedging or other derivative transactions as part of our risk management strategy with the Initial Purchaser and its affiliates, which may include transactions relating to our obligations under the New Notes. Our obligations under these transactions may be secured by cash or other collateral. In addition, the Initial Purchaser or any of its affiliates may acquire for its own account a portion of the New Notes and be allocated the New Notes for asset management and/or proprietary purposes but not with a view to distribution, and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the New Notes and/or other securities of ours or of our subsidiaries or affiliates at the same time as the offer and sale of the New Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the New Notes to which this supplemental offering memorandum relates (notwithstanding that such selected counterparties may also be purchasers of the New Notes).

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchaser against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial purchaser may be required to make because of any of those liabilities.

## **SELLING RESTRICTIONS**

### **General**

No action has been taken or will be taken in any jurisdiction by us or the Initial Purchaser that would permit a public offering of the New Notes, or the possession, circulation or distribution of this supplemental offering memorandum or any other material relating to the New Notes or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the New Notes may not be offered or sold, directly or indirectly, and neither this supplemental offering memorandum nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

## **Prohibition of Sales to EEA Retail Investors**

The New Notes may not be offered, sold or otherwise made available to any retail investor in the EEA. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (b) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

## **United States**

The New Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. In addition, until 40 days after the commencement of this offering, an offer or sale of New Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act.

The Initial Purchaser, through its affiliates, acting as selling agents where applicable, propose to offer the New Notes to certain persons in offshore transactions in reliance on Regulation S and in accordance with applicable law. Terms used in this paragraph have the meanings given to them by Regulation S.

## **United Kingdom**

Any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of the New Notes may only be communicated or caused to be communicated in circumstances in which Section 21(1) of the FSMA does not apply to the Company or the Subsidiary Guarantors.

All applicable provisions of the FSMA must be complied with in respect to anything done by any person in relation to the New Notes in, from or otherwise involving the United Kingdom.

## **Hong Kong**

This supplemental offering memorandum has not been and will not be registered with the Registrar of Companies in Hong Kong. Accordingly, except as mentioned below, this supplemental offering memorandum may not be issued, circulated or distributed in Hong Kong. A copy of this supplemental offering memorandum may, however, be issued to a limited number of prospective applicants for the New Notes in Hong Kong in a manner which does not constitute an offer of the New Notes to the public in Hong Kong or an issue, circulation or distribution in Hong Kong of a prospectus for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong). No advertisement, invitation or document relating to the New Notes may be issued or may be in the possession of any person other than with respect to the New Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571. Laws of Hong Kong) and any rules made thereunder.

## Japan

The New Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948) (as amended) (the “FIEL”), and disclosure under the FIEL has not been made with respect to the New Notes. Accordingly, the New Notes may not be offered or sold, directly or indirectly in Japan or to, or for the account of, any resident of Japan, or to others for reoffering or re-sale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan, except pursuant to any exemption from the registration requirements of the FIEL and otherwise in compliance with the FIEL and other applicable provisions of Japanese laws and regulations. As used in this paragraph, “resident of Japan” means any person residing in Japan, including any corporation or other entity organized under the laws of Japan.

## Singapore

This supplemental offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). Accordingly, this supplemental offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the New Notes may not be circulated or distributed, nor may the New Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the New Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the New Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;

- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

**Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”) —** the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the New Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

#### **PRC**

This supplemental offering memorandum does not constitute a public offer of the New Notes, whether by sale or by subscription, in the PRC. The New Notes will not be offered or sold within the PRC by means of this supplemental offering memorandum or any other document except pursuant to the applicable laws and regulations of the PRC.

#### **Bermuda**

The Initial Purchaser has not made and will not make on behalf of the Company any invitation directly or indirectly to the public in Bermuda to subscribe for any of the New Notes.

#### **British Virgin Islands**

No invitation will be made directly or indirectly to any person resident in the British Virgin Islands to subscribe for any of the New Notes.

## LEGAL MATTERS

Certain legal matters with respect to the New Notes will be passed upon for us by Sidley Austin as to matters of United States federal and New York law and Hong Kong Law, Appleby as to matters of Bermuda law and British Virgin Islands law, and Tian Yuan Law Firm as to matters of PRC law. Certain legal matters will be passed upon for the Initial Purchaser by Davis Polk & Wardwell as to matters of United States federal and New York law and Commerce & Finance Law Offices as to matters of PRC law.

## GENERAL INFORMATION

### CONSENTS

We have obtained all necessary consents, approvals and authorizations in the British Virgin Islands and Hong Kong in connection with the provision and performance of the Subsidiary Guarantees. The issue of the New Notes will be authorized by a resolution of our board of directors.

### LITIGATION

There are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material to the Company or the Group or in the context of this issue of the New Notes or the Subsidiary Guarantees.

### CLEARING SYSTEMS AND SETTLEMENT

The New Notes have been accepted for clearance through the facilities of Euroclear and Clearstream. Certain trading information with respect to the Securities is set forth below:

	<u>ISIN</u>	<u>Common Code</u>
The New Notes . . . . .	XS2016070190	201607019

Only Notes evidenced by a Global Note have been accepted for clearance through Euroclear and Clearstream.

### LISTING OF THE NEW NOTES

Application will be made to the SGX-ST for the listing and quotation of the New Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and the listing and quotation of the New Notes on, the SGX-ST are not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors or any other subsidiary or associated company of the Company, the New Notes or the Subsidiary Guarantees. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that a Global Note is exchanged for individual definitive Notes, we will appoint and maintain a paying agent in Singapore where the individual definitive Notes may be presented or surrendered for payment or redemption. In addition, in the event that a Global Note is exchanged for individual definitive Notes, an announcement of such exchange will be made by or on behalf of us through the SGX-ST and such announcement will include all material information with respect to the delivery of the individual definitive Notes, including details of the paying agent in Singapore.

## **NO MATERIAL ADVERSE CHANGE**

Except as otherwise disclosed in this supplemental offering memorandum and the Offering Memorandum, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since December 31, 2018 that is material in the context of the issue of the New Notes.

US\$320,000,000

**中油燃氣集團有限公司**

CHINA OIL AND GAS GROUP LIMITED

*(incorporated in Bermuda with limited liability)***5.5% SENIOR NOTES DUE 2023****Issue Price: 99.373%**

The 5.5% Senior Notes due 2023 (the “Notes”) will bear interest from July 25, 2019 at 5.5% per annum payable semi-annually in arrears on January 25 and July 25 of each year, beginning on January 25, 2020. The Notes will mature on January 25, 2023.

The Notes are senior obligations of China Oil And Gas Group Limited (the “Company”), guaranteed by our existing subsidiaries (the “Subsidiary Guarantors”) (such guarantees provided by the Subsidiary Guarantors, the “Subsidiary Guarantees”) other than those organized under the laws of the PRC and certain other subsidiaries specified in “Description of the Notes” (the “Non-Guarantor Subsidiaries”).

We may at our option redeem the Notes, in whole or in part, at any time and from time to time on or after July 25, 2021, at redemption prices set forth in this offering memorandum plus accrued and unpaid interest, if any, to (but not including) the redemption date. At any time and from time to time prior to July 25, 2021, we may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company at a redemption price of 105.5% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. In addition, we may redeem the Notes, in whole but not in part, at any time prior to July 25, 2021, at a price equal to 100% of the principal amount of the applicable Notes plus a premium as set forth in this offering memorandum. Upon the occurrence of a Change of Control Triggering Event (as defined herein), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase. We may at our option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) the redemption date at any time on or after the date when no more than 10% of the aggregate principal amount of the Notes issued on the Original Issue Date remains outstanding.

The Notes will (1) rank senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes, (2) be at least pari passu in right of payment with the 2014 Notes, the 2017 Notes and all other unsecured, unsubordinated Indebtedness (as defined below) of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law), (3) be effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries, and (4) be effectively subordinated to all existing and future secured obligations of the Company and the Subsidiary Guarantors to the extent of the collateral securing such obligations (other than the collateral securing the Notes). However, applicable law may limit the enforceability of the Subsidiary Guarantees and the pledge of any collateral. See “Risk Factors — Risks relating to the Subsidiary Guarantees and the Collateral.”

For a more detailed description of the Notes, see “Description of the Notes” beginning on page 130.

**Investing in the Notes involves risks. See “Risk Factors” beginning on page 17.**

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the “SGX-ST”) for the listing and quotation of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained herein. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on the SGX-ST are not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) or any other subsidiary or associated company of the Company, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees.

The Notes and the Subsidiary Guarantees have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold by the Initial Purchasers (as defined herein) only outside the United States in compliance with Regulation S under the Securities Act (“Regulation S”). For a description of certain restrictions on resale or transfer, see “Transfer Restrictions” beginning on page 212.

With reference to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) (the “NDRC Notice”) promulgated by National Development and Reform Commission (the “NDRC”) of the PRC on September 14, 2015 which came into effect on the same day, we have registered the issuance of the Notes with the NDRC and obtained a certificate from the NDRC dated May 14, 2019 evidencing such registration. Pursuant to the registration certificate, we will cause relevant information relating to the issue of the Notes to be reported to the NDRC within 10 PRC working days after the issue date of the Notes.

It is expected that the delivery of the Notes will be made through the book-entry facilities of Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream”) on or about July 25, 2019 against payment therefor in immediately available funds.

*Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers*  
(in alphabetical order)

**Deutsche Bank****Morgan Stanley**

The date of this offering memorandum is July 18, 2019.

## TABLE OF CONTENTS

	Page		Page
SUMMARY . . . . .	1	PRINCIPAL SHAREHOLDERS . . . . .	122
THE OFFERING . . . . .	4	RELATED PARTY TRANSACTIONS . . . . .	123
SUMMARY CONSOLIDATED		DESCRIPTION OF OTHER MATERIAL	
FINANCIAL INFORMATION . . . . .	13	INDEBTEDNESS . . . . .	124
RISK FACTORS . . . . .	17	DESCRIPTION OF THE NOTES . . . . .	130
USE OF PROCEEDS . . . . .	61	TAXATION . . . . .	204
EXCHANGE RATE INFORMATION . . . . .	62	PLAN OF DISTRIBUTION . . . . .	207
CAPITALIZATION . . . . .	65	TRANSFER RESTRICTIONS . . . . .	212
SELECTED CONSOLIDATED		RATINGS . . . . .	214
FINANCIAL INFORMATION . . . . .	66	LEGAL MATTERS . . . . .	214
CORPORATE STRUCTURE . . . . .	74	INDEPENDENT AUDITOR . . . . .	214
BUSINESS . . . . .	78	GENERAL INFORMATION . . . . .	215
REGULATORY OVERVIEW . . . . .	103	INDEX TO CONSOLIDATED	
MANAGEMENT . . . . .	116	FINANCIAL INFORMATION . . . . .	F-1

**This offering memorandum does not constitute an offer to sell or a solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this offering memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this offering memorandum or that the information contained in this offering memorandum is correct as of any time after that date.**

This offering memorandum is not a prospectus for the purposes of the European Union’s Directive 2003/71/EC (as amended or superseded), as implemented in the Member States of the European Economic Area (the “EEA”).

**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU, as amended (“MiFID II”); or (ii) a customer within the meaning of Directive (EU) 2016/97, as amended or superseded (the “Insurance Distribution Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014, as amended (the “PRIIPs Regulation”) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

The communication of this offering memorandum and any other document or materials relating to the issue of the Notes offered hereby is not being made, and such documents and/or materials have not been approved, by an authorized person for the purposes of section 21 of the United Kingdom’s Financial Services and Markets Act 2000, as amended (the “FSMA”). Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the United Kingdom. The communication of such documents and/or materials as a financial promotion is only being made to those persons in the United Kingdom who have professional experience in matters relating to investments and who fall within the definition of investment professionals (as defined in Article 19(5) of the Financial

Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Financial Promotion Order”), or who fall within Article 49(2)(a) to (d) of the Financial Promotion Order, or who are any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as “relevant persons”). In the United Kingdom, the Notes offered hereby are only available to, and any investment or investment activity to which this offering memorandum relates will be engaged in only with, relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on this offering memorandum or any of its contents.

**Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”) —** the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

**IN CONNECTION WITH THIS OFFERING, ANY JOINT LEAD MANAGER, AS STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, MAY PURCHASE AND SELL THE NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE NOTES. AS A RESULT, THE PRICE OF THE NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME.**

This offering memorandum is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Notes. You should read this offering memorandum before making a decision whether to purchase the Notes. You must not use this offering memorandum for any other purpose, or disclose any information in this offering memorandum to any other person.

We have prepared this offering memorandum, and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Notes. By purchasing the Notes, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section headed “Transfer Restrictions” below.

No representation or warranty, express or implied, is made by the Initial Purchasers (as defined in “Plan of Distribution”), the Trustee or any of their respective affiliates or advisers as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

Each person receiving this offering memorandum acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Initial Purchasers or the Trustee or any person affiliated with the Initial Purchasers or the Trustee in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates, the Notes or the Subsidiary

Guarantees (other than as contained herein and information given by our duly authorized officers and employees in connection with investors' examination of our company and the terms of the offering of the Notes) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us, the Initial Purchasers or the Trustee.

**The Notes and the Subsidiary Guarantees have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.**

We are not, and the Initial Purchasers are not, making an offer to sell the Notes in any jurisdiction except where an offer or sale is permitted. The distribution of this offering memorandum and the offering of the Notes may in certain jurisdictions be restricted by law. Persons into whose possession this offering memorandum comes are required by us and the Initial Purchasers to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Notes and distribution of this offering memorandum, see the sections headed "Transfer Restrictions" and "Plan of Distribution" below.

This offering memorandum summarizes certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. None of the Company, the Initial Purchasers, the Trustee or our or their respective directors, officers or advisers are making any representation to you regarding the legality of an investment in the Notes by you under any legal, investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own attorney, business adviser and tax adviser for legal, business and tax advice regarding an investment in the Notes.

We reserve the right to withdraw the offering of the Notes at any time, and the Initial Purchasers reserve the right to reject any commitment to subscribe for or purchase the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of the Notes sought by such purchaser. The Initial Purchasers or any of their affiliates may acquire for their own account a portion of the Notes.

## **CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY AND FINANCIAL INFORMATION PRESENTATION**

We have prepared this offering memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms “we,” “us,” “our” and words of similar import, we are referring to China Oil And Gas Group Limited itself or to China Oil And Gas Group Limited and its subsidiaries, as the context requires. When we use the term the “Company,” we are referring to China Oil And Gas Group Limited itself and when we use the term the “Group,” we are referring to China Oil And Gas Group Limited and its subsidiaries. In addition, we have a wholly owned subsidiary incorporated in the British Virgin Islands named China Oil And Gas Group Limited, which is identical to the name of the Company. This subsidiary is an initial Subsidiary Guarantor and Subsidiary Guarantor Pledgor. To avoid any confusion in identity, each time we refer to this subsidiary in this offering memorandum, we attach a note making reference to its place of incorporation.

Market data and certain industry forecasts and statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us or the Initial Purchasers or their respective directors and advisers, and neither us, the Initial Purchasers nor our or their respective directors and advisers make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. This offering memorandum summarizes certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents. In making an investment decision, each investor must rely on its own examination of us and the terms of the offering and the Notes, including the merits and risks involved.

The information and statistics set forth in this offering memorandum relating to the PRC and the natural gas industry and energy market in the PRC were taken or derived from various government and private publications. The Initial Purchasers do not make any representation as to the accuracy of such information and statistics, which may not be consistent with other information or statistics compiled within or outside the PRC. Due to possibly inconsistent collection methods and other problems, the information and statistics herein may be inaccurate and should not be unduly relied upon.

We record and publish our financial information in Hong Kong dollars. Unless otherwise stated in this offering memorandum, all translations from Hong Kong dollar amounts to U.S. dollars were made at the rate of HK\$7.8305 to US\$1.00, the noon buying rate in New York City for cable transfers payable in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2018, all translations from Renminbi into U.S. dollars were made at the rate of RMB6.8755 to US\$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2018, and all translations from Canadian dollar amounts to U.S. dollars were made at the rate of C\$1.3644 to US\$1.00, the noon buying rate in New York City for cable transfers payable in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2018. Unless otherwise stated in this offering memorandum, all translations from Renminbi to Hong Kong dollars were made at the rate of RMB0.8780 to HK\$1.00, derived by using the noon buying rate in New York City for cable transfers payable in Hong Kong dollars and Renminbi, each as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2018. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Hong Kong

dollar amounts referred to herein have been, could have been or could be converted into U.S. dollars and Renminbi, or vice versa, at any particular rate or at all. For further information relating to the exchange rates, see “Exchange Rate Information.”

In this offering memorandum, references to “US\$” and “U.S. dollars” are to United States dollars, the official currency of the United States of America (the “United States” or “U.S.”); references to “HK\$” are to Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region of the PRC (“Hong Kong” or “HK”); references to “RMB” or “Renminbi” are to Renminbi, the official currency of the People’s Republic of China; references to “C\$” are to Canadian dollars, the official currency of Canada; references to “Macau” are to the Macau Special Administrative Region of the PRC; references to the “PRC government” or “State” are to the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or, where the context requires, any of them; and references to the “PRC” and “China” are to the People’s Republic of China and, for the purposes of this offering memorandum, do not include Hong Kong, Macau or Taiwan.

Our financial statements are prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRS”) which differ in certain respects from generally accepted accounting principles in certain other countries.

Unless the context otherwise requires, references to “2016,” “2017” and “2018” in this offering memorandum are to our financial years ended December 31, 2016, 2017 and 2018, respectively.

“2013 Notes” mean our 5.25% Senior Notes due 2018 originally issued on April 25, 2013.

“2014 Notes” mean our 5.00% Senior Notes due 2020 originally issued on November 7, 2014.

“2017 Notes” mean our 4.625% Senior Notes due 2022 originally issued on April 20, 2017.

“Board of Directors” or “Board” means the board of Directors of the Company.

“CCNG” means China City Natural Gas Investment Group Co., Ltd. (中油中泰燃氣投資集團有限公司) (formerly known as China City Natural Gas Co., Ltd.), one of our subsidiaries incorporated in the PRC in which we hold a 51% equity interest and Kunlun Energy holds the remaining 49%.

“CCNG Group” means CCNG and its subsidiaries, which, for the purposes of this offering memorandum, does not include Nantong China Oil and Gas Company Limited, an entity in which CCNG holds a 51% equity interest. As our effective interest in Nantong China Oil and Gas Company Limited held through our other subsidiaries is larger than the effective interest we held through CCNG, for our internal record keeping purposes, we do not treat Nantong China Oil and Gas Company Limited as a part of the CCNG Group.

“CNPC” means China National Petroleum Corporation.

“Connected person” has the meaning ascribed to it in the Listing Rules (as defined below).

“COGI” means China Oil and Gas Investment Co., Ltd. (中油燃氣投資集團有限公司), one of our wholly-owned subsidiaries incorporated in the PRC.

“Director(s)” mean the director(s) of the Company.

“EIT Law” means the Enterprise Income Tax Law of the PRC, which was promulgated on March 16, 2007 and came into effect on January 1, 2008, as amended on February 24, 2017 and December 29, 2018.

“Hong Kong Stock Exchange” means The Stock Exchange of Hong Kong Limited.

“Kunlun Energy” means Kunlun Energy Company Limited (昆侖能源有限公司), subsidiary of CNPC, whose shares are listed on the Hong Kong Stock Exchange (stock code: 00135).

“Kunlun Gas” means PetroChina Kunlun Gas Ltd (中國石油昆侖有限公司), a subsidiary of PetroChina.

“Listing Rules” mean the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time.

“Mr. Xu” means Mr. Xu Tie-liang, the single largest shareholder and a Director.

“NDRC” means the PRC National Development and Reform Commission.

“PetroChina” means PetroChina Company Limited (中國石油天然氣股份有限公司), a subsidiary of CNPC, whose shares are listed on the Hong Kong Stock Exchange (stock code: 00857).

“PetroChina Group” means PetroChina and its subsidiaries.

“PetroChina Coalbed Methane” means Petrochina Coalbed Methane Co., Ltd. (中石油煤層氣有限責任公司), a wholly owned subsidiary of Petrochina.

“SAFE” means the PRC State Administration of Foreign Exchange (中國國家外匯管理局), the PRC government agency responsible for matters relating to foreign exchange administration.

“SFO” means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time.

“Shanxi Guoxing” means Shanxi Guoxing Coalbed Methane Transmission Co., Ltd. (山西國興煤層氣輸配有限公司), a joint venture incorporated in the PRC in which CCNG holds a 35% equity interest.

“Sino Director” means Sino Director Limited, a company incorporated in the British Virgin Islands, in which we hold through Sino Invent Holdings Limited, a wholly owned subsidiary, an 25% equity interest and the remaining 75% equity interest is held by an independent third party.

“Sinopec Eastern China” means China Petroleum & Chemical Corporation Eastern China Oil and Gas Branch (中國石油化工股份有限公司華東油氣分公司), a Chinese oil and gas enterprise based in Nanjing, Jiangsu Province, China.

“SOE” means state-owned enterprise.

In this offering memorandum, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

## **FORWARD-LOOKING STATEMENTS**

This offering memorandum includes “forward-looking statements.” All statements other than statements of historical fact contained in this offering memorandum, including, without limitation, those regarding our future financial position and results of operations, strategies, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words “believe,” “expect,” “aim,” “intend,” “will,” “may,” “anticipate,” “seek,” “should,” “estimate” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- the industries in which we operate;
- industry risks;
- our financial condition;
- abundant supply of natural gas;
- fluctuations in the prices of crude oil and natural gas;
- the achievement of our expansion plans, such as our newly acquired Canadian upstream business, and their successful integration with our existing business;
- our ability to maintain our established market position;
- availability and costs of bank loans and other forms of financing;
- demand for natural gas over alternative fuels;
- changes in competitive conditions and our ability to compete under those conditions;
- regulatory restrictions to the pricing of our products;

- the regulatory environment of our industry in general; and
- changes in political, economic, legal and social conditions in China, Canada and other relevant jurisdictions, including the specific policies of the PRC and foreign governments affecting the markets where we operate.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “Risk Factors” and elsewhere in this offering memorandum. We caution you not to place undue reliance on these forward-looking statements which reflect our management’s view only as of the date of this offering memorandum. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this offering memorandum might not occur.

### **ENFORCEMENT OF CIVIL LIABILITIES**

We are an exempted company incorporated in Bermuda with limited liability, and each Subsidiary Guarantor is also incorporated outside the United States. Bermuda has a different body of securities laws from the United States and protections for investors may differ.

All of our assets and the assets of the Subsidiary Guarantors are located outside the United States. In addition, all of our directors and officers and the Subsidiary Guarantors’ directors and officers are nationals or residents of countries other than the United States, and all or a substantial portion of such persons’ assets are located or may be located, as the case may be, outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us, any of the Subsidiary Guarantors or such persons or to enforce against us or any of the Subsidiary Guarantors or such persons judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

We and each of the Subsidiary Guarantors expect to appoint Cogency Global Inc. as our and their respective agent to receive service of process with respect to any action brought against us or the Subsidiary Guarantors in any state or the United States federal court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, or the Indenture governing the Notes and the Subsidiary Guarantees.

We have been advised by our Bermuda legal advisers, Appleby, that a final and conclusive judgment in a court of United States under which a sum of money is payable (not being a sum of money payable in respect of taxes or other charges of a like nature, in respect of a fine or other penalty, or in respect of multiple damages as defined in The Protection of Trading Interests Act 1981) would be enforced as a debt, upon the filing of the certified judgment with the Supreme Court of Bermuda, by an action in the Supreme Court of Bermuda without re-examination of the merits of the case under the common law doctrine of obligation, provided that the court which gave the judgment was competent to hear the action in accordance with private international law principles as applied in Bermuda and that such judgment was not obtained by fraud or that its enforcement would not be contrary to public policy in Bermuda or that the proceedings in which the same was obtained were not contrary to natural justice.

We have been advised by our British Virgin Islands legal advisers, Appleby, that any final and conclusive monetary judgment of a competent foreign court for a definite sum against the Company (other than a court of jurisdiction to which the Reciprocal Enforcement of Judgments Act (1922) or the Foreign

Judgments (Reciprocal Enforcement) Act (1964) applies, and neither Act applies to the courts of United States) may be the subject of enforcement proceedings in the courts of the British Virgin Islands under the common law doctrine of obligation by action on the debt evidenced by the judgment of such competent foreign court. A final opinion as to the availability of this remedy should be sought when the facts surrounding the foreign court's judgment are known, but, on general principles, it is expected such proceedings to be successful provided that (i) the foreign court had jurisdiction in the matter and the Company either submitted to such jurisdiction or was resident or carrying on business within such jurisdiction and was duly served with process; (ii) the judgment given by the foreign court was not in respect of penalties, taxes, fines or similar fiscal or revenue obligations; (iii) the judgment was not obtained by fraud; (iv) recognition or enforcement of the judgment would not be contrary to British Virgin Islands public policy; and (v) the proceedings pursuant to which judgment was obtained were not contrary to natural justice.

Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. However, under Hong Kong common law, a foreign judgment (including one from a court in the United States predicated upon U.S. federal or state securities laws) may be enforced in Hong Kong by bringing an action in a Hong Kong court and seeking summary or default judgment on the strength of the foreign judgment, provided that the foreign judgment is for debt or a definite sum of money and is final and conclusive on the merits. In addition, the Hong Kong courts may refuse to recognize or enforce a foreign judgment if such judgment:

- (a) was obtained by fraud;
- (b) was rendered by a foreign court that lacked the appropriate jurisdiction at the time (as determined by Hong Kong jurisdictional rules);
- (c) is contrary to public policy or natural justice;
- (d) is based on foreign penal, revenue or other public law; or
- (e) falls within Section 3(1) of the Foreign Judgment (Restriction on Recognition and Enforcement) Ordinance.

Further, we have been advised by our PRC legal advisers, Tian Yuan Law Firm, that there is uncertainty as to whether the courts of China would (i) enforce judgments of U.S. courts obtained against us, our directors or officers, any Subsidiary Guarantor or its directors or officers predicated upon the civil liability provisions of the U.S. federal or state securities laws or (ii) entertain original actions brought in China against us, our directors or officers, any Subsidiary Guarantor or its directors or officers predicated upon the U.S. federal or state securities laws.

## GLOSSARY OF TECHNICAL TERMS

*This glossary of technical terms contains explanations of certain terms and definitions used in this offering memorandum. The terms and their meanings may not correspond to standard industry meaning or usage of those terms.*

“bcm”	billion cubic meters
“CAGR”	compound annual growth rate
“CBM”	coalbed methane
“CNG”	compressed natural gas
“CNG primary station”	station where natural gas is compressed and sold wholesale to CNG refueling stations and/or other downstream distributors
“COD”	commercial operation date
“gas stations”	CNG primary stations, CNG refueling stations, LNG refueling stations and LCNG refueling stations, collectively
“LNG”	liquefied natural gas
“LCNG refueling station”	gas refueling station supplying both LNG and CNG
“LNG and CNG conversion”	a process that involves converting vehicles and vessels from utilizing diesel fuel only to utilizing both diesel fuel and LNG or CNG fuel through engine refitting and installation of additional devices such as LNG or CNG cylinders
“LPG”	liquefied petroleum gas
“m <sup>3</sup> ”	cubic meters
“MBOE”	1,000 barrels of oil equivalent
“MMBOE”	million barrels of oil equivalent
“WTI”	West Texas Intermediate, a grade of crude oil used as a benchmark in oil pricing

## SUMMARY

*This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire offering memorandum, including the section entitled “Risk Factors” and our consolidated financial information and related notes thereto, before making an investment decision.*

### OVERVIEW

We are a national piped gas operator in China focused on providing natural gas to end customers through the operation of our own natural gas branch pipelines and city-gas distribution networks. We also operate LNG processing plants, transport and distribute LNG and CNG, build and operate vehicle refueling stations and design and construct natural gas pipelines. We have traditionally operated in the midstream and downstream natural gas market segments in China, particularly in the construction and operation of natural gas branch pipelines and city-gas distribution networks. We have an established portfolio of branch pipelines and city-gas concession rights over an extensive geographic area in China. As of December 31, 2018, we had business operations in 15 provinces and one autonomous region.

In the midstream market segment, we design and construct branch pipelines, transmit natural gas through our branch pipelines mainly to our downstream city-gas distribution networks or to other downstream distributors, and operate our transportation fleet as well as our LNG processing plants and CNG primary stations. As of December 31, 2018, we operated natural gas branch pipelines in Qinghai, Guangdong, Hunan, Jiangsu, Jiangxi, Shandong, Hubei, Guizhou and Anhui Provinces (as well as Shanxi Province through a joint venture in which we hold a minority equity interest) with an aggregate length of 1,087 k.m. and a total designed transmission capacity of over 12.6 billion m<sup>3</sup> per year, two LNG processing plants in Qinghai Province with a total designed daily processing production capacity of 450,000 m<sup>3</sup> and eight CNG primary stations with a designed daily production capacity of 735,000 m<sup>3</sup>. As of the same date, we also operated a fleet of 100 LNG and CNG logistics vehicles mainly to deliver natural gas to areas not yet covered by our city-gas distribution networks.

In the downstream market segment, we sell and distribute natural gas to our customers through our city-gas distribution networks and our LNG and CNG refueling stations. As of December 31, 2018, through our 71 city-gas concession rights and 11,423 k.m. of city-gas distribution networks, we were connected to approximately 1,343,844 residential users and 11,812 industrial, commercial and other users. As of the same date, we operated 55 natural gas refueling stations, comprising eight CNG primary stations, 31 CNG refueling stations, 10 LNG refueling stations and six LCNG refueling stations. In 2016, 2017 and 2018, our total volume of natural gas sold was 2,769 million m<sup>3</sup>, 3,039 million m<sup>3</sup> and 3,725 million m<sup>3</sup>, respectively. We also derive revenue from connection fees for connecting customers to our city-gas distribution networks.

In June 2014, we acquired Baccalieu Energy Inc., a Canadian oil and gas producer focused on the highly economic Cardium light oil resources in west central Alberta, Canada. Through the acquisition, we gained an upstream business segment based in North America. For the year ended December 31, 2018, our revenue contributed by Baccalieu Energy Inc. reached HK\$416.8 million (US\$53.2 million). In August 2018, we completed a business acquisition of oil and gas assets in West Central Alberta, Canada from an independent third party. For the year ended December 31, 2018, the acquired business contributed revenues of HK\$7.3 million (US\$0.9 million). Our upstream oil and gas business accounted for 4.4% of our total revenue in 2018. As of the same date, Baccalieu Energy Inc. had proved reserves of

approximately 24.8 million barrels of oil equivalent and proved plus probable reserves of approximately 39.0 million barrels of oil equivalent. In 2018, the average daily production of our Canadian business reached 5,383 barrels of oil equivalent.

We procure most of our piped natural gas supply in China from PetroChina Group. In addition, we have in recent years begun to procure CBM from PetroChina Coalbed Methane, a subsidiary of PetroChina, and Sinopec Eastern China as a complementary natural gas source. We have not imported natural gas from our Baccalieu units in Alberta, Canada, but we believe there is significant potential for vertical integration in the future and diversification of our supply of natural gas.

In 2016, 2017 and 2018, we recorded revenue of HK\$6,446.5 million, HK\$7,651.3 million and HK\$9,410.1 million (US\$1,201.7 million), respectively. In the same years, we recorded profit for the year of HK\$657.7 million, HK\$622.9 million and HK\$678.2 million (US\$86.6 million), respectively.

## **COMPETITIVE STRENGTHS**

We believe we have the following competitive strengths:

- well-positioned in the fast-growing natural gas industry in China, which enjoys strong government support;
- monopolistic nature of the natural gas industry;
- strategic partnership with PetroChina, its parent company, CNPC, and Sinopec Eastern China which provides us with a stable supply of natural gas and unconventional gas;
- city-gas distribution networks strategically located in geographically diverse regions;
- healthy financial metrics and stable margins underpinned by attractive customer mix and diversified customer base; and
- experienced management team with a strong performance track record.

## **BUSINESS STRATEGIES**

We intend to grow and strengthen our business through the implementation of the following core business strategies:

- capitalize on opportunities to further expand our city-gas business;
- proactively develop our LNG and CNG business;
- build new branch pipelines and procure CBM to leverage new gas sources;
- maintain prudent financial policies and a proactive approach to our capital structure;
- strengthen our strategic alliance with PetroChina Group and Sinopec Eastern China; and

- maintain a desirable balance between our Canadian upstream business and our established PRC midstream and downstream businesses and create synergies.

## **GENERAL INFORMATION**

Our Company was incorporated in Bermuda on February 1, 1993 as an exempted company with limited liability with registration number 17987. Our registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. Our principal place of business and headquarters in the PRC is located at 15/F., Xinhai Central International Commerce Center Building, No. 9 Qianshan Road, Xiangzhou District, Zhuhai, Guangdong Province, the PRC. Our principal place of business in Hong Kong is Suite 2805, 28th Floor, Sino Plaza, 255-257 Gloucester Road, Causeway Bay, Hong Kong. Our website is [www.hk603.com](http://www.hk603.com). Information contained on our website does not constitute a part of this offering memorandum.

## THE OFFERING

*The following summary is provided solely for your convenience. This summary is not intended to be complete. You should read the full text and more specific details contained elsewhere in this offering memorandum. For a more detailed description of the Notes, see “Description of the Notes.” The information contained in “Description of the Notes” shall prevail to the extent of any inconsistency with the information set forth in this section. Capitalized terms not defined herein are defined in “Description of the Notes.”*

Issuer . . . . .	China Oil And Gas Group Limited (the “Company”).
Notes Offered . . . . .	US\$320,000,000 aggregate principal amount of 5.5% Senior Notes due 2023 (the “Notes”).
Offering Price . . . . .	99.373% of the principal amount of the Notes.
Interest . . . . .	The Notes will bear interest from and including July 25, 2019 at the rate of 5.5% per annum, payable semi-annually in arrears.
Interest Payment Dates . . . . .	January 25 and July 25 of each year, commencing January 25, 2020.
Ranking of the Notes . . . . .	The Notes are: <ul style="list-style-type: none"><li>• general obligations of the Company;</li><li>• senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;</li><li>• at least pari passu in right of payment with the 2014 Notes, the 2017 Notes and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);</li><li>• guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described below under “Description of the Notes — The Subsidiary Guarantees” and in “Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral”;</li><li>• effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries; and</li><li>• effectively subordinated to all existing and future secured obligations of the Company and the Subsidiary Guarantors to the extent of the value of the collateral securing such obligations (other than the Collateral).</li></ul>

On the Original Issue Date, subject to the limitations described in “Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral,” the Notes will be secured by a pledge of the Collateral as described below under “Description of the Notes — Security” and will, for so long as any Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) is outstanding:

- be entitled to a first-priority lien on the Collateral (subject to any Permitted Liens) shared on a *pari passu* basis pursuant to the Intercreditor Agreement with (i) the holders of the 2014 Notes, (ii) the holders of the 2017 Notes and (iii) the holders of other Permitted Pari Passu Secured Indebtedness; and
- rank effectively senior in right of payment to unsecured obligations of the Company and the Subsidiary Guarantor Pledgors with respect to the value of the Collateral pledged by the Company and the Subsidiary Guarantor Pledgors securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Subsidiary Guarantees . . . . . Each of the Subsidiary Guarantors will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes.

A Subsidiary Guarantee may be released in certain circumstances. See “Description of the Notes — The Subsidiary Guarantees — Release of the Subsidiary Guarantees.”

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of All Praise Investments Limited, Super Aim Investments Limited, China Oil and Gas Group (Jiangxi) Company Limited, Accelstar Pacific Limited, Sino Petroleum International Limited, Plentigreat Holdings Limited, Skytop International Holdings Limited, Star Charm Holdings Limited, Majestic International Limited, Vast China Group Limited, Top Best Group (Hong Kong) Limited, Ming Sheng Hong Kong Limited, Real Million Investments Limited, Alta Financial Holdings Limited, Zhongda Industrial Group Inc., China Oil And Gas Group Limited (the Company’s Wholly Owned Subsidiary incorporated in the British Virgin Islands), Hong Kong China Oil and Gas Group Limited. None of the existing or future Restricted Subsidiaries organized under the laws of the PRC (the “PRC Non-Guarantor Subsidiaries”) or Restricted Subsidiaries organized outside the PRC other than the initial Subsidiary Guarantors (the “Initial Non-Guarantor Subsidiaries,” and, together with the PRC Non-Guarantor Subsidiaries, and for as long as they are not Subsidiary Guarantors, the “Existing Non-Guarantor Subsidiaries”) will provide a Subsidiary Guarantee on the Original Issue Date. All of the initial Subsidiary Guarantors are holding companies that do not have significant operations.

The Company will cause each of its future Restricted Subsidiaries (other than Exempted Subsidiaries, Listed Subsidiaries and Persons organized under the laws of the PRC), as soon as practicable and in any event within 30 days after it becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary or a Listed Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which it will Guarantee the payment of the Notes. Notwithstanding the foregoing sentence, the Company may elect to have any future Restricted Subsidiary organized outside the PRC not provide a Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary or a Listed Subsidiary (the “New Non-Guarantor Subsidiary” and, together with the Existing Non-Guarantor Subsidiaries, the “Non-Guarantor Subsidiaries”); *provided* that, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC (other than Exempted Subsidiaries or Listed Subsidiaries) that are not Subsidiary Guarantors do not account for more than 25% of Total Assets.

Ranking of Subsidiary

Guarantees . . . . .

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets (other than the Collateral) serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* with the subsidiary guarantee of such Subsidiary Guarantor for the 2014 Notes and the subsidiary guarantee of such Subsidiary Guarantor for the 2017 Notes, if any, and all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law).

The Subsidiary Guarantee of each Subsidiary Guarantor Pledgor will:

- be entitled to a first-ranking security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor shared on a *pari passu* basis pursuant to the Intercreditor Agreement with (i) the holders of the 2014 Notes, (ii) the holder of the 2017 Notes and (iii) the holders of other Permitted Pari Passu Secured Indebtedness, as described under “Description of the Notes — Security”; and
- rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

See “Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral.”

Security to be Granted. . . . . The Company and the initial Subsidiary Guarantor Pledgors have pledged in favor of the Collateral Agent the Capital Stock of the initial Subsidiary Guarantors (subject to Permitted Liens and the Intercreditor Agreement) in order to secure the obligations of the Company under the 2014 Notes and the 2017 Notes and the indentures for the 2014 Notes and 2017 Notes and of such Subsidiary Guarantor Pledgors under their respective subsidiary guarantees, if any, of the 2014 Notes and 2017 Notes.

The Company has agreed to extend, or cause the initial Subsidiary Guarantor Pledgors to extend, as the case may be, the benefit of the security interest created over the Collateral to the Holders on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and of such initial Subsidiary Guarantor Pledgor under its Subsidiary Guarantee.

The initial Subsidiary Guarantor Pledgors are All Praise Investments Limited, Super Aim Investments Limited, Accelstar Pacific Limited, Plentigreat Holdings Limited, Star Charm Holdings Limited, Vast China Group Limited, China Oil And Gas Group Limited (the Company’s Wholly Owned Subsidiary incorporated in the British Virgin Islands) and Real Million Investments Limited.

The Collateral securing the Notes and the Subsidiary Guarantees may be released or reduced in the event of certain asset sales and certain other circumstances, including when no 2014 Note or 2017 Note remains outstanding. In addition, the Company and each Subsidiary Guarantor Pledgor may incur Permitted Pari Passu Secured Indebtedness which would be secured by the Collateral on a *pari passu* basis with the Notes and the Subsidiary Guarantees. See “Description of the Notes — Security.”

Intercreditor Agreement . . . . . The Company, the initial Subsidiary Guarantor Pledgors, the Collateral Agent, the trustee for the 2013 Notes and the trustee for the 2014 Notes entered into an Intercreditor Agreement on November 7, 2014, pursuant to which certain rights and interests with respect to the Collateral are regulated and a mechanism for the holders of any future Permitted Pari Passu Secured Indebtedness (or their trustee, representative or agent) to become bound, including the conditions under which the Collateral Agent shall enforce the rights of the secured parties thereto, and be entitled to receive a pro rata entitlement to and equal priority in the Collateral is created. The trustee for the 2017 Notes acceded to the Intercreditor Agreement on April 20, 2017.

On the Original Issue Date, the Trustee will execute a supplement to the Intercreditor Agreement pursuant to which the holders of the Notes (through the Trustee) will agree, among other things, (1) that the secured parties thereto and the holders of any future Permitted Pari Passu Secured Indebtedness (or their trustee, representative or agent) will share equal priority and pro rata entitlement in and to the Collateral; and (2) the conditions under which the Collateral Agent shall enforce the rights of the secured parties thereto. See “Description of the Notes — Security — Intercreditor Agreement.”

Use of Proceeds . . . . . We plan to use the net proceeds from this offering to repay certain existing indebtedness, including the 2014 Notes, and for general corporate purposes.

The Company may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds. Pending application of the net proceeds of this offering, the Company intends to invest such net proceeds in “Temporary Cash Investments” as defined under “Description of the Notes.”

Optional Redemption . . . . . On or after July 25, 2021, the Company may redeem all or any of the Notes at the redemption prices set forth in the first paragraph of “Description of the Notes — Optional Redemption” plus accrued and unpaid interest, if any, on the Notes redeemed, to the applicable date of redemption.

The Company may at its option redeem the Notes, in whole but not in part, at any time prior to July 25, 2021, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to, the redemption date.

At any time and from time to time prior to July 25, 2021, the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 105.5% of the principal amount of the Notes, plus accrued and unpaid interest, if any, with the proceeds from sales of certain kinds of its capital stock, subject to certain conditions.

At any time on or after the date when no more than 15% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) the redemption date.

Withholding Taxes; Additional  
Amounts . . . . .

All payments of principal of and premium (if any) and interest on the Notes or under the Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any Relevant Jurisdiction, unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, holders of the Notes will receive additional amounts (subject to certain exceptions) as will result in receipt by the holder of each Note of such amounts as would have been received by such holder had no such withholding or deduction been required. See “Description of the Notes — Additional Amounts.”

Repurchase of Notes Upon a Change  
of Control Triggering Event . . . . .

Upon the occurrence of a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the Offer to Purchase Payment Date.

Redemption for Taxation Reason . . . . Subject to certain exceptions and as more fully described in the section entitled “Description of the Notes — Redemption for Taxation Reasons,” the Company or a Surviving Person of the Company may redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption, if the Company, a Surviving Person or a Subsidiary Guarantor would be obligated to pay certain Additional Amounts as a result of certain changes in specified tax laws. See “Description of the Notes — Redemption for Taxation Reasons.”

Covenants . . . . . The Notes and the Indenture governing the Notes and the Subsidiary Guarantees will limit the Company’s ability, and the ability of its Restricted Subsidiaries to, among other things:

- incur or guarantee certain additional Indebtedness;
- declare dividends on its capital stock or purchase or redeem capital stock;
- make investments or other specified Restricted Payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of the Company or Restricted Subsidiaries;
- enter into, renew or extend transactions with shareholders or affiliates;
- create liens;
- enter into sale and leaseback transactions; and
- sell assets.

These covenants are subject to a number of important qualifications and exceptions described in “Description of the Notes — Certain Covenants.”

Further Issues . . . . . Subject to the covenants in the Indenture, the Company may from time to time, without the consent of the holders of the Notes, issue further securities having the same terms and conditions as the Notes in all respects. Any further issue may be consolidated with, and form a single series with, the Notes sold in this offering. See “Description of the Notes — Further Issues.”

Ratings . . . . .	The Notes are expected to be rated “Ba2” by Moody’s and “BB” by S&P. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organization. Prospective investors should evaluate each rating independently of any other rating of the Notes or other securities of the Company. See “Ratings.”
Transfer Restrictions . . . . .	The Notes will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See “Transfer Restrictions.”
Form, Denomination and Registration . . . . .	The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US\$200,000 of principal amount and integral multiples of US\$1,000 in excess thereof and will be initially represented by one or more global notes deposited with the common depositary and registered in the name of the common depositary of its nominee for the accounts of Euroclear and Clearstream.
Book-Entry Only . . . . .	The Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream for the accounts of their participants. For a description of certain factors relating to clearance and settlement, see “Description of the Notes — Book-Entry; Delivery and Form.”
Delivery of the Notes . . . . .	The Company expects to make delivery of the Notes, against payment in same-day funds on or about July 25, 2019, which will be the fifth business day following the date of this offering memorandum referred to as “T+5.” You should note that initial trading of the Notes may be affected by the T+5 settlement. See “Plan of Distribution.”
Trustee and Collateral Agent . . . . .	Citicorp International Limited.
Principal Paying Agent, Transfer Agent and Registrar . . . . .	Citibank, N.A., London Branch.
Listing and Trading . . . . .	Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.

Clearing System and Settlement . . . . .	The Notes have been accepted for clearance through the facilities of Euroclear and Clearstream with International Securities Identification Number (ISIN) of XS2016070190 and Common Code of 201607019.
Governing Law . . . . .	The Notes, the Subsidiary Guarantees and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York.
Risk Factors . . . . .	For a discussion of certain factors that you should consider in evaluating an investment in the Notes, see “Risk Factors.”

## SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following summary consolidated financial information as of and for each of the years ended December 31, 2016, 2017 and 2018 (except for EBITDA data) has been derived from our consolidated financial statements for the years ended December 31, 2017 and 2018, which have been audited by PricewaterhouseCoopers, our independent auditor, and are included elsewhere in this offering memorandum. Our consolidated financial information has been prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The summary financial data below should be read in conjunction with our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum. Historical results are not necessarily indicative of results that may be achieved in any future period.

We have adopted new accounting standards since January 1, 2018, including HKFRS 9 “Financial Instruments” and HKFRS 15 “Revenue from Contracts with Customers,” which took effect from January 1, 2018. The impact of the initial application of the new accounting standards is disclosed in Note 2 to our audited consolidated financial statements as of and for the year ended December 31, 2018 as included elsewhere in this offering memorandum.

The classification and measurement and impairment requirements of HKFRS 9 are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. We adopted HKFRS 15 on all uncompleted contracts as of January 1, 2018 using the modified retrospective approach and any difference is recognized in the retained earnings as of January 1, 2018. Comparative financial information for the previous corresponding periods has not been restated, therefore, our consolidated financial information as of and for the years ended December 31, 2016 and 2017 may not be directly comparable to our consolidated financial information after January 1, 2018. Investors must therefore exercise caution when making comparisons of any financial figures after January 1, 2018 against our consolidated financial figures prior to January 1, 2018 and when evaluating our financial condition and results of operations.

**SUMMARY CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	For the year ended December 31,			
	2016	2017	2018	
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(US\$'000) (unaudited)
<b>Revenue</b> . . . . .	6,446,452	7,651,280	9,410,131	1,201,728
Cost of sales . . . . .	(5,318,367)	(6,435,083)	(8,045,299)	(1,027,431)
<b>Gross profit</b> . . . . .	1,128,085	1,216,197	1,364,832	174,297
Other income . . . . .	26,735	30,262	30,069	3,840
Other gains, net . . . . .	137,780	22,901	18,936	2,418
Selling and distribution costs . . . . .	(66,537)	(50,507)	(57,270)	(7,314)
Administrative expenses . . . . .	(301,650)	(307,497)	(364,847)	(46,593)
Reversal of impairment losses on oil and gas properties under property, plant and equipment . . . . .	52,003	4,402	—	—
<b>Operating profit</b> . . . . .	976,416	915,758	991,720	126,648
Finance income . . . . .	83,310	101,741	146,818	18,750
Finance costs . . . . .	(201,946)	(203,677)	(206,712)	(26,398)
Share of losses of investments accounted for using the equity method . . . . .	(15,651)	(2,356)	(3,300)	(421)
<b>Profit before taxation</b> . . . . .	842,129	811,466	928,526	118,579
Taxation . . . . .	(184,461)	(188,527)	(250,301)	(31,965)
<b>Profit for the year</b> . . . . .	657,668	622,939	678,225	86,614
Other comprehensive (loss)/income:				
<i>Items that may be reclassified to profit or loss</i>				
Release of exchange reserve upon disposal of a subsidiary . . . . .	4,456	—	—	—
Currency translation differences . . . . .	(401,693)	482,811	(539,424)	(68,888)
Change in value of available-for-sale financial assets . . . . .	1,820	40,296	—	—
Change in value of debt investments at fair value through other comprehensive income . . . . .	—	—	(51,267)	(6,547)
<i>Items that will not be reclassified to profit or loss</i>				
Change in value of equity investments at fair value through other comprehensive income . . . . .	—	—	(4,830)	(617)
Other comprehensive (loss)/income for the year, net of tax . . . . .	(395,417)	523,107	(595,521)	(76,052)
<b>Total comprehensive income for the year</b> . . . . .	<u>262,251</u>	<u>1,146,046</u>	<u>82,704</u>	<u>10,562</u>
Profit attributable to:				
Owners of the Company . . . . .	311,791	250,467	281,904	36,001
Non-controlling interests . . . . .	345,877	372,472	396,321	50,613
	<u>657,668</u>	<u>622,939</u>	<u>678,225</u>	<u>86,614</u>

**OTHER FINANCIAL DATA (UNAUDITED)**

	As of/For the year ended December 31,			
	2016	2017	2018	
	<i>(HK\$ in thousands,</i>			<i>(US\$'000)</i>
	<i>except for percentages and ratios)</i>			
<b>EBITDA<sup>(1)</sup></b> . . . . .	1,204,465	1,348,509	1,462,278	186,740
<b>EBITDA margin<sup>(2)</sup></b> . . . . .	18.7	17.6	15.5	15.5
<b>EBITDA/Gross interest expense<sup>(3)</sup></b> . . . . .	3.9	4.4	4.8	4.8
<b>Total debt<sup>(4)</sup>/EBITDA</b> . . . . .	4.5	4.2	4.5	4.5
<b>Net debt<sup>(5)</sup>/EBITDA</b> . . . . .	2.9	2.5	2.7	2.7

*Notes:*

- (1) We calculate EBITDA by adding depreciation, amortization, finance costs and share option on staff cost and subtracting interest income, reversal of impairment losses on oil and gas properties under property, plant and equipment, gains on disposals of an associate/a subsidiary and gain on bargain purchase from profit before taxation. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit attributable to shareholders or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. We have included EBITDA herein because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that the EBITDA as presented herein is calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes.

The following table reconciles our profit before taxation under HKFRS to our definition of EBITDA for the periods indicated.

	For the year ended December 31,			
	2016	2017	2018	
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(US\$'000)</i>
Profit before taxation . . . . .	842,129	811,466	928,526	118,578
Add:				
Depreciation . . . . .	415,992	428,491	470,165	60,043
Amortization . . . . .	11,272	11,024	11,961	1,527
Finance costs . . . . .	201,946	203,677	206,712	26,398
Share option on staff cost . . . . .	3,441	3,753	3,953	505
Less:				
Interest income . . . . .	83,310	101,741	146,818	18,750
Reversal of impairment losses on oil and gas properties under property, plant and equipment . . . . .	52,003	4,402	—	—
Gains on disposals of an associate/a subsidiary . . . . .	124,199	3,759	—	—
Gain on bargain purchase . . . . .	10,803	—	12,221	1,561
<b>EBITDA</b> . . . . .	<b>1,204,465</b>	<b>1,348,509</b>	<b>1,462,278</b>	<b>186,740</b>

See "Description of the Notes—Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.

- (2) EBITDA margin is calculated by dividing EBITDA by revenue for the relevant period, expressed as a percentage.
- (3) Gross interest expense represents interest expense before capitalization. Gross interest expense is not a standard measure under HKFRS. Gross interest expense presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our gross interest expense to the gross interest expense provided by other companies because not all companies use the same definition. Investors should also note that the gross interest expense presented herein is calculated differently from Consolidated Interest Expense as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated Interest Expense is defined for purposes of the Indenture governing the Notes.
- (4) Total debt represents the sum of senior notes and long-term borrowings included in non-current liabilities and short-term borrowings included in current liabilities.
- (5) Net debt is calculated as total debt less cash and cash equivalents and time deposits with maturity over three months.

**SUMMARY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	As of December 31,			
	2016	2017	2018	
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(US\$'000) (unaudited)
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment . . . . .	6,624,992	7,725,219	7,924,722	1,012,033
Exploration and evaluation assets . . . . .	213,548	215,189	182,981	23,368
Land use rights . . . . .	393,344	456,458	415,234	53,028
Intangible assets . . . . .	1,002,291	1,035,324	974,526	124,452
Investments accounted for using the equity method . . . . .	300,065	321,167	312,754	39,940
Financial assets at fair value through other comprehensive income . . . . .	—	—	439,120	56,078
Available-for-sale financial assets . . . . .	638,262	596,360	—	—
Other non-current assets . . . . .	792,258	956,763	1,063,841	135,859
Deferred tax assets . . . . .	19,510	4,796	7,646	976
	<u>9,984,270</u>	<u>11,311,276</u>	<u>11,320,824</u>	<u>1,445,734</u>
<b>Current assets</b>				
Inventories . . . . .	190,573	244,438	282,777	36,112
Contract assets, deposits, trade and other receivables . . . . .	1,516,892	1,596,734	1,751,116	223,628
Financial assets at fair value through profit or loss . . . . .	47,448	48,842	—	—
Current tax recoverable . . . . .	6,003	6,333	6,024	769
Time deposits with maturity over three months . . . . .	25,170	48,531	158,679	20,264
Cash and cash equivalents . . . . .	1,833,483	2,290,447	2,508,223	320,315
	<u>3,619,569</u>	<u>4,235,325</u>	<u>4,706,819</u>	<u>601,088</u>
<b>Total assets</b> . . . . .	<u>13,603,839</u>	<u>15,546,601</u>	<u>16,027,643</u>	<u>2,046,822</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables . . . . .	1,327,747	1,431,733	1,415,917	180,821
Contract liabilities/receipt in advance . . . . .	1,156,195	1,584,003	1,470,128	187,744
Short-term borrowings . . . . .	360,907	689,258	1,455,839	185,919
Current tax payable . . . . .	152,095	215,042	269,369	34,400
	<u>2,996,944</u>	<u>3,920,036</u>	<u>4,611,253</u>	<u>588,884</u>
<b>Non-current liabilities</b>				
Senior notes . . . . .	5,006,417	4,970,240	5,029,991	642,359
Long-term borrowings . . . . .	—	60,000	63,642	8,127
Deferred tax liabilities . . . . .	240,801	260,359	270,019	34,483
Other non-current liabilities . . . . .	108,723	130,311	140,678	17,965
	<u>5,355,941</u>	<u>5,420,910</u>	<u>5,504,330</u>	<u>702,934</u>
<b>Total liabilities</b> . . . . .	<u>8,352,885</u>	<u>9,340,946</u>	<u>10,115,583</u>	<u>1,291,818</u>
<b>Equity</b>				
<b>Equity attributable to owners of the Company</b>				
Share capital . . . . .	58,257	58,257	58,391	7,457
Reserves . . . . .	2,772,174	3,286,289	3,137,516	400,679
	<u>2,830,431</u>	<u>3,344,546</u>	<u>3,195,907</u>	<u>408,136</u>
Non-controlling interests . . . . .	2,420,523	2,861,109	2,716,153	346,868
<b>Total equity</b> . . . . .	<u>5,250,954</u>	<u>6,205,655</u>	<u>5,912,060</u>	<u>755,004</u>
<b>Total equity and liabilities</b> . . . . .	<u>13,603,839</u>	<u>15,546,601</u>	<u>16,027,643</u>	<u>2,046,822</u>

## RISK FACTORS

*You should carefully consider the risks and uncertainties described below and other information contained in this offering memorandum before investing in the Notes. The risks and uncertainties described below may not be the only ones that we face. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also materially and adversely affect our business, financial condition or results of operations. If any of the possible events described below occurs, our business, financial condition or results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Notes, and you could lose all or part of your investment.*

### RISKS RELATING TO OUR BUSINESS

**Our profitability is susceptible to the international crude oil price and our growth rate depends on our continued success in obtaining concession rights in new operating regions, constructing new branch pipelines and increasing the number of connected customers and city-gas construction and operation projects and other factors which are outside of our control**

Our gross profit increased by 7.8% from HK\$1,128.1 million in 2016 to HK\$1,216.2 million in 2017, and grew by 12.2% to HK\$1,364.8 million (US\$174.3 million) in 2018. In 2016, 2017 and 2018, we achieved a gross profit margin of 17.5%, 15.9% and 14.5%, respectively, and a net profit margin of 10.2%, 8.1% and 7.2%, respectively. We may not be able to sustain our current level of profitability and growth rate. Factors that could adversely affect our profitability and growth rate include, but are not limited to:

- competition from other city-gas distribution companies in areas where we currently operate or seek to expand, particularly from companies with more capital resources or stronger support from local governments than we have;
- lack of success in securing and developing new markets including the integration and operation of our upstream Canadian business;
- decreased expansion opportunities as a result of increasing penetration rates in existing markets;
- regulatory or economic changes affecting our margins on the natural gas we sell to our customers;
- reduction or total elimination of the fees and tariffs we can charge customers for either natural gas itself or natural gas pipeline connections and our ability to pass through any increase in our procurement cost to end customers, whether due to market supply and demand, government regulation or otherwise;
- changes in the PRC government policies to promote the use of natural gas;
- fluctuation in the international crude oil price;
- shifts in consumer preferences from piped natural gas to competing forms of energy;

- changes in our relationship with PetroChina Group, CNPC and Sinopec Eastern China;
- performance of our upstream business in Canada;
- changes in the regulatory environment and oil and gas industry conditions in Canada;
- slow down in urbanization rate, real estate development or industrial and commercial business activities; and
- discontinuation of any government subsidies or favorable tax rates that we currently enjoy.

**We procure most of our piped natural gas supplies from and conduct a substantial portion of our business activities in cooperation with PetroChina Group and CNPC, the parent company of PetroChina**

Our relationship with PetroChina and its parent company, CNPC, extends back to the establishment of our natural gas business in 2002. As of the date of this offering memorandum, we conducted a substantial portion of our business through CCNG, a joint venture in which we hold a 51% equity interest and Kunlun Energy, an indirect subsidiary of CNPC, holds the remaining 49%. In 2016, 2017 and 2018, CCNG Group contributed 78.4%, 81.1% and 79.6% of our revenue from sales and distribution of natural gas and other related products. See “— We conduct our business through PRC operating subsidiaries and joint ventures, some of which we do not control, and our business partners’ interests may not align with ours.”

In addition, we currently purchase most of our piped natural gas, our primary raw material, from PetroChina Group, pursuant to long-term framework agreements with terms typically ranging from 15 to 30 years and annual supply contracts which set forth, among others, contracted supply volume and price. Purchase of natural gas accounted for 83.9%, 84.2% and 86.8% of our total cost of sales in 2016, 2017 and 2018, respectively. We cannot assure you that PetroChina Group will not seek to terminate or modify such agreements or the volumes supplied will be sufficient to meet our customer demand. As a result of our reliance on strategic partners for natural gas supply, we may have decreased bargaining power with PetroChina Group (including PetroChina Coalbed Methane) and Sinopec Eastern China, over the terms of the supply contracts, such as the supply volume. We cannot assure you that we will be able to continue to purchase natural gas from PetroChina Group on similar terms or on terms otherwise acceptable to us or at all, in which case our business and results of operations may be materially and adversely affected.

In addition, we cannot assure you that PetroChina Group will always deliver natural gas to us on a timely basis, with consistent quality acceptable to us and our customers or at all. We obtain natural gas directly from PetroChina Group through pipelines. In the event of any disruption to natural gas pipeline supplies, whether due to accidents, commercial reasons, technical difficulties, natural disasters, war or terrorism, we may be unable to obtain an immediately available supply of natural gas for our piped gas customers. If the required natural gas cannot be purchased as scheduled or on terms acceptable to us, our business, financial condition and results of operations may be materially and adversely affected.

As we procure most of our piped natural gas supplies from PetroChina Group and our CBM supply from PetroChina Coalbed Methane and Sinopec Eastern China, we have not cultivated relationships with other natural gas suppliers in China to the same degree as many of our competitors. As a result, our risks relating to disruptions in natural gas supplies, changes in pricing and decreases in supply volume are more concentrated than many of our competitors that have active relationships with multiple natural gas suppliers.

**We are subject to price controls in certain markets and may be affected by changes in upstream natural gas supply price and gas connection fees**

The city-gate price of natural gas comprises the wellhead price and transmission charges. In China, wellhead prices for residential and fertilizer users are fixed, while wellhead prices for industrial and commercial users may vary up to 10.0% above the benchmark price set by the NDRC. On June 28, 2013, the NDRC launched a pricing mechanism through the Notice on the Adjustment of Natural Gas Price (《國家發展改革委關於調整天然氣價格的通知》) for non-residential natural gas consumption. The administration of natural gas prices shall be adjusted from the wellhead stage to the city-gate state. On October 12, 2015, the State Council and the Central Committee of Communist Party of China promulgated the Several Opinions of the Central Committee of the Communist Party of China and the State Council on Promoting the Price Mechanism Reform (《中共中央、國務院關於推進價格機制改革的若干意見》) on, which provided that the price of natural gas shall be comprehensively rationalized as soon as possible and the source and selling price for natural gas shall be liberalized at an accelerated pace. On November 18, 2015, the NDRC issued the Circular of the National Development and Reform Commission on Reducing the Gate Station Prices of Natural Gas Used for Non-residential Purpose and Further Accelerating Market-oriented Price Reform (《國家發展改革委關於降低非居民用天然氣門站價格並進一步推進價格市場化改革的通知》), according to which the maximum gate station prices of natural gas used for non-residential purpose shall be reduced by RMB700 per thousand cubic meters. The price administration shall follow the benchmark gate station price instead of the maximum gate station prices which may be used as a basis to decide the benchmark price by increasing up to 20%. On August 29, 2017, the NDRC issued the Circular of the National Development and Reform Commission on Reducing the Benchmark Gate Station Prices of Natural Gas Used for Non-residential Purpose (《國家發展和改革委員會關於降低非居民用天然氣基準門站價格的通知》), pursuant to which the benchmark gate station prices of natural gas used for non-residential purpose shall be reduced by RMB100 per thousand cubic meters. On May 25, 2018, the NDRC issued the Circular of the National Development and Reform Commission on Rationalizing the Gate Station Prices of Natural Gas Used for Residential Purpose (《國家發展改革委關於理順居民用氣門站價格的通知》), pursuant to which the prices of natural gas used for residential purpose shall be managed with the use of benchmark gate station prices in lieu of maximum gate station prices. One year after the implementation of this circular, supply and demand parties can negotiate and determine the specific gate station price within 20% of the upward floating limit, without downward floating limit, and to further realize the unification of the residential gate station price with the non-residential gate station price mechanism. On March 27, 2019, the NDRC issued the Circular of the National Development and Reform Commission on Adjusting the Benchmark Gate Station Prices of Natural Gas (《國家發展和改革委員會關於調整天然氣基準門站價格的通知》), which provided that the benchmark gate station prices of the natural gas is adjusted in accordance with the adjustment of the natural gas value-added tax rate. On October 9, 2016, the NDRC issued Circular of the National Development and Reform Commission on Printing and Issuing the Administrative Measures for the Price of the Natural Gas Pipeline Transmission (for Trial Implementation) and the Measures for the Supervision and Examination of the Pricing and Costs of the Natural Gas Pipeline Transmission (for Trial Implementation) (《國家發展改革委關於印發〈天然氣管道運輸價格管理辦法(試行)〉和〈天然氣管道運輸定價成本監審辦法(試行)〉的通知》) to further strengthen the pricing administration of trans-provincial natural gas pipeline transmission, according to

which the price of the trans-provincial natural gas pipeline transmission shall be determined and adjusted by the NDRC. The enterprises engaged in trans-provincial natural gas pipeline transmission may calculate specific price list for trans-provincial natural gas pipeline transmission according to the rate determined by the NDRC and transmission distance between entrance and exit locations of natural gas.

Piped gas end-user tariffs are determined by local pricing bureaus and any tariffs adjustment affecting residential users may normally be approved only after a public hearing. Even if the adjustments sought by us are approved, such approval process and hearing can cause substantial delay and we may not be able to completely and quickly pass through future increases in natural gas procurement costs to end customers and may face margin pressure if the NDRC makes unfavorable adjustments to natural gas prices. In addition, the level of connection fees that we charge for connecting our new customers to our city-gas distribution networks is also subject to approval by local pricing bureaus. Revenue from connection and construction services typically has a higher gross margin than revenue generated from natural gas sales. We cannot assure you that we will continue to have the right to charge pipeline connection fees and end-user tariffs in our existing markets at the levels currently enjoyed by us, or that we will be able to charge similar connection fees and end-user tariffs in new markets. Any reduction in connection fees or end-user tariffs will have an adverse impact on our results of operations and financial condition. In addition, we cannot assure you that we will be able to obtain the required approval from the relevant local pricing bureau for an increase in pipeline connection fees or end-user tariffs if our costs increase significantly.

In addition, as China further increases its imports of natural gas, upstream gas prices may increase or decrease in accordance with the price of imported natural gas. The various regulatory bodies involved in the setting of gas prices will take a variety of considerations into account when fixing prices or setting indicative prices, including social and political impact, the public interest, ability of end customers to pay and the importance of gas supplies to the relevant customer groups. As a result, there is no assurance that we will be able to pass through all increases in the upstream gas price to end customers and even if we are able to pass through all or a portion of such increase, there is no assurance that we will not experience substantial delay in doing so. In addition, a material increase in end-user tariffs may reduce market demand due to loss of existing connected customers or failure to obtain new customers.

In the event that we are unable to obtain approval for, or experience delay in, passing through any increased input costs in pipeline connection fees or gas tariffs, or experience loss of market demand due to increased end-user tariffs, our business, financial condition and results of operations may be materially and adversely affected.

**CNPC and PetroChina may have interests that are not aligned with our objectives, which may adversely affect our relationship with PetroChina Group and harm our competitiveness**

Since the establishment of our natural gas business in 2002, we have closely cooperated with PetroChina and its parent company, CNPC, through CCNG, a joint venture between us and Kunlun Energy, an indirect subsidiary of CNPC. These business activities directly compete with our own. CNPC and PetroChina may therefore have economic or business interests or goals which conflict with or are otherwise inconsistent with our own. In addition, our efforts to develop our business through our subsidiaries other than CCNG may result in conflicts with the business interests of CNPC and PetroChina.

In the event of such conflict or inconsistency, PetroChina Group, our major supplier of piped natural gas, may be unable or unwilling to fulfill its obligations under the relevant joint venture agreement, long-term procurement agreements or other agreements. Any such events, particularly if they cannot be

remedied in a timely manner or at all may adversely affect our ability to secure stable natural gas supply and harm our competitiveness in the market, which may have a material adverse effect on our business, financial condition and results of operations.

### **We may be adversely affected by fluctuations in the global economy and financial markets**

The global financial markets have been affected by a general slowdown of economic growth globally, resulting in substantial volatility in global financial markets and tightening of liquidity in global credit markets. Since 2011, the tightening monetary policies and high inflation in the PRC, global economic uncertainties and the euro zone sovereign debt crisis have resulted in adverse market conditions and increased volatility in the PRC and overseas financial markets. While it is difficult to predict how long these conditions will exist and the extent to which we may be affected, these developments may continue to present risks to our business operations for an extended period of time, including increase in interest expenses on our bank borrowings, or reduction in the amount of banking facilities currently available to us. In June 2016, the United Kingdom held a remain-or-leave referendum on its membership within the European Union, the result of which favored the exit of the United Kingdom from the European Union (“Brexit”). A process of negotiation will determine the future terms of the United Kingdom’s relationship with the European Union, as well as whether the United Kingdom will be able to continue to benefit from the European Union’s free trade and similar agreements. The UK had long been expected to leave the European Union at 11pm on March 29, 2019. However, following a House of Commons vote on March 14, 2019, the British Government sought permission from the EU to agree on a later Brexit date. At a meeting of the European Council on April 10, 2019, the UK and EU agreed to extend Brexit until October 31, 2019. Given the lack of precedent, it is unclear how Brexit would affect the fiscal, monetary and regulatory landscape within the United Kingdom, the European Union and globally. This event has resulted in a downgrade of the credit ratings of the United Kingdom and the uncertainty before, during and after the period of negotiation may also create a negative economic impact and increase volatility in global markets. Furthermore, the United States and China have recently been involved in controversy over trade barriers that have threatened a trade war between the countries. Both countries have implemented or proposed to implement tariffs on certain imported products from the other. Sustained tension between the United States and China over trade policies could significantly undermine the stability of the global and China’s economy. Any severe or prolonged slowdown or instability in the global or China’s economy may materially and adversely affect our business, financial condition and results of operations.

The outlook for the world economy and financial markets remains uncertain. In Europe, several countries are facing difficulties in refinancing sovereign debt. In the United States, the unemployment rate remains relatively high. In Asia and other emerging markets, some countries are expecting increasing inflationary pressure as a consequence of liberal monetary policy or excessive foreign fund inflow and outflow, or both. In the Middle East, Eastern Europe and Africa, political unrest in various countries has resulted in economic instability and uncertainty. China’s economic growth may slow down due to weakened exports and nationwide structural reforms. Moreover, as the PRC is transitioning to a consumption-based economy, the forecast growth rate of the PRC is expected to be significantly lower than its average growth rate over the past thirty years.

These and other issues resulting from the global economic slowdown or uncertainty and financial market turmoil have adversely affected, and may continue adversely affecting, our customers, which may lead to a decline in the general demand for our products and erosion of their sale prices. In addition, any further tightening of liquidity in the global financial markets may negatively affect our access to capital and liquidity. Therefore, if the global economic slowdown and turmoil in the financial markets continue, our business, financial condition and results of operations may be adversely affected.

**We are in the early stages of expanding into the upstream segment of the natural gas industry in Canada, a segment in which we have limited development experience and which may require us to spend significant resources, and there can be no assurance that we will be able to succeed in the upstream segment in Canada**

While our primary focus continues to be midstream and downstream segments of the natural gas industry in China, in June 2014 we expanded to the upstream segment in Canada by acquiring Baccalieu Energy Inc., an oil and gas producing company in Canada. We are in the early stage of expanding into the upstream segment in Canada and there can be no assurance that we will be able to succeed. We have limited experience in the upstream segment in Canada and may not be able to develop and implement an effective project development process appropriate for the upstream segment in Canada. In addition, given our limited experience in Canada, it may be difficult for us to accurately forecast our future revenues and expenses related to existing and future projects in Canada. Our ability to locate appropriate future projects in Canada and generate future revenues from such projects may require us to expend significant capital and management resources. Furthermore, there can also be no assurance that our upstream business in Canada will successfully integrate with our existing midstream and downstream businesses in China. We plan to export natural gas from Canada to China for our midstream and downstream businesses in China as a number of major energy companies have proposed the construction of multiple LNG export terminals in British Columbia, Canada. However, the development of such terminals is still under planning and we cannot assure you that the LNG export terminals will be established as we expected.

In addition, our ability to develop successful upstream operations in Canada will depend on a number of factors outside of our control, including the status of the Canadian economy in general and in our target market, legal and policy environments, consumer demand, results of exploration, production and refining activities, interest rates, and competition. Any material change in the aforesaid might affect our success in the upstream segment in Canada and its integration with our existing business.

**Our business, revenues and profits may be materially and adversely affected by fluctuations in crude oil and natural gas prices**

Fluctuations of crude oil and/or natural gas prices may adversely affect our new upstream operations in Canada as well as our midstream and downstream operations in China. Prices for crude oil and natural gas may fluctuate widely in response to relatively minor changes in the supply and demand for oil and natural gas, market uncertainty and various other factors that are beyond our control, including, but not limited to overall economic conditions, consumer demand for oil and natural gas, political developments, the ability of petroleum producing nations to set and maintain production levels and prices, the price and availability of other energy sources, domestic and foreign government regulations and weather conditions. As such, even relatively modest declines in crude oil and/or natural gas prices may materially and adversely affect the revenue and profit of our new upstream operations in Canada as well as our midstream and downstream operations in China. Lower oil and gas prices may result in the write-off of higher cost reserves and other assets and may lower the earnings we derive from, or cause losses in, our upstream operations. Lower oil and gas prices may also reduce the amount of oil and natural gas we can produce economically and render existing contracts that we have entered into uneconomical. From time to time we may enter into financial contracts to fix the price on our oil production to offset risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, we will not benefit from such increases.

**The success and growth of our upstream operations depend in part on our ability to replace reserves and develop newly discovered reserves**

Our ability to succeed and grow our upstream operations in Canada is dependent in part on our ability to further develop our current reserve base and discover or acquire additional oil and natural gas reserves. Exploring for, developing and acquiring reserves are highly risky and capital intensive. There are various risks in developing and acquiring reserves, including, but not limited to, unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, severe weather conditions or natural disasters, compliance with existing or enhanced governmental requirements and standards with respect to environmental explorations, or delays in the availability of drilling rigs and delivery and maintenance of equipment. Our exploration and production activities also expose us to inherent risks associated with drilling, including the risk that we will not encounter commercially productive oil or gas reservoirs. Our future success will depend on our ability to develop these reserves in a timely and cost-effective manner.

Our future success will also depend on our ability to acquire additional reserves. Without reserve additions through further exploration or acquisition activities, our reserves and production will decline over time, which may materially and adversely affect our results of operations and financial condition.

**We face risks associated with our business operation and expansion in Canada, and if we are not able to effectively manage these risks, our ability to manage and grow our business abroad will be limited**

We acquired our Canadian subsidiaries in June 2014 and since then a portion of our operating revenue has been derived from Canada. We may continue to pursue opportunities for mergers and acquisitions to expand our business in the future. In light of political instability, unexpected changes to fiscal regimes and various other factors, there may be uncertainties with respect to the operations of such acquired overseas assets. As a result, we may not be able to achieve the anticipated economic return. In addition, the increase in the scale of our operations may increase our operational risks. Overseas business operation and expansion expose us to a number of risks, including:

- fluctuations in foreign currency exchange rates;
- increased costs associated with maintaining the ability to understand the overseas markets and anticipate their future trends;
- difficulties in staffing and managing overseas operations;
- difficulties and increased costs relating to compliance with different commercial and legal requirements in overseas markets;
- market entry barriers, such as strong local competitors that may have a proximity advantage and local connections, which may prevent us from competing effectively;
- failure to obtain or maintain licenses or certifications for our business activities in these markets;
- unanticipated changes in prevailing economic conditions and regulatory requirements;
- trade barriers such as tariffs, taxes and other restrictions and expenses; and

- social unrest, acts of terrorism, war or other armed conflict.

If any of the risks described above materialize, or if we are unable to manage these risks effectively, our ability to manage or grow our overseas business would be undermined, which may in turn materially and adversely affect our business, financial condition, results of operations and prospects.

**We do not own certain gathering and processing facilities and pipeline systems and any adverse change in their operations could materially and adversely affect our business, financial condition, results of operations and cash flows**

We do not own some of the gathering, processing and pipeline systems through which we deliver our products. The amount of oil and natural gas that we can produce and sell is subject to the accessibility, availability, proximity and capacity of these gathering, processing and pipeline systems. The lack of availability of capacity in any of the gathering, processing and pipeline systems, and in particular the processing facilities, could result in our inability to realize the full economic potential of our production or in a reduction of the price offered for our production. Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and to market oil and natural gas production. In addition, the pro-rationing of capacity on inter-provincial pipeline systems also continues to affect the ability to export oil and natural gas. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays in constructing new infrastructure systems and facilities could harm our business and, in turn, our financial condition, results of operations and cash flows.

A portion of our production may, from time to time, be processed through facilities owned by third parties over which we do not have control. From time to time these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could materially and adversely affect our ability to process our production and to deliver the same for sale.

**We are subject to third party credit risks**

We are, or may be, exposed to third party credit risk through our contractual arrangements with our current or future joint venture partners and other parties. In the event such entities fail to meet their contractual obligations to us, such failures could have a material adverse effect on us and our cash flow from operations. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in our ongoing capital program, potentially delaying the program and the results of such program until we find a suitable alternative partner.

**We may become involved in various legal proceedings in the normal course of our operations**

In the normal course of our operations, we may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, related to personal injuries, property damage, property tax, land rights, the environment and contract disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to us and as a result, could have a material adverse effect on our assets, liabilities, business, financial condition and results of operations.

**If we are unable to fund our capital expenditure requirements on terms we deem acceptable, it may adversely affect our results of operations**

Our construction projects generally comprise the construction of natural gas branch pipelines, city-gas pipeline distribution networks, LNG processing plants, CNG primary stations, and LNG and CNG refueling stations. The construction of natural gas branch pipelines and city-gas pipeline distribution networks mainly involves laying underground gas pipelines and ancillary gas pipelines that provide connections to residential households and industrial, commercial and other customers. In addition, certain major natural gas pipeline network development projects also involves the construction of processing stations and high pressure transmission gas pipelines. In general, the construction of natural gas pipeline infrastructure requires substantial investment. Purchase and construction of gas stations and purchase of vehicles to expand our transportation fleet also requires significant capital expenditures. We cannot assure you that we will be able to fund the capital expenditures required for our business operations in the future. In the event that we are unable to obtain adequate financing or unable to obtain financing at a reasonable cost, our ability to expand our natural gas network may be hindered, which may adversely affect our business, financial condition and results of operations.

**We may be subject to risks of potential shortfall on committed take-or-pay volume if the Company fails to increase the number of connected customers in our operational locations which are subject to take-or-pay obligations**

We have entered into take-or-pay agreements with PetroChina Group for procurement of natural gas. In order to fully utilize these committed volumes, we will need to maintain and increase the number of connected residential customers as well as industrial, commercial and other customers in our operational locations that are subject to take-or-pay obligations and their usage volumes in the next few years. We may be subject to risks of potential shortfall on committed take-or-pay volumes and may suffer losses if we fail to generate sufficient demand. See “Business — Purchases — Gas.”

**The economic benefits arising from the growth of our natural gas pipeline networks depend on the economic development of the areas in which our projects are located**

The success of many of our projects depends on the economic development of the areas in which the projects are based, as a substantial portion of our income is derived from (i) the sale of piped and non-piped natural gas to industrial, commercial and other customers as well as residential customers from whom we collect fees based on the volume of gas consumed, (ii) the operation of our natural gas branch pipelines, for which we charge transmission fees for transmitting natural gas to other downstream distributors through branch pipelines and (iii) gas pipeline connection fees collected from customers connecting to our natural gas city-gas distribution networks for their supply of natural gas. Although we typically undertake feasibility studies to assess the future economic benefit of a project, we cannot assure you that an operational location will develop economically as we expect. Given the substantial capital investment at the early stages of each project, any adverse changes in the economic growth of an operational location or any substantial deviation from our expectations in terms of both the number of new customers and the volume of their future natural gas consumption, could lengthen the payback period of our investment and may adversely affect our business, financial condition and results of operations.

## **Our business performance, to a large extent, depends on our operations in Qinghai Province**

Our business performance substantially relies upon our operations in Qinghai Province. We maintained in Qinghai Province 398 k.m. of natural gas branch pipelines as of December 31, 2018, representing 36.6% of the aggregate length of our self-owned natural gas branch pipelines as of the same date. These pipelines are connected to the city-gas distribution pipelines in Xining and the surrounding areas. Our two LNG processing plants are both located near Xining, the capital city of Qinghai Province. Closure of our processing plants, interruption in, or prolonged suspension of any substantial part of our production facilities and branch pipelines, or any damage to or destruction of our processing plants or branch pipelines in Qinghai Province arising from natural disasters, such as earthquakes, fires and floods, or other similar events would materially and adversely affect our business, financial condition and results of operations.

In addition, certain of our subsidiaries in Qinghai Province, Shanxi Province and Hunan Province currently enjoy a preferential income tax rate of 15%, and one company in Qinghai Province currently enjoys a preferential income tax rate of 10%, lower than the standard 25% PRC corporate income tax. If we lose any of our concession rights or favorable tax treatment in Qinghai due to changes in governmental policies or other factors, our business, financial condition and results of operations will be materially and adversely affected.

## **We may not be able to effectively manage our expansion and growth and may from time to time evaluate the need to dispose of our assets**

We plan to continue expanding our operations throughout China, including into provinces in which we do not presently have operations as well as the provinces where our penetration rates are low. Our expansion is based on our forward-looking assessment of market prospects. We cannot assure you that our assessments will turn out to be accurate. We may also from time to time evaluate the need to dispose of our assets or subsidiaries based on our need and operation strategies. For example, on January 13, 2016, we disposed of our 30.6% equity interest in Yinchuan Jingcheng China Oil and Gas Company Limited (銀川中油精誠燃氣有限公司) to an independent third party for a cash consideration of RMB234,000,000. Our expansion plans may be affected by a number of factors which may not be within our control. These factors include fluctuations in demand for natural gas and related commodity prices, increasing competition in the industry, environmental standards, government regulation and our ability to obtain sufficient financing for our expansion efforts.

To succeed in our business expansion, we will need to recruit and train new managers and other employees and build our operations and reputation in the applicable markets within a relatively short period of time. We may have limited knowledge of the conditions of these local markets and little or no experience in these regions. As we enter new markets, we may not have the same level of familiarity with local regulations as compared to the cities where we are relatively established. For example, the distribution of natural gas and operations of fueling stations are highly regulated industries requiring registration for the issuance of licenses required by various government authorities in China. Additionally, various standards must be met for LNG and CNG vehicle refueling stations, including handling and storage of natural gas, tanker handling and compressor operation. These regulations and the associated governmental procedures may vary significantly from region to region, and our past experience in other regions may therefore not be of great assistance in navigating new regional regulatory environments.

We may not have the same level of familiarity with business practices, as well as customer behavior and preferences. In addition, when we enter new geographical areas, we may face intense competition from natural gas operators with an established presence and market share in those areas. Therefore, we cannot assure you that we can execute successfully our contemplated expansion plan or that we will

succeed in effectively integrating our expanded operations, or that our expanded operations will generate adequate returns on our investments or positive operating cash flows. Furthermore, our expansion and growth may place a substantial strain on our managerial and financial resources and may require continued development of our internal controls in order to deal with greater and qualitatively different risks associated with an expanded scale and scope of operations. Any failure in effectively managing our expansion and growth may materially and adversely affect our business, financial condition and results of operations.

### **Our procurement of CBM as a complementary source of natural gas supply may not be successful**

Our business currently focuses on provision of natural gas to end customers through the operation of our own natural gas branch pipelines and city-gas distribution networks. We have also entered into agreements to procure CBM as a complementary source of natural gas. See “Business — Our Midstream and Downstream Business Activities — (v) Others — Procurement and sale of unconventional gas sources.” As we pursue these new business activities, we may not have adequate experience with handling the potential issues that may arise in our operations and compliance with the applicable laws and regulations. Further, although we carefully assess the projected profitability of any of our new business activities, we cannot assure you that our assessments will be accurate or that we will be able to take into account all possible factors that may affect the profitability of any new business activity. Therefore, there is no assurance that our procurement of CBM as a complementary source of natural gas will be successful.

### **We conduct our business through PRC operating subsidiaries and joint ventures, some of which we do not control, and our business partners’ interests may not align with ours**

We currently conduct our business operations primarily through operating subsidiaries established in China, a substantial portion of which we do not wholly own. For example, we mainly operate our piped natural gas distribution and sales business through CCNG Group, which contributed 78.4%, 81.1% and 79.6% of our revenue from sales and distribution of natural gas and other related products for the years ended December 31, 2016, 2017 and 2018, respectively. We control the management and daily business operations of CCNG through our majority representation on the board of directors of CCNG and exercise majority voting rights pursuant to CCNG’s memorandum of association and our current joint venture agreement with Kunlun Energy. Although we have control over the management of CCNG and its subsidiaries, certain important corporate actions for many subsidiaries require supermajority or unanimous board or shareholder approval. Such corporate actions generally include amending the articles of association, terminating the joint ventures or winding up the subsidiaries, merging, division, increasing or decreasing the registered share capital, transferring equity interests or pledging of assets. We cannot assure you that our subsidiaries will not engage in certain of these corporate actions in the future or that, if they do, that they will be able to cause our joint venture partners to consent to such actions. In addition, there is a possibility that our joint venture partners of these PRC operating subsidiaries may have economic or business interests or goals which are inconsistent with our own, are unable or unwilling to fulfill their obligations under the relevant joint venture or shareholders’ agreements, or have financial difficulties.

### **Our connection fee income depends in part on the property development industry, which may be adversely affected by fiscal and credit tightening and other restrictive measures introduced by the PRC government**

We derive a portion of our income from connection fees, which are fees charged by us to end-customers for connecting to our gas pipeline networks. Construction and connection fees in 2016, 2017 and 2018 represented 11.2%, 6.9% and 5.5%, respectively, of our total revenue. In addition, revenue generated from gas connection and construction services will generally achieve a higher gross margin than

revenue generated from gas sales. We normally act as the project manager for the laying of gas pipelines in property development projects. We typically request advance payments of connection fees from our residential customers, while for industrial, commercial and other customers, we may consider accepting installment payments based on our progress of pipeline construction work. As a large portion of our connection fee income is generated from new residential property development projects, the results of our pipeline connection operations may be affected by the performance of the PRC real estate markets. The timing and cost of the gas pipeline connections will depend on a number of factors, including, but not limited to, the cost and availability of financing to property developers, conditions in the PRC real estate markets and general economic conditions in China. While we operate in various geographical regions in China, we cannot assure you that such geographical diversification will help mitigate the risks of adverse property market conditions in individual cities, or that we will not be adversely affected if further property market credit-tightening and other restrictive measures are introduced. In the PRC real estate market in particular, diversification across regions may not be an effective method of hedging associated risks given that many of the relevant governmental policies affecting the real estate market are adopted and applied on a nationwide basis. See also “— Risks relating to the PRC — Adverse changes in the PRC’s political, economic and social conditions, laws, regulations and policies could have an adverse effect on overall economic growth in China, which may adversely affect our business.”

In addition, property development projects may be materially and adversely affected by a number of factors, including shortage of equipment or materials, price fluctuations, bad weather, natural disasters, accidents, downturns in the property market, operational conditions and other unforeseeable situations or matters. Should any of these events occur, the completion of the whole or part of the property development project may be postponed and, consequently, the receipt of connection fees may be delayed. We will not be compensated for connection fees not received as a result of any such delay.

**Our competitors and potential competitors may be larger than us and have greater financial and other resources than we do and those advantages could make it difficult for us to compete with them**

Our current, and potential, competitors include companies that are part of much larger groups, including SOEs, affiliates of PRC national oil and gas companies and domestic and regional natural gas distributors. We face competition in acquiring new piped natural gas projects in China from domestic and foreign piped gas providers. Due to the nature of the piped natural gas supply business, a local government will normally grant concession rights to a selected distributor to operate in a location and may grant rights of first refusal to extend the concession period. Some local governments may select the distributors based solely upon operational and financial scale or local relationships without examining competitive strengths on a case by case basis, such as past experiences with serving locations with comparable size and population scale and reputation of service quality. In such situations, we may lose bids to our competitors or potential competitors that are larger or have greater financial and other resources than us, and therefore may result in the complete loss of the relevant markets, given that the concession rights may be as long as 50 years and may be subject to further extension. Any such failure to obtain concession rights will materially and adversely affect our business, financial condition and results of operations.

We also face competition in both the LNG and CNG vehicle refueling station industries. Unlike the piped natural gas business, local governments in China typically do not grant exclusive rights or rights of first refusal to a selected company to operate vehicle refueling stations in a location. We typically obtain land for the construction of vehicle refueling stations through a competitive bidding process. As a result, we may have to pay higher prices to obtain the right to build our vehicle refueling stations at an ideal location. Hence there will be competition in securing locations for and operating existing refueling

stations. Due to the competitive nature of this process, we may not be able to build our vehicle refueling stations at ideal locations, which could result in reduced vehicle traffic and adversely impact the gas sales at our vehicle refueling stations.

In our CNG and LNG vehicle refueling station businesses, we also face competition from distributors of alternative fuels and technologies used in hybrid or electric vehicles. These companies may have greater resources than we do, including a longer operating history, a larger customer base, more suppliers, a more diverse array of strategic partners, stronger government and customer relationships and greater financial, technical, marketing and other resources. These competitors may also have greater economies of scale, operating efficiencies and significant government support. Such competition could result in loss of market share and affect the growth of the business. If we are unable to remain competitive, we may not be able to acquire new piped gas projects, expand our CNG and LNG refueling stations business or enter into new localities.

**Our financial investments may be subject to losses and a decrease in our income from financial assets could adversely affect our financial condition and results of operations**

As of December 31, 2018, we held certain financial investments that include both listed and unlisted debt securities, unlisted equity securities and loans to third parties, and consist primarily of listed debt securities and certificates of deposit. As of December 31, 2018, these financial investments included financial assets at fair value through other comprehensive income of HK\$439.1 million (US\$56.1 million) and time deposits with maturities over three months of HK\$158.7 million (US\$20.3 million). We have in the past borrowed and plan to continue to borrow short-term loans to finance our acquisition and management of financial assets. Under certain of our loan agreements, the lenders have the right to demand collateral to secure such short-term loans. See “Description of Other Material Indebtedness — Offshore Loans.” We may pledge the financial assets or other collateral to secure our obligations under such short-term loans at the request of lenders pursuant to the terms of the relevant loan agreements. These financial investments have exposed and will continue to expose us to significant financial and capital market risks, including changes in interest rates, credit spreads, equity prices, foreign exchange rates, market volatility, the performance of the economy in general and other factors outside our control. Because a portion of our financial investments may be pledged to secure certain borrowings, any adverse change in the value of these investments could result in us being required to post additional collateral. If we are unable to post additional collateral at such time, we would be required to dispose of such financial investments at such time, which would have to occur irrespective of then-prevailing price levels. Any losses from such forced disposals could adversely affect our financial condition and results of operations.

The entities that we invest in may face financial difficulties and may be unable to meet their obligations under their debt securities that we hold, and the equity securities in which we invest may decline in value. The value of our portfolio of debt securities may decline in value if there is an increase in interest rates in general. We may thus incur losses on our financial investments, not be able to realize gains from our financial investments and any gains that we do realize may not be sufficient to offset any other losses we experience.

We have, in the past, derived a portion of our profit before taxation and cash generated from operations from our financial investments not related to our core business operations. For example, in 2018, our other gains and interest income amounted to HK\$18.9 million (US\$2.4 million) and HK\$146.8 million (US\$18.7 million), representing 2.0% and 15.8%, respectively, of our profit before taxation. Other gains were mainly comprised of gain on bargain purchase, gain on disposal of a land use right and gains on disposals of debt investments at fair value through other comprehensive income (“FVOCI”). Interest

income was comprised primarily of interest income on bank deposits, interest income on debt investments at FVOCI and interest income from our loans to Sino Director Limited and third parties. There can be no assurance that we will continue to generate such income and cash flows from our financial investments in the future, and any failure to continue to generate such income and cash flows could adversely affect our business, financial condition and results of operations.

If we incur losses on or have to write down any existing or future financial investments, our results of operations and financial condition may be materially and adversely affected.

**We have significant goodwill and future impairment of our goodwill could have a material negative impact on our financial results**

Under the acquisition method of accounting for all business combinations, if the purchase price of an acquired company exceeds the fair value of the company's net assets, the excess is carried on the acquirer's balance sheet as goodwill. As of December 31, 2018, we had HK\$938.8 million (US\$119.9 million) of goodwill on our balance sheet, which represented 5.9% of our total assets. We evaluate goodwill for impairment annually, and engage an independent valuer to conduct such annual valuation. Write-downs of the amount of any impairment are to be charged to the results of operations in the period in which the impairment is determined. No impairment was identified for the years ended December 31, 2016, 2017 and 2018. In the event that there is any impairment or write-down of goodwill in the future, our financial condition and results of operations may be materially and adversely affected.

**We may not be able to integrate acquired state-owned or other natural gas businesses successfully**

Our business model includes acquiring enterprises engaged in the natural gas business, particularly in the piped natural gas business. Such acquisitions have included, and in the future may include, restructured SOEs. PRC SOEs have traditionally been managed with the goal of serving state policy, providing for the well-being of citizens and for lifetime employment. Accordingly, there are significant risks in the conversion of any former SOE into a profitable private enterprise. Our management may need to spend a significant amount of time and effort on the integration process for each acquisition, including, but not limited to, negotiating the terms of the initial restructuring, training and appointing management of the restructured business, providing know-how and business support and creating new incentive structures for management and staff. We cannot assure you, however, that we will be able to successfully integrate any acquired enterprise into our existing operations or converting it into a profitable business. Delays in integration or unresolved corporate culture and labor issues may divert our management's attention and resources, which may adversely affect our business, financial condition and results of operations.

**The discontinuation of or reduction in any preferential tax treatments currently available to us in the PRC may have an adverse effect on our financial condition and results of operations**

Under the EIT Law, both foreign-invested and domestic enterprises generally are subject to a uniform income tax rate of 25%. However, certain of our subsidiaries in Qinghai Province, Shanxi Province and Hunan Province currently enjoy a preferential income tax rate of 15%, and one company in Qinghai Province currently enjoys a preferential income tax rate of 10%. Such preferential tax treatments are subject to reassessment and there is no assurance that we will continue to enjoy such preferential tax treatments.

We derive a significant portion of our revenue from our operations in Qinghai Province. If any of those subsidiaries in Qinghai Province is not able to obtain any further preferential tax treatment when its existing preferential tax treatment expires, our financial condition and results of operations may be materially and adversely affected.

### **We substantially rely upon our gas sales to industrial, commercial and other customers**

Gas sales to industrial, commercial and other customers accounted for 59.9%, 68.7% and 69.9% of our revenue from sales and distribution of natural gas and other related products for 2016, 2017 and 2018. As such, our results of operations could be negatively affected by any economic conditions resulting in reduced demand from such customers. For instance, any economic downturn resulting in decreased production volumes of our industrial customers would also reduce the amount of piped natural gas demand from such customers. Reduced purchase volumes of piped natural gas from these industrial, commercial and other customers could adversely affect our business, financial condition and results of operations.

### **We may be liable for fines and other penalties due to our non-compliance with PRC social laws and regulations on social insurance fund, housing provident fund, labor contract and foreign investments**

Some of our subsidiaries have not strictly complied with local policies and requirements governing contributions to social insurance fund; as a result of which, the relevant social insurance contribution collection agencies may require us to make the outstanding contributions within a specified period and impose a late payment fee at the rate of 0.05% per day from the date on which such contributions become due. Further, some of our subsidiaries have not opened accounts, made deposits or paid the required amounts with respect to certain housing provident funds for our employees in the PRC pursuant to the Administrative Regulations on the Housing Fund (《住房公積金管理條例》). As a result, each of our non-compliant subsidiaries may be subject to fines ranging from RMB10,000 to RMB50,000 and enforcement actions by a PRC court.

According to the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) promulgated by the Standing Committee of the National People's Congress on June 29, 2007 and amended on December 28, 2012, and the Interim Provisions on Labor Dispatch (《勞務派遣暫行規定》) promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, the number of dispatched employees engaged by any company may not exceed 10% of the total number of its employees, including both directly hired employees and dispatched employees, and dispatched employees can be used for temporary, ancillary or substitutable positions. Some of our PRC subsidiaries have failed to comply with such regulations and may be required to make rectification within a specific time limit by relevant authorities; if not, they may be subject to a fine of RMB5,000 to RMB10,000 per dispatched employee.

In addition, we are subject to the PRC laws and regulations on foreign investment, according to which, the equity interest of foreign investment and certain changes of foreign-invested enterprises should be filed with the relevant commerce authority. There are instances that some of our PRC subsidiaries are not in full compliance with such regulations, which could result in rectification within a specific time period ordered by the relevant commerce authorities or a fine less than RMB30,000.

The fines and other penalties due to our non-compliance with PRC laws and regulations on social insurance fund, housing provident fund and foreign investments may materially and adversely affect our business, financial condition and results of operations.

**We may incur significant costs to comply with environmental protection laws and regulations, and any non-compliance could subject us to fines, rectification orders, suspension or cessation of production**

We are required to comply with existing environmental protection laws and regulations in the PRC, Canada and other jurisdictions in which we operate our business. Some of our PRC subsidiaries are not in full compliance with the applicable environmental laws. For example, according to the Regulations on the Environmental Protection of Construction Projects, a construction project is required to pass an environmental impact assessment and to obtain an environmental approval for the project. Several of our PRC subsidiaries have not undergone an environmental impact assessment or obtained an environmental impact assessment approval upon completion, and such construction projects may be suspended until all the necessary procedures are met and are subject to a fine ranging from RMB50,000 to RMB100,000. Construction projects already completed without any assessment and approval may be subject to a fine of less than RMB100,000. Also, under the PRC Regulations on the Safety Administration of Hazardous Chemicals, entities engaged in the hazardous chemicals production business are required to obtain a hazardous chemical production license and entities engaged in the hazardous chemicals operation or storage business are required to obtain a hazardous chemical operation license. However, some of our PRC subsidiaries are in the process of applying for or renewing such license. Entities engaged in hazardous chemicals production, operation or utilization without such license may be ordered to stop operating activities, have hazardous chemicals and illegal income confiscated or be subject to a fine of RMB200,000 to RMB500,000.

Our upstream business in Canada also presents environmental risks and hazards and is subject to environmental regulation pursuant to a variety of international conventions and federal, provincial and municipal laws and regulations in Canada. Environmental legislation in Canada provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material.

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require us to incur costs to remedy such discharge. Implementation of strategies with respect to climate change and reducing greenhouse gases could have material impact on the nature of oil and natural gas operations, including our own. No assurance can be given that the application of environmental laws to our business and operations will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect our financial condition, results of operations or prospects. Some of our PRC subsidiaries have been subject to certain fines or penalties relating to non-compliance with environmental protection laws and regulations in the past, and we cannot assure you that such fines or penalties will not be imposed on us, in which case our business, financial condition and results of operations may be materially and adversely affected.

**We and the lessors of certain of our leased properties do not have valid land use certificates and building ownership certificates**

As of the date of this offering memorandum, we have not obtained all land use rights certificates for the land used by certain of our subsidiaries. For example, Liling China Oil and Gas Company Limited, Pingxiang China Oil and Gas Company Limited, Xining China Oil and Gas Company Limited, Jining China Oil and Gas Coal Chemicals Company Limited, Qinghai China Oil and Pipeline Gas Company Limited and China Oil and Gas Coalbed Methane Development Jizhou Company Limited have not obtained the land use rights certificates. In addition, we have not obtained the building ownership certificates for certain buildings used by some of our subsidiaries. For example, Pingxiang City Natural Gas Company Limited, Xining China Oil and Gas Company Limited, Binzhou China Oil and Gas Company Limited, Nantong China Oil and Gas Company Limited, Wuhan Dongfang Natural Gas Company Limited, Qinghai China Oil and Pipeline Gas Company Limited and China Oil and Gas Coalbed Methane Development Jizhou Company Limited are still in the process of applying for the building ownership certificates for some of the buildings used by them. Furthermore, the lessors of some of the properties have not provided valid land use rights and/or building ownership certificates. In the event that we are forced to vacate from the relevant premises or cease operations thereon, our business, financial position and results of operations may be adversely and materially affected.

**We may be subject to fines due to non-registration of our leases.**

Pursuant to the Measures for the Administration of Commodity Properties Leasing (《商品房屋租賃管理辦法》) promulgated on December 1, 2010 and effective on February 1, 2011, both landlords and lessees are required to file lease agreements for registration and obtain property lease filing certificates for their leases. Some of our PRC subsidiaries have rented certain properties from independent third parties but had not filed related lease agreements for registration.

The failure to register lease agreements does not affect the validity of the lease agreements under the relevant PRC laws and regulations unless the parties to the lease clearly specify otherwise. However, we may be required by the relevant government authorities to file the lease agreements for registration and may be subject to a fine for their non-registration, which may range from RMB1,000 to RMB10,000 per lease agreement. The imposition of the above fines could require us to make additional efforts or incur additional expenses, any of which could adversely impact our business, results of operations and financial condition.

**We may be subject to penalties if we fail to make any tax payment within the time period prescribed in relevant PRC tax laws and regulations**

Under the PRC Law on the Administration of the Levy and Collection of Taxes, if a taxpayer fails to make any tax payment or underpays any tax due to its own fault, relevant PRC tax authorities may, within three years (or five years if the cumulative amount that such taxpayer fails to pay exceeds RMB100,000) from the due date of such tax payment, impose penalty interest on any amount that such taxpayer fails to pay at the daily rate of 0.05% from the date when such amount is in default. Any failure to make a tax payment by our subsidiaries in accordance with PRC laws and regulations could subject us to penalties, which may adversely affect our business, financial position and results of operations.

**Failure to attract and retain qualified personnel and experienced senior management could disrupt our operations and adversely affect our business and competitiveness**

To a significant extent, our success is built upon the technical expertise and in-depth knowledge of the piped gas supply industry possessed by the executive directors and certain other key technical and management personnel. Our future growth and success depend to a large extent on our ability to retain or recruit qualified individuals to strengthen our management, operational and research teams. However, there can be no assurance that they will continue their services at the expiration of their initial employment contracts or that we will be able to find satisfactory replacements if they leave. In addition, due to the intense market competition for highly skilled workers and experienced senior management, we may face difficulties locating experienced and skilled personnel in certain areas, such as engineering, marketing, product development, sales, finance and accounting. Accordingly, if any of our executive directors or key technical and management personnel ceases to be involved in our operations, the implementation of our business strategies may be affected, which could lead to a material adverse impact on our operations.

**The interests of our single largest shareholder may conflict with the interests of the holders of the Notes**

As of the date of this memorandum, our single largest shareholder, Mr. Xu, who is also our executive director, chairman and chief executive officer, beneficially owned approximately 24.68% of our issued share capital. Subject to the Bye-laws of the Company (“Bye-laws”) and applicable laws and regulations, our single largest shareholder will continue to have the ability to exercise a substantial influence on our management, policies and business by impacting the composition of our Board, the timing and amount of our dividend payments, the approvals of significant corporate transactions, including mergers and acquisitions and the approvals of our annual budgets. We cannot assure you that under the influence of our single largest shareholder, we will not enter into transactions or take, or fail to take, other actions or make decisions that may conflict with the best interests of the holders of the Notes.

**RISKS RELATING TO THE PRC NATURAL GAS INDUSTRY**

**Our gas distribution business is dependent on our ability to maintain our gas operation licenses, other certificates, approvals and permits**

We conduct our pipeline gas distribution business in the PRC pursuant to gas operation licenses and other certificates, approvals and permits from the PRC government which authorize us to provide gas delivery services in various PRC locations. Some of our PRC subsidiaries are still in the process of obtaining or renewing their business licenses, operation licenses, certificates, approvals and permits. For our subsidiaries that have obtained such licenses, the PRC government may revoke the gas operation licenses in certain circumstances based on the recommendation of the governmental bodies charged with the regulation of the transportation, distribution, marketing and storage of gas. The reasons for which our gas operation licenses in the PRC may be revoked include:

- repeated failure to comply with the obligations under the licenses and failure to remedy a significant breach of an obligation in accordance with specified procedures;
- refusal to supply gas to any entity or individual that meets the relevant requirements within the coverage area of the city-gas network;

- reselling at a profit, mortgaging, leasing, lending, transferring or altering the gas operation license;
- suspending gas supply or adjusting gas supply levels without notification, or terminating or suspending its business operations without approval;
- providing gas used for operation to any entity or individual without a gas operation license;
- storing gas in a manner which not meet the relevant requirements for work safety;
- failing to supply gas which meets the national quality standards to gas users in a continuous, stable and safe way, or failing to regularly conduct safety inspections of the on gas facilities of gas users.

Under PRC laws and regulations, we are also required to obtain certain approvals, licenses, registrations, certificates and permits from the relevant governmental authorities for our construction of gas stations, branch pipelines and city-gas distribution networks. If any of our gas operation licenses, other certificates, approvals, registrations or permits are revoked or fail to be renewed or obtained, we would be required to cease providing gas supply in the relevant PRC locations, pay certain monetary penalties, shut down the relevant facilities or cease the relevant construction. Some of our PRC subsidiaries are in the process of obtaining approvals and permits for certain construction projects. The loss of some or all of our gas operation licenses, other certificates, approvals or permits may materially and adversely affect our business, financial condition and results of operations.

**Our city-gas pipeline networks rely on concession rights granted by local PRC governments, which will expire, or may be terminated early or not be renewed upon expiration, and may contain restrictions on our transfer of interests in the associated projects**

We operate our piped natural gas distribution projects for periods typically ranging from 20 to 30 years pursuant to the relevant concession rights we have obtained or are in the process of obtaining from local PRC governments. Some concession rights agreements for our projects contain restrictions on our ability to transfer our interests to third parties without prior consent from the relevant local government. Furthermore, concession rights are subject to regulatory controls. The relevant local PRC governments may terminate the concession agreement and cancel our concession right if we (i) transfer or lease concession rights without prior authorization; (ii) dispose of or mortgage out relevant property without prior authorization; (iii) experience material quality or work safety accidents due to negligence or recklessness in management; (iv) cease business operations without prior consent, thereby materially and adversely affecting public interest and security; or (v) engage in other acts prohibited by laws and regulations. Cancellation or early termination of any concession, imposition of restrictive regulatory controls or failure to renew any concession upon its expiration may interrupt the operations of such projects, which may materially and adversely affect our business, financial condition and results of operations.

**Natural gas operations entail inherent safety and environmental risks that may result in substantial liability to us**

Natural gas operations entail inherent risks, including equipment defects, malfunctions and failures, human error, accidents and natural disasters, which could result in uncontrolled flows of natural gas, fires, explosions, property damage, damage to the environment, injury and death. LNG and CNG fuel tanks, if

damaged or improperly maintained, may rupture and the contents of the tank may rapidly decompress and result in death or injury. Also, operation of LNG pumps requires special training and protective equipment because of the extremely low temperatures of LNG. Improper loading of LNG vehicles can result in venting of methane gas, leading to explosions.

The location of pipelines near populated areas, including residential areas, commercial business centers, industrial sites and other public gathering places, could increase the level of damage resulting from these risks, including the loss of human life, significant damage to property, environmental damage, impairment of our operations and substantial loss to us. We may incur substantial liability and cost if damages are not covered by insurance or are in excess of policy limits.

**We have limited insurance coverage and may incur losses due to business interruptions resulting from natural or man-made disasters, and our insurance may not be adequate to cover liabilities resulting from accidents or injuries that may occur**

Due to the nature of our business, we often handle highly flammable and explosive materials. There is a significant risk that industry-related accidents will occur in the course of our business. While we have implemented safety precautions and maintenance procedures, we cannot assure you that accidents will not occur. Any significant accident, whether or not we are found to be at fault, may adversely affect our business, financial condition and results of operations.

The insurance industry in China is still at an early stage of development. We maintain property insurance covering a small portion of our property, plant and equipment (including certain pipelines owned by us) and vehicle insurance on our transportation vehicles. Our insurance policies do not typically cover third party liabilities, business interruptions or environmental damages arising from our operations or caused by natural disasters, such as earthquakes. We cannot assure you that our insurance policies will adequately compensate us for losses or damages under any and all potential adverse circumstances. Should any disasters such as earthquakes, floods, or acts of terrorism occur, we may suffer significant property damage and loss of revenue due to interruptions in our business operations. A material and successful claim made against us that is not covered by any of our insurance policies or is in excess of our insurance coverage could materially and adversely affect our business, financial condition and results of operations.

**Our growth depends in part on environmental regulations and programs promoting the use of cleaner burning fuels and modification or repeal of these regulations may adversely impact our business**

Our business is subject to certain PRC laws and regulations relating to the production, storage, transportation and sale of natural gas and other energy sources, as well as environmental and safety matters. The discharge of natural gas or other pollutants into the environment may give rise to liabilities or may require us to incur significant costs to remedy such discharge. In addition, we cannot assure you any environmental laws adopted in the future will not materially increase our cost of conducting business.

In addition, our business depends in part on environmental policies and programs in China that promote the use of cleaner burning fuels, including natural gas, for vehicles. In particular, China's 11th Five-Year Plan (2006-2010) made the development of natural gas engines for heavy-load trucks a national key development project. In 2007, China's NDRC officially included CNG/gasoline hybrid vehicles in the country's "encouraged development" category. In addition, many local governments have enacted policies providing subsidies to taxis and buses which convert their gasoline vehicles to CNG/gasoline hybrid vehicles. Moreover, according to the PRC's 13th Five-Year Plan (2016-2020), the PRC government intends

to enhance the supply of natural gas, expand the development of the cross-border and national natural gas trunk pipeline network, and implement additional regulations and programs encouraging the use of natural gas, resulting in an expected increase in the percentage of natural gas consumption to the total primary energy consumption in China from 5.9% in 2015 to 10% by 2020. Any delay in implementation of these policies or programs could have a detrimental effect on the continued development of the PRC natural gas industry, which, in turn, could adversely affect our business, financial condition and results of operations.

**The applications of natural gas as a vehicle and industrial fuel continue to be much less developed than those of coal for industrial use, and gasoline and diesel for vehicle use**

Coal, gasoline and diesel fueling stations and service infrastructure are widely available in China. For natural gas vehicles and industrial fuels to achieve more widespread use in China, they will require a promotional and educational effort and the development and supply of more natural gas vehicles and fueling stations. This will require significant continued effort by us, our industry as a whole as well as the PRC government, and we will continue to face competition from oil companies, coal companies and gasoline station operators. We cannot assure you that natural gas will ever achieve the level of acceptance as a vehicle and industrial fuel necessary for us to expand this portion of our business significantly.

**If there are advances in alternative vehicle and industrial fuels or technologies, or if there are improvements in gasoline, diesel or hybrid engines, demand for natural gas vehicle and industrial fuels may decline and our vehicle refueling station business may suffer**

Technological advances in the production, delivery and use of alternative fuels that are, or are perceived to be, cleaner, more cost-effective or more readily available than LNG or CNG have the potential to slow the adoption of natural gas vehicles and industrial facilities. In addition, advances in gasoline and diesel engine technology, especially hybrids, may offer a cleaner, more cost-effective option and make vehicle customers less likely to convert their vehicles to natural gas. Technological advances related to ethanol or biodiesel, which are increasingly used as an additive to, or substitute for, gasoline and diesel fuel, may slow the need to diversify fuels and affect the growth of the natural gas vehicle market. In addition, hydrogen and other alternative fuels in experimental or developmental stages may eventually offer a cleaner, more cost-effective alternative to gasoline and diesel than natural gas. Advances in technology that slow the growth of or conversion to natural gas vehicles or industrial facilities or which otherwise reduce demand for natural gas as a vehicle or industrial fuel may have an adverse effect on our business.

**We are susceptible to changes in the price of LNG and CNG relative to the price of gasoline and diesel**

Our revenue from CNG and LNG gas stations ultimately depends on the sale of LNG and CNG as a fuel for natural gas vehicles. To expand our business, we must continue to develop new customers. Our ability to expand our customer base is dependent on a number of factors, including the level of acceptance and availability of natural gas vehicles, the level of acceptance of natural gas as a vehicle fuel, the growth in our target markets of natural gas infrastructure that supports LNG and CNG sales and our ability to supply LNG and CNG at competitive prices. Natural gas vehicles cost more than comparable gasoline or diesel powered vehicles because converting a vehicle to use natural gas adds to its base cost.

Moreover, if the price of LNG and CNG does not remain sufficiently below the price of gasoline or diesel, vehicle owners may be unable to recover the additional costs of acquiring or converting to natural gas vehicles in a timely manner, and they may choose not to use natural gas vehicles. In June 2010, the

NDRC determined that natural gas for vehicle use should be priced no lower than 75% of the price of gasoline. As this was much higher than the then prevailing market price for natural gas for vehicle use, the NDRC set the floor for natural gas price at 60% of the price of gasoline in areas where immediate price adjustment of natural gas price to 75% of the price of gasoline is impracticable, and allowed a two-year phase-in period for the floor price to increase to 75% of the price of gasoline. The NDRC's policy will cause the price of natural gas for vehicle use to rise and erode its price advantage over competing fuel sources. In addition, recent and extreme volatility in oil and gasoline prices demonstrate that it is difficult to predict future transportation fuel costs. Any decline in the price of oil, diesel fuel and gasoline will reduce the economic advantages that our existing or potential customers may realize by using less expensive LNG and CNG fuel as an alternative to gasoline or diesel. Reduced prices for gasoline and diesel fuel and continuing uncertainty about fuel prices, combined with higher costs for natural gas vehicles, may cause potential customers to delay or decline to convert their vehicles to run on natural gas, which may limit our growth and cause our business to suffer.

## **RISKS RELATING TO THE CANADIAN OIL AND GAS INDUSTRY**

### **Adverse changes in control and regulatory and royalty regimes of the oil and gas industry by governments in Canada could have a material adverse effect on our business, financial condition, results of operations and prospects**

Various levels of governments in Canada impose extensive controls and regulations on oil and natural gas operations (exploration, production, pricing, marketing and transportation). Governments in Canada may regulate or intervene with respect to exploration and production activities, prices, taxes, royalties and the exportation of oil and natural gas. Amendments to these controls and regulations may occur from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for crude oil and natural gas and increase our costs, either of which may have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition to regulatory requirements pertaining to the production, marketing and sale of oil and natural gas mentioned above, our business and financial condition could be influenced by federal legislation affecting, in particular, foreign investment, through legislation such as the *Competition Act* (Canada) and the *Investment Canada Act* (Canada).

Furthermore, there can be no assurance that the federal government and the provincial governments of the western provinces will not adopt a new or modify the royalty regime which may have an impact on the economics of our projects. An increase in royalties would reduce our earnings and could make future capital investments, or our operations, less economic.

### **We may be subject to risks presented by fluctuations in exchange rates between Canadian and U.S. dollar**

World oil and gas prices are quoted in U.S. dollars and the price received by Canadian producers is therefore affected by the Canadian/U.S. dollar exchange rate, which will fluctuate over time. In recent years, the Canadian dollar increased materially in value against the United States dollar. More recently, the Canadian dollar has seen a material decrease in value against the United States dollar. Any material increases in the value of the Canadian dollar may negatively impact our operating entities production revenues. Any increase in the future Canadian/United States exchange rates could accordingly impact the future value of our reserves as determined by independent evaluators.

To the extent that we engage in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which we may contract.

An increase in interest rates could result in a significant increase in the amount we pay to service debt.

### **The oil and gas industry in Canada is highly competitive**

We actively compete for reserve acquisitions, exploration leases, licences and concessions and skilled industry personnel with a substantial number of other oil and gas entities, many of which have significantly greater financial resources, staff and facilities than we do. Our competitors include integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators. Certain of our customers and potential customers may themselves explore for oil and natural gas and the results of such exploration efforts could affect our ability to sell or supply oil or gas to these customers in the future. Our ability to successfully bid on and acquire additional property rights, to discover reserves to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with our future industry partners and joint operators and our ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery and storage. Competition may also be presented by alternate fuel sources.

### **We may have title defects to oil and natural gas interests**

Title to oil and natural gas interests in Canada is often not capable of conclusive determination without incurring substantial expense. In accordance with industry practice in Canada, we will conduct such title reviews in connection with our principal properties as we believe are commensurate with the value of such properties. However, no absolute assurances can be given that title defects do not exist. If title defects do exist, it is possible that we may lose all or a portion of our right title and interest in and to the properties to which the title defects relate.

### **Our actual production with respect to our reserves will vary from the estimates and such variations could be material**

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquid reserves, including many factors beyond our control. The information concerning reserves set forth in this offering memorandum represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates and the assumed effects of regulation by governmental agencies, all of which may vary from actual results. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery prepared by different engineers, or by the same engineers at different times, may vary. Our actual production with respect to our reserves will vary from the estimates thereof and such variations could be material. Further, the evaluations are based, in part, on the assumed success of the exploitation activities intended to be undertaken in future years. The reserves contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluation.

## **Our upstream operations in Canada are dependent on our ability to maintain our licenses and permits with various governmental authorities**

Our operations may require licenses and permits from various governmental authorities. There can be no assurance that we will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at our projects. Further, if we or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of our licenses or leases or the working interests relating to a licence or lease may have a material adverse effect on our business, financial condition, results of operations and prospects.

## **Our oil and natural gas exploration and development activities are dependent on the availability of drilling equipment and access restrictions**

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment and may delay our exploration and development activities.

## **We may be subject to aboriginal claims**

Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada. We are not aware that any claims have been made in respect of our property and assets; however, if a claim arose and was successful this could have a material adverse effect on our operations.

## **Our operations are subject to seasonality factors**

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. There can be no assurance that these seasonal factors will not adversely affect the timing and scope of our exploration and development activities, which could in turn have a material adverse impact on our business, operations and prospects.

## **We may be exposed to risks relating to hydraulic fracturing**

Concern has been expressed over the potential environmental impact of hydraulic fracturing operations, including water aquifer contamination and other qualitative and quantitative effects on water resources as large quantities of water are used and injected fluids either remain underground or flow back to the surface to be collected, treated and disposed of. Regulatory authorities in certain jurisdictions have announced initiatives in response to such concerns. Federal, provincial and local legislative and regulatory initiatives relating to hydraulic fracturing, as well as governmental reviews of such activities could result in increased costs, additional operating restrictions or delays, and materially and adversely affect our production. Public perception of environmental risks associated with hydraulic fracturing can further increase pressure to adopt new laws, regulation or permitting requirements or lead to regulatory delays, legal proceedings and/or reputational impacts. Any new laws, regulations or permitting requirements

regarding hydraulic fracturing could lead to operational delay, increased operating costs, and third-party or governmental claims. They could also increase our costs of compliance and doing business as well as delay the development of hydrocarbon (natural gas and oil) resources from shale formations, which may not be commercial without the use of hydraulic fracturing. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that we are ultimately able to produce from our reserves.

In the event federal, provincial, local, or municipal legal restrictions are adopted in areas where we are currently conducting, or in the future plan to conduct operations, we may incur additional costs to comply with such requirements that may be significant in nature, experience delays or curtailment in the pursuit of exploration, development, or production activities, and perhaps even be precluded from the drilling of wells. In addition, if hydraulic fracturing becomes more regulated, our fracturing activities could become subject to additional permitting requirements and result in permitting delays as well as potential increases in costs. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that we are ultimately able to produce from our reserves.

### **We are subject to geo-political risks**

The marketability and price of oil and natural gas that may be acquired or discovered by us is and will continue to be affected by political events throughout the world that cause disruptions in the supply of oil. Conflicts, or conversely peaceful developments, arising in the Middle East, and other areas of the world, have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and therefore result in a reduction of our net production revenue.

In addition, our expected oil and natural gas properties, wells and facilities could be subject to a terrorist attack. As the oil and gas industry in Canada is a key supplier of energy to the United States, certain terrorist groups may target Canadian oil and gas properties, wells and facilities in an effort to choke the United States economy. If any of our properties, wells or facilities are the subject of terrorist attack it could have a material adverse effect on us. We do not have insurance to protect against the risk from terrorism.

## **RISKS RELATING TO THE PRC**

### **Adverse changes in the PRC's political, economic and social conditions, laws, regulations and policies could have an adverse effect on overall economic growth in China, which may adversely affect our business**

We conduct the majority of our business operations in China. Accordingly, our financial condition, results of operations and prospects depend to a significant extent on economic developments in China. China's economy differs from the economies of most other countries in many respects, including the extent of government intervention in the economy such as government control of foreign exchange and the allocation of resources, the general level of economic development and growth rates.

While the PRC economy has experienced significant growth in the past 30 years, this growth has been uneven across different periods, regions and amongst various economic sectors. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. The PRC government also continues to play a significant role in regulating industry development by imposing industrial policies and exercises significant control over China's economic growth through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or

companies. Certain measures taken by the PRC government to guide the allocation of resources may benefit the overall economy of China but may, however, also have a negative effect on us. For example, our business, financial condition, results of operations and prospects may be adversely affected by government control over foreign investments and foreign currency, changes in tax regulations that are applicable to us, change in interest rates and statutory reserve rates for banks or government control in bank lending activities. Such government measures may cause a decrease in the level of economic activity, including the demand for natural gas, which could have a material adverse effect on our business.

In May 2017, Moody's Investors Service downgraded China's sovereign credit rating for the first time since 1989 and changed the outlook from stable to negative, citing concerns on the China's rising levels of debt and expectations of slower economic growth. In September 2017, S&P Global Ratings downgraded China's sovereign credit rating for the first time since 1999, citing similar concerns. The full impact of such actions by international rating agencies remains to be seen, but the perceived weaknesses in China's economic development model, if proven and left unchecked, would have profound implications.

#### **Government control over currency conversion may limit our ability to utilize our cash effectively**

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive the majority of our revenues in Renminbi. As a Bermuda holding company, we may rely on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. Therefore, our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from the State Administration of Foreign Exchange ("SAFE"). But approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. This could affect the ability of our PRC subsidiaries to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to satisfy our obligations under the Notes.

#### **Fluctuation in the exchange rates of the Renminbi may have a material adverse effect on your investment**

The exchange rates between the Renminbi and the Canadian dollar, the Hong Kong dollar, the U.S. dollar and other foreign currencies is affected by, among other things, changes in China's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is pegged against a basket of currencies, determined by the PBOC, against which it can rise or fall by as much as 0.5% each day from May 21, 2007. The floating band was further widened to 1.0% on April 16, 2012 and to 2.0% on March 17, 2014. As of June 30, 2014, this change in policy had resulted in the value of the Renminbi appreciating against the U.S. dollar by approximately 30%. On August 11, 2015, the PBOC announced plans to improve the central parity rate of the RMB against the U.S. dollar by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center operated by the PBOC with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign currencies as well as changes in exchange rates of major international currencies. On the same day, the

central parity rate of the RMB against the U.S. dollar depreciated by nearly 2.0% as compared to August 10, 2015, and further depreciated by nearly 1.6% on August 12, 2015 as compared to August 11, 2015. The International Monetary Fund announced on September 30, 2016 that the Renminbi would join its Special Drawing Rights currency basket. Since October 2016, the RMB against the U.S. dollar has generally continued the trend to depreciate.

There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar, the Hong Kong dollar or other foreign currency. As we rely on dividends paid to us by our operating subsidiaries, any significant revaluation of the Renminbi may have a material adverse effect on the value of dividends payable in foreign currency terms. To the extent that we need to convert the proceeds from this offering and future financing into the Renminbi for our operations, appreciation of the Renminbi against the relevant foreign currencies would have an adverse effect on the Renminbi amount we would receive from the conversion. Conversely, if we decide to convert our Renminbi into Hong Kong dollars for the purpose of making payments for dividends on our shares or for other business purposes, appreciation of the Hong Kong dollar against the Renminbi would have a negative effect on the Hong Kong dollar amount available to us.

### **There are significant uncertainties under the EIT Law relating to our PRC enterprise income tax liabilities**

Under the EIT Law and its implementation rules, the distribution of profits of a foreign-invested PRC enterprise generated from 2008 to its immediate holding company outside the PRC will generally be subject to a withholding tax at a rate of 10% if the immediate holding company is a non-resident enterprise for PRC tax purposes, unless there is an applicable tax treaty with the PRC that provides for a different withholding arrangement. Pursuant to a special arrangement between Hong Kong and the PRC, such rate may be lowered to 5% if a Hong Kong resident enterprise owns over 25% of the distributing PRC company. According to the Announcement of the State Administration of Taxation on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (《國家稅務總局關於發佈〈非居民納稅人享受稅收協定待遇管理辦法〉的公告》) issued on August 27, 2015 and amended on June 15, 2018, non-resident taxpayers, including non-resident enterprise and non-resident individual meeting beneficial ownership and other conditions for receiving the benefits under the tax convention with Hong Kong, may be eligible for lower tax rates under the tax convention if they file a tax return or make a withholding declaration through the withholding party and if they are subject to the subsequent administration by the tax authorities. Where a non-resident taxpayer fails to do so or its filing materials fail to meet the relevant requirements, it will not be eligible for the tax convention benefits. In addition, where a competent tax authority, during the subsequent verification of tax refunds, finds that the materials are insufficient or the non-resident taxpayer is suspected of tax evasion, the competent tax authority may require the non-resident taxpayer or the withholding party to provide further materials and cooperate with the investigation. Where a competent tax authority, during the verification, deems that a non-resident taxpayer does not meet the conditions for eligibility under the convention or when a non-resident taxpayer or a withholding party refuses to cooperate with such investigation so that the competent tax authority is unable to verify whether such taxpayer meets the conditions, it may order the suspension of the convention benefits and timely payment of additional taxes.

Although we are a company incorporated in Bermuda and the equity interests of our PRC subsidiaries are directly held by our subsidiaries in Hong Kong and the British Virgin Islands, the PRC tax authorities may regard the main purpose of such foreign subsidiaries as seeking to evade tax. As a result, the PRC tax authorities could levy a higher withholding tax rate on dividends received by our subsidiaries in Hong Kong from our PRC subsidiaries.

**We may be required to withhold PRC tax from payments on the Notes, and gains from the transfer of Notes may be subject to PRC tax, if we are treated as a PRC tax resident enterprise**

Under the EIT Law, enterprises established outside the PRC whose “de facto management bodies” are located in China are considered PRC “resident enterprises” for tax purposes. The implementation rules define the term “de facto management body” as a management body that exercises full and substantial control and management over the business, production, personnel, accounts and properties of an enterprise.

We hold our shareholders’ meeting and Board meetings outside China and keep our shareholders’ list outside China. However, most of our directors and senior management are currently based in China and we keep our books of account in China. The above elements may be relevant for the tax authorities to determine whether we (or any of our non-PRC subsidiaries) are a PRC resident enterprise for tax purposes.

If we (or any of our non-PRC subsidiaries) are treated as a PRC resident enterprise, income tax at the rate of 25% would be imposed on our (or the relevant non-PRC subsidiary’s) worldwide income (possibly excluding dividends from PRC subsidiaries). Furthermore, if we are treated as a PRC resident enterprise, we would be obligated to withhold PRC income tax from payments of interest on the Notes to investors that are non-resident enterprises, generally at the rate of 10%, if the interest is regarded as derived from sources within the PRC. If we fail to do so, we may be subject to fines and other penalties. In addition, if we are treated as a PRC resident enterprise, any gain realized by such non-resident enterprise investors from the transfer of the Notes may be regarded as derived from sources within the PRC and accordingly may be subject to PRC income tax at a rate of 10%. In the case of income or gain derived by individuals, the tax (including withholding tax) rate would generally be 20%.

If we are required to withhold PRC tax from payments on the Notes to non-PRC holders, we will be required, subject to certain exceptions, to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Notes, and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Notes.

**Uncertainties with respect to the PRC legal system could have an adverse effect on our operations**

Our core business is conducted within China and is governed by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be used as a reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to property ownership and development. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree of uncertainty. Some of these laws may be changed without being immediately published or may be amended with retroactive effect. Depending on

the government agency or how an application or case is presented to such agency, we may receive less favorable interpretations of laws and regulations than our competitors, particularly if a competitor has long been established in the locality of, and has developed a relationship with, such agency. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may cause difficulties in the enforcement of our land use rights, entitlements under its permits, and other statutory and contractual rights and interests.

**It may be difficult to serve process within the PRC or to enforce any judgment obtained from non-PRC courts against us or our directors**

A majority of our operating subsidiaries are incorporated in the PRC, some of our directors currently reside within the PRC, and a majority of our assets are located within the PRC. The PRC does not currently have treaties providing for the reciprocal recognition or enforcement of civil and commercial judgments of courts located in the United States, the United Kingdom, Singapore, Japan and most other western countries. An Arrangement between China and Hong Kong on Reciprocal Recognition and Enforcement of Judgments of Civil and Commercial Cases under the Jurisdictions as Agreed to by the Parties Concerned was signed on July 14, 2006 and came into effect on August 1, 2008. However, there are many restrictions on such arrangement. As a result, it may not be possible for investors to effect service of process upon our subsidiaries or our directors resident in the PRC pursuant to the authority of non-PRC courts. Further, the recognition and enforcement in the PRC of judgments of courts outside the PRC might be difficult or impossible.

**The PRC national economy and economies in different regions of the PRC may be adversely affected by natural disasters, acts of God, and occurrence of epidemics**

Our business is subject to general economic and social conditions in the PRC, in particular in the regions where we operate. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Some regions in China, including certain cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome, or SARS, H5N1 avian flu or the human swine flu, also known as Influenza A (H1N1). For instance, a serious earthquake and its successive aftershocks hit Sichuan province in May 2008 and subsequently, resulting in tremendous loss of lives and injury and destruction of assets in the region. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. A recurrence of SARS or an outbreak of any other epidemics in China, such as the H5N1 avian flu or the human swine flu, especially in the cities where we have operations, may adversely affect our business, financial condition and results of operations.

**RISKS RELATING TO THE NOTES**

**We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries**

We are a holding company with no material operations. We conduct our operations through our PRC subsidiaries. The Notes will not be guaranteed by any current or future PRC subsidiaries. In addition, shares of our Non-Guarantor Subsidiaries will not be pledged for the benefit of the holders of the Notes. Our primary assets are loans to and ownership interests in our PRC subsidiaries, which are held through the Subsidiary Guarantors and certain Non-Guarantor Subsidiaries. The Subsidiary Guarantors do not have material operations. Accordingly, our ability to pay principal and interest on the Notes and the ability of

the Subsidiary Guarantors to satisfy their obligations under the Subsidiary Guarantees will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our subsidiaries. See “— Risks relating to the PRC — Government control over currency conversion may limit our ability to utilize our cash effectively.”

Creditors, including trade creditors of our Non-Guarantor Subsidiaries and any holders of preferred shares in such entities, would have a claim on such subsidiaries’ assets that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of such subsidiaries, and all claims of creditors of our Non-Guarantor Subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of December 31, 2018, our Non-Guarantor Subsidiaries had indebtedness in the amount of HK\$1,284.2 million (US\$164.0 million) and capital commitments and contingent liabilities of HK\$127.1 million (US\$16.2 million) and nil, respectively. The Notes and the Indenture limit the ability of our subsidiaries, including our Non-Guarantor Subsidiaries, to incur debt. However, these limitations are subject to significant exceptions. In addition, our secured creditors or those of any Subsidiary Guarantor would have priority as to our assets or the assets of such Subsidiary Guarantor securing the related obligations over claims of holders of the Notes to the extent such assets do not also secure such claims.

**Our secured creditors or those of any Subsidiary Guarantor would have priority as to our assets or the assets of such Subsidiary Guarantor securing the related obligations over claims of holders of the Notes**

The Notes and the Subsidiary Guarantees will constitute unsubordinated obligations and will rank *pari passu* in right of payment with all other existing and future unsubordinated indebtedness and senior in right of payment to all subordinated indebtedness, if any, of the Company and the Subsidiary Guarantors, as applicable. The Notes and each Subsidiary Guarantee will be issued as a general obligation of the relevant company. However, the Notes and the Subsidiary Guarantees will be effectively subordinated to any of our or the Subsidiary Guarantors’ secured obligations to the extent of the assets serving as security for such secured obligations (other than to the extent of the Collateral securing the Notes). The limitation on liens covenant that will be included in the indenture is subject to various carve outs as set forth under “Certain Covenants — Limitation on Liens” and the definition of “Permitted Liens” under the caption “Description of Notes,” including a general carve out for liens on assets with a book value of up to 10% of our total assets. We also held certain financial assets including debt and equity securities as well as loans to third parties as of the same date. We may pledge a portion of such financial assets to secure our short-term borrowings pursuant to certain of our loan agreements. See “Risk Factors — Risks Relating to Our Business — Our financial investments may be subject to losses and a decrease in our income from financial assets could adversely affect our financial condition and results of operations”. In bankruptcy, the holder of a security interest with respect to any assets of us or the Subsidiary Guarantors (other than to the extent of the Collateral securing the Notes) would be entitled to have the proceeds of such assets applied to the payment of such holder’s claim before the remaining proceeds, if any, are applied to the claims of the holders of the Notes. In addition, the Collateral may also be pledged to secure Permitted *Pari Passu* Secured Indebtedness after issuance of the Notes, see “Description of the Notes — Security — Permitted *Pari Passu* Secured Indebtedness.” We or the Subsidiary Guarantors may, subject to the terms of the Indenture, pledge additional collateral in the future.

**We have substantial indebtedness and may incur substantial additional indebtedness in the future, which could adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations**

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. As of December 31, 2016, 2017 and 2018, our total indebtedness amounted to HK\$5,367.3 million, HK\$5,719.5 million and HK\$6,549.5 million (US\$836.4 million), respectively.

Our substantial indebtedness could have important consequences to you. For example, it could:

- limit our ability to satisfy our obligations under the Notes and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and for other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds;
- increase the cost of additional financing; and
- affect our net profit.

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. Although the Indenture governing the Notes restricts us and our Restricted Subsidiaries from incurring additional debt and contingent liabilities, these restrictions are subject to important exceptions and qualifications. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, we may not generate sufficient cash flow for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

In addition, the terms of the Indenture prohibit us from incurring additional indebtedness unless (i) we are able to satisfy certain financial ratios or (ii) we are able to incur such additional indebtedness pursuant to any of the exceptions to the financial ratios requirements, and meet any other applicable

restrictions. Our ability to meet our financial ratios may be affected by events beyond our control. We cannot assure you that we will be able to meet these ratios. Certain of our other financing arrangements also impose operating and financial restrictions on our business. See “Description of Other Material Indebtedness.” Such restrictions in the Notes and our other financing arrangements may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities, obtain future financing, fund required capital expenditures, or withstand a continuing or future downturn in our business. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt.

**Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries**

As a holding company, we depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries and applicable laws. In particular, Kunlun Energy, our joint venture partner in CCNG, may have a conflict of interest with us with respect to dividend payments by CCNG. These restrictions could have a negative impact on the calculation of our EBITDA under the Indenture and could also reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the ability of the Subsidiary Guarantors to satisfy their obligations under the Subsidiary Guarantees. See “Description of Other Material Indebtedness.” In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the Notes.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends by the board of directors. In addition, starting from January 1, 2008, dividends paid by our PRC subsidiaries to their non-PRC parent companies will be subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion, if the non-PRC parent company is a Hong Kong resident deemed as a beneficial owner and directly holds a 25% or more interest in the PRC enterprise, such withholding tax rate may be lowered to 5%. However, according to the Announcement of the SAT on Issues Relating to “Beneficial Owner” in Tax Treaties (《國家稅務總局關於稅收協定中“受益所有人”有關問題的公告》) (the “Beneficial Owner Announcement”), which came into effect on April 1, 2018, nonresident enterprises shall provide requisite valid supporting documents as “beneficial owners” to be considered as a “beneficial owner” and such a “beneficial owner” analysis is conducted on a case-by-case basis according to factors set forth in the Beneficial Owner Announcement. As a result of such limitations, there could be timing or other limitations on payments from our PRC subsidiaries to meet payments required by the Notes or satisfy our obligations under the Subsidiary Guarantees, and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

Furthermore, in practice, the market interest rate that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholders' loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Notes. Our PRC subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident, subject to administration by local tax authorities) withholding tax on our behalf on the interest paid under any shareholders' loans. PRC regulations require our non-PRC subsidiaries making shareholder loans in foreign currencies to our PRC subsidiaries to be registered with the SAFE. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries must present evidence of payment of the withholding tax on the interest payable on any such shareholder loan and evidence of registration with the SAFE, as well as any other documents that the SAFE or its local branch may require.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Notes or the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees.

**Under PRC regulations, we may not be able to transfer to our PRC subsidiaries proceeds from this offering in the form of a loan, which could impair our ability to make timely payments of interest, or even principal, under the Notes**

According to the existing PRC rules and regulations relating to supervision of foreign debt, loans by foreign companies to their subsidiaries in China, such as our PRC subsidiaries established as foreign-invested enterprises in China, are considered foreign debt, and such loans must be registered with the relevant local branches of SAFE. Such rules and regulations also provide that the total outstanding amount of such foreign debt borrowed by any foreign-invested enterprise may not exceed the difference between its total investment and its registered capital and subject to the risk-weighted balance according to the Notice of the People's Bank of China on Matters concerning the Macro-Prudential Management of Full-Covered Cross-Border Financing, each as approved by the relevant PRC authorities. Without having the flexibility to transfer funds to our PRC subsidiaries as loans, we cannot assure you that the dividend payments from our PRC subsidiaries will be available on each interest payment date to pay the interest due and payable under the Notes, or on the maturity date to pay the principal of the outstanding Notes.

**We may be subject to risks presented by fluctuations in exchange rates between the Renminbi and other currencies, particularly the U.S. dollar**

The Notes are denominated in U.S. dollars, while substantially all of our revenues are generated by our PRC operating subsidiaries and are denominated in Renminbi. Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. Further, from May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0% on April 16, 2012 and to 2.0% on March 17, 2014. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 30% from July 21, 2005 to June 30, 2014. On August 11, 2015, the PBOC announced plans to improve the central parity rate of the RMB against the U.S. dollar by authorizing market-makers to provide parity to the China Foreign Exchange Trading Center operated by the PBOC with reference to the interbank foreign exchange market closing rate of the previous day, the supply and

demand for foreign currencies as well as changes in exchange rates of major international currencies. On the same day, the central parity rate of the RMB against the U.S. dollar depreciated by nearly 2.0% as compared to August 10, 2015, and further depreciated by nearly 1.6% on August 12, 2015 as compared to August 11, 2015. The International Monetary Fund announced on September 30, 2016 that the Renminbi joins its Special Drawing Rights currency basket. Since October 2016, the RMB against the U.S. dollar has continued the trend to depreciate. In 2018, the RMB depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented and resulted in devaluation of the Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected because of our substantial U.S. dollar denominated indebtedness and other obligations. Such a devaluation could also adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Notes.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. In addition, following the offering of the Notes, we may enter into foreign exchange or interest rate hedging agreements in respect of our U.S. dollar — denominated liabilities under the Notes. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under the agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments. The Initial Purchasers and their affiliates may enter into such hedging agreements permitted under the Indenture governing the Notes, and these agreements may be secured by pledges of our cash and other assets as permitted under the Indenture. If we were unable to provide such collateral, it could constitute a default under such agreements.

Any hedging obligation entered into or to be entered into by us or our subsidiaries, may contain terms and conditions that may result in the early termination, in whole or in part, of such hedging obligation upon the occurrence of certain termination or analogous events or conditions (howsoever described), including such events relating to us and/or any of our subsidiaries, and the terms and conditions of such hedging obligation(s) may provide that, in respect of any such early termination, limited or no payments may be due and payable to, or that certain payments may be due and payable by, us and/or any of our subsidiaries (as relevant) in respect of any such early termination. Any such early termination, in whole or in part, of any such hedging obligation(s), and the payment and any other consequences and effects of such early termination(s), may be material to our financial condition and/or any of our subsidiaries and may be material in relation to the performance of our or their respective obligations under or in relation to the Notes (if applicable), any indebtedness or any other present or future obligations and commitments.

#### **The terms of the Notes permit us to make investments in Unrestricted Subsidiaries and minority owned joint ventures**

We may from time to time form joint ventures with other companies. As a result, we may need to make investments in joint ventures (including joint ventures in which we may own less than a 50% equity interest) and such joint ventures may or may not be Restricted Subsidiaries. Although the Indenture restricts us and our Restricted Subsidiaries from making investments in Unrestricted Subsidiaries or minority owned joint ventures, these restrictions are subject to important exceptions and qualifications, including, among others, that we may, subject to certain conditions, make investments in any Unrestricted Subsidiaries and minority owned joint ventures up to an aggregate amount equal to 30% of our total assets, without satisfying the Fixed Charge Coverage Ratio requirement, and we may even do so without

the 30% total asset limit if we or any Restricted Subsidiary holds not less than 20% voting power in the entity receiving our investment and we or such Restricted Subsidiary is entitled to appoint at least one representative on the governing body of such entity. See “Description of the Notes.”

**We may not be able to repurchase the Notes upon a change of control triggering event**

Upon the occurrence of a change of control triggering event, the holder of each Note will have the option to require us to redeem all or some of the holder’s Notes at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See “Description of the Notes.”

The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have enough available funds at the time of the occurrence of any change of control triggering event to make purchases of the outstanding Notes. Our failure to make the offer to purchase or to purchase the outstanding Notes would constitute an event of default under the Notes. The event of default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Notes and repay the debt.

In addition, the definition of change of control triggering event for purposes of the indenture governing the Notes does not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations, although these types of transactions could increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of change of control triggering event for purposes of the Indenture governing the Notes also includes a phrase relating to the sale of “all or substantially all” of our assets. Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Notes, and the ability of a holder of the Notes to require us to purchase its Notes pursuant to the offer as a result of a highly-leveraged transaction or a sale of less than all of our assets may be uncertain.

**Noteholders may be unable to enforce their rights under U.S. bankruptcy law**

We are incorporated under the laws of Bermuda, and our principal assets are located in the PRC. Under federal bankruptcy law in the United States, courts typically have jurisdiction over a debtor’s property, wherever located, including property situated in other countries. However, courts outside of the United States may not recognize the United States bankruptcy court’s jurisdiction. Accordingly, difficulties may arise in administering a United States bankruptcy case involving a Bermuda, British Virgin Islands or Hong Kong debtor with property located outside of the United States, and any orders or judgments of a bankruptcy court in the United States may not be enforceable outside of the United States.

**The insolvency laws of Bermuda and other local insolvency laws may differ from U.S. bankruptcy law or those of another jurisdiction with which holders of the Notes are familiar**

Because we are incorporated under the laws of Bermuda, an insolvency proceeding relating to us, even if brought in the United States, would likely involve Bermuda insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law. In addition, the Subsidiary Guarantors are incorporated in the British Virgin Islands or Hong Kong and the insolvency laws of the British Virgin Islands and Hong Kong may also differ from the laws of the United States or other jurisdictions with which the holders of the Notes are familiar.

## **We may be unable to obtain and remit foreign exchange**

Our ability to satisfy our obligations under the Notes depends solely upon the ability of our subsidiaries in the PRC to obtain and remit sufficient foreign currency to pay dividends to us and to repay shareholder loans. Our PRC subsidiaries must present certain documents to the SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with the SAFE).

Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% (or 7% if the interest is paid to a Hong Kong resident, subject to subsequent review by local tax authorities) withholding tax on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on our existing shareholder loans, which may affect our ability to satisfy our obligations under the Notes.

## **If we are unable to comply with the restrictions and covenants in our debt agreements or the Indenture, there could be a default under the terms of these agreements or the Indenture, which could cause repayment of our debt to be accelerated**

If we are unable to comply with the restrictions and covenants in the Indenture governing the Notes, or our current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the Indenture, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of debt, including the Notes, or result in a default under our other debt agreements, including the Indenture. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

## **Our operations are restricted by the terms of the Notes and other debt agreements, which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk**

The Indenture and other debt agreements include a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our Restricted Subsidiaries, to:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on their capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of Restricted Subsidiaries;

- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs. Our ability to comply with these covenants may be affected by events beyond our control, and we may have to curtail some of our operations and growth plans to maintain compliance.

**A trading market for the Notes may not develop, and there are restrictions on resale of the Notes**

The Notes are a new issue of securities for which there is currently no trading market. Although approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST, we cannot assure you that we will obtain or be able to maintain a listing of the Notes on the SGX-ST, or that, if listed, a liquid trading market will develop. We have been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See "Transfer Restrictions." We cannot predict whether an active trading market for the Notes will develop or be sustained.

**The ratings assigned to the Notes may be lowered or withdrawn in the future**

The Notes are expected to be rated "Ba2" by Moody's Investors Service, Inc. and "BB" by Standard & Poor's Ratings Services. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. Additionally, we have been rated "Ba2" with a stable outlook by Moody's Investors Service, Inc. and "BB" with a stable outlook by Standard & Poor's Ratings Services. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that the ratings will be confirmed or they will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

**Certain transactions that constitute “connected transactions” under the Listing Rules will not be subject to the “Limitation on Transactions with Shareholders and Affiliates” covenant**

Our shares are listed on the Hong Kong Stock Exchange and we are required to comply with the Listing Rules, which provide, among other things, that any transaction between a listed company or any of its subsidiaries, on the one hand, and a “connected person” of such listed company, on the other hand, is a “connected transaction” that, if the value of such transaction exceeds the applicable de minimis thresholds, will require the prior approval of the independent shareholders of such listed company. The definition of “connected person” to a listed company includes, among others, any 10% or more shareholder of (i) such listed company or (ii) any subsidiary of such listed company. The concept of “connected person” also captures “associates,” which include, among others, (a) any subsidiary of such “connected person,” (b) any holding company of such “connected person” and any subsidiary of such holding company, and (c) any company in which such entity or entities mentioned in (a) and (b) above taken together has/have the power to exercise control, directly or indirectly, of 30% or more of the voting power of such company.

The “Limitation on Transactions with Shareholders and Affiliates” covenant in the Notes only applies to transactions between the Company or any Restricted Subsidiary, on the one hand, and (x) any holder (or any Affiliate of such holder) of 10% or more of the shares of the Company or (y) any Affiliate of the Company, on the other hand. As such, transactions between the Company or any Restricted Subsidiary, on the one hand, and an Affiliate of any Restricted Subsidiary, on the other hand, will not be captured by such covenant, even though they may be connected transactions under the Listing Rules and subject to any requirements under the Listing Rules to obtain approval from independent shareholders. As a result, we are not required by the terms of the Notes to ensure that any such transactions are on terms that are fair and reasonable, and we will not need to deliver officers’ certificates or procure the delivery of fairness opinions of accounting, appraisal or investment banking firms to the trustee of the Notes for any such transactions.

**The liquidity and price of the Notes following the offering may be volatile**

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and proposals for new investments, strategic alliances and/or acquisitions, interest rates, fluctuations in price for comparable companies and government regulations and changes thereof applicable to our industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. We cannot assure you that these developments will not occur in the future.

**Certain facts and statistics are derived from publications not independently verified by us, the Initial Purchasers or our respective advisers**

Facts and statistics in this offering memorandum relating to China’s economy, the natural gas industry in the PRC and Canada and the oil industry in Canada are derived from publicly available sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Initial Purchasers or our or their respective advisers and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China or Canada. Due to possibly flawed or ineffective calculation and collection methods and other

problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

**There may be less publicly available information about us than is available in certain other jurisdictions**

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, the financial information in this offering memorandum has been prepared in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions, or other generally accepted accounting principles, which might be material to the financial information contained in this offering memorandum. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between HKFRS and other generally accepted accounting principles. In making an investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisers for an understanding of the differences between HKFRS and other generally accepted accounting principles and how those differences might affect the financial information contained in this offering memorandum.

**We will follow the applicable corporate disclosure standards for debt securities listed on the SGX-ST, which standards may be different from those applicable to debt securities listed in certain other countries.**

We will be subject to continuing listing obligations in respect of the Notes to be listed on the SGX-ST. The disclosure standards imposed by the SGX-ST may be different from those imposed by securities exchanges in other countries. As a result, the level of information that is available may be different from what investors in the Notes are accustomed to.

**The Notes will initially be held in book-entry form, and therefore, you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.**

The Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the Notes represented by global notes will trade in book-entry form only, and the Notes in definitive registered form, or definitive registered notes, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the Notes. The nominee of the common depositary for Euroclear and Clearstream will be the sole registered holder of the global note representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global note representing the Notes will be made to the paying agent, which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to accounts of participants that hold book-entry interests in the global note representing the Notes and credited by such participants to indirect participants. After payment to the nominee of the common depositary for Euroclear and Clearstream, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of Euroclear and Clearstream, and if you are not a participant in Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of Notes under the Indenture.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until definitive registered notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes.

**We may be able to redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest in the event that we are required to pay additional amounts because we are treated as a PRC “resident enterprise”**

In the event that we are treated as a PRC “resident enterprise” under the EIT Law, we may be required to withhold PRC tax on interest payable to certain of our non-resident investors. In such case, we will, subject to certain exceptions, be required to pay such additional amounts as will result in receipt by a holder of the Notes of such amounts as would have been received by the holder had no such withholding been required. As described under “Description of the Notes — Redemption for Taxation Reasons,” in the event that we are required to pay additional amounts as a result of certain changes in tax law, including any change in the existing position or the stating of an official position regarding the application or interpretation of such law, that results in our being required to withhold tax on interest payments as a result of our being treated as a PRC “resident enterprise,” we may redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

## **RISKS RELATING TO THE SUBSIDIARY GUARANTEES AND THE COLLATERAL**

### **Our initial Subsidiary Guarantors do not currently have significant operations**

None of our current PRC subsidiaries will provide a Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. No future subsidiaries that are organized under the laws of the PRC will provide a Subsidiary Guarantee at any time in the future. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of the PRC subsidiaries. Moreover, the Collateral will not include the capital stock of our existing or future PRC subsidiaries.

The initial Subsidiary Guarantors that will guarantee the Notes do not have significant operations. We cannot assure you that the initial Subsidiary Guarantors or any subsidiaries that may become Subsidiary Guarantors in the future will have the funds necessary to satisfy our financial obligations under the Notes if we are unable to do so.

### **Security over the Collateral will not be granted directly to the holders of the Notes, and the Collateral will generally be shared with creditors under certain other financings**

Security over the Collateral for the obligations of the Company under the Notes and the Indenture will not be granted directly to the holders of the Notes but will be granted only in favor of the Collateral Agent on behalf of the Trustee. As a consequence, holders of the Notes will not have direct security and

will not be entitled to take enforcement action in respect of the security for the Notes, except through the Collateral Agent, which has agreed to apply any proceeds of enforcement on such security towards such obligations.

The Indenture also permits us to enter into certain future financings, and creditors under those future financings may share the Collateral pari passu with the holders of the Notes. See “Description of the Notes — Security — Permitted Pari Passu Secured Indebtedness” for a further discussion of the sharing of the Collateral with future financings. If creditors under future financings opt to share the Collateral under the Intercreditor Agreement, a smaller portion of the proceeds from the Collateral will be available to satisfy the claims of the holders of the Notes, which could have a material adverse effect on their ability to recover sufficient proceeds to satisfy their claims under the Notes.

### **The pledge of certain Collateral may be released under certain circumstances**

In the event that a Subsidiary Guarantor is able to release its Subsidiary Guarantee by selling or issuing more than 20% of the Capital Stock of such Subsidiary Guarantor to a third party, because the consolidated assets of all Restricted Subsidiaries organized outside the PRC (other than Exempted Subsidiaries) that are not Subsidiary Guarantors or JV Subsidiary Guarantors do not account for more than 25% of our total assets, we are permitted to release the pledge of the shares granted by and over such Subsidiary Guarantor.

Moreover, in the event the conditions applicable to the replacement of a Subsidiary Guarantee with a JV Subsidiary Guarantee are satisfied, we are permitted to release the pledge of the shares granted by such Subsidiary Guarantor, as well as the pledge of the shares granted by the subsidiaries of such Subsidiary Guarantor. We are only required to deliver a replacement share pledge for the shares that we continue to hold in such JV Subsidiary Guarantor (but not the subsidiaries of such JV Subsidiary Guarantor) following the sale of the equity interests in such Subsidiary Guarantor. As a result, in the event we sell minority equity interests in our Subsidiary Guarantors or otherwise create JV Subsidiary Guarantors in accordance with the terms of the Indenture, the Collateral will be reduced in value and scope, and holders of the Notes would be subject to increased risks.

Furthermore, when the 2014 Notes and 2017 Notes are fully redeemed or repaid, we may be able to release the collateral under the terms of the Notes, in which case, the Notes will no longer be secured. If and when the Notes become unsecured obligations, their repayment may be compromised if:

- we enter into bankruptcy, liquidation, reorganization or other winding-up proceedings;
- there is a default in payment under our future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of our indebtedness.

If any of these events occur, our assets may not be sufficient to pay amounts due under the Notes.

## **The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees**

Under bankruptcy laws, fraudulent transfer laws, insolvency laws in the British Virgin Islands or bankruptcy law, fraudulent transfer laws, insolvency or unfair preference or similar laws in Hong Kong and other jurisdictions where future Subsidiary Guarantors may be established or where insolvency proceedings may be commenced with respect to any such Subsidiary Guarantor, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;
- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;
- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the laws of the jurisdiction which are being applied. Generally, however, a guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fell due or if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities in respect of its existing debt as it became absolute and matured. We cannot assure you that such limitation will be effective in preserving the enforceability of any of the Subsidiary Guarantees. In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantors. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder were incurred for less than reasonably equivalent value or fair consideration, and, as a result, such guarantee would be rendered void.

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the guarantee, as it relates to such Subsidiary Guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

If a court voided a Subsidiary Guarantee, subordinated such guarantee to other indebtedness of the Subsidiary Guarantor, or held the Subsidiary Guarantee unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary Guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such Subsidiary Guarantor, and would solely be creditors of us and any Subsidiary Guarantor whose guarantee was not voided or held unenforceable. We cannot assure you that, in such an event, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes.

**The pledge of certain Collateral may in some circumstances be voidable**

The pledge of the Collateral may be voidable as a preference under insolvency or fraudulent transfer or similar laws of Hong Kong, Bermuda and the British Virgin Islands at any time within six months of the creation of the pledge or, under some circumstances, within a longer period. Pledges of shares of future Subsidiary Guarantors may also be voidable as a preference under relevant insolvency or fraudulent transfer or similar laws. In addition, the pledge of certain Collateral may be voided based on the analysis set forth under “— The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees.”

If the pledges of the Collateral were to be voided for any reason, holders of the Notes would have only an unsecured claim against us.

**The subsidiaries holding our upstream Canadian business will be designated as Unrestricted Subsidiaries on the Original Issue Date**

We will designate the subsidiaries holding our upstream Canadian business as Unrestricted Subsidiaries on the Original Issue Date. See “Corporate Structure.” These subsidiaries therefore will not be subject to most of the restrictive covenants in the Indenture. In addition, of necessity, none of Unrestricted Subsidiaries will be a Subsidiary Guarantor for the Notes or have its shares pledged to secure our obligations under the Notes on the Original Issue Date. You are cautioned accordingly not to place undue reliance on the financial performance of these subsidiaries in your decision to invest in the Notes.

**The Collateral may be released and the value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Notes and other *pari passu* secured indebtedness**

The Collateral will consist only of the shares of the initial Subsidiary Guarantors. The security interest in respect of certain Collateral may be released upon the disposition of such Collateral and any proceeds from such disposition may be applied, prior to repaying any amounts due under the Notes, to repay other debt or to make investments in assets that will not be pledged as additional Collateral. In addition, the security interest in respect to the Collateral may be released if no Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) is outstanding. Further, the security interest in respect to the Collateral may be released when no 2014 Note or 2014 Note remains outstanding.

The ability of the Collateral Agent, on behalf of the Trustee, to foreclose on the Collateral upon the occurrence of an Event of Default or otherwise, will be subject in certain instances to perfection and priority issues. Although procedures will be undertaken to support the validity and enforceability of the security interests, we cannot assure you that the Collateral Agent, the Trustee or holders of the Notes will be able to enforce the security interest.

The value of the Collateral in the event of a liquidation will depend upon market and economic conditions, the availability of buyers and similar factors. No independent appraisals of any of the Collateral have been prepared by or on behalf of us in connection with this offering of the Notes. Accordingly, we cannot assure you that the proceeds of any sale of the Collateral following an acceleration of the Notes would be sufficient to satisfy, or would not be substantially less than, amounts due and payable on the Notes. By their nature, some or all of the Collateral, in particular, the shares of the existing or any future Subsidiary Guarantors may be illiquid and may have no readily ascertainable market value. Likewise, we cannot assure you that the Collateral will be saleable or, if saleable, that there will not be substantial delays in its liquidation.

The Collateral will be shared on a pari passu basis by the holders of the Notes and any other creditors with respect to Permitted Pari Passu Secured Indebtedness, including our 2014 Notes and 2017 Notes. Accordingly, in the event of a default on the Notes or the other secured indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of secured indebtedness. The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors is unlikely to be sufficient to satisfy the Company's and each of the Subsidiary Guarantor Pledgors' obligations under the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, and the Collateral securing the Notes and such Subsidiary Guarantees may be reduced or diluted under certain circumstances, including the issuance of Additional Notes or additional Permitted Pari Passu Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture.

**The Intercreditor Agreement may limit the rights of the holders of the Notes to enforce the Collateral.**

The ability of holders of the Notes to enforce the Collateral will be restricted under the Intercreditor Agreement, as only the Collateral Agent will be permitted to take enforcement actions. If an event of default occurs under the Notes, the holders of the Notes holding 25% of the outstanding amount of the Notes and holders (or their representative or agent) of any Permitted Pari Passu Secured Indebtedness must decide whether to take any enforcement action and, thereafter, may instruct the Collateral Agent to take such enforcement action. The Collateral Agent will only enforce the Collateral in accordance with a written instruction by representatives of the holders of any Permitted Pari Passu Secured Indebtedness if it does not receive any conflicting instruction. Enforcement actions may be taken in respect of the Collateral that may be adverse to you. In the event that there is any disagreement or conflict among instructions from the holders (or their trustees, representatives or agents) of any Permitted Pari Passu Secured Indebtedness, the instruction from holders of a majority of the outstanding principal amount of indebtedness secured by the Collateral will prevail or if no such instruction is given to the Collateral Agent, the Collateral Agent may in its discretion refuse to take any action, either of which may be inconsistent with the instruction from the Trustee or in your interest. In such event, the only remedy available to holders of the Notes would be to sue for payment on the Notes, the Subsidiary Guarantees and the Collateral. For a description on the Intercreditor Agreement, see "Description of the Notes — Security — Enforcement of Security."

## USE OF PROCEEDS

The gross proceeds from this offering, before deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering, will be approximately US\$318.0 million. We plan to use the net proceeds from this offering to repay certain existing indebtedness, including the 2014 Notes, and for general corporate purposes.

We may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds. Pending application of the net proceeds of this offering, we intend to invest such net proceeds in “Temporary Cash Investments” as defined under “Description of the Notes.”

## EXCHANGE RATE INFORMATION

### CHINA

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by PBOC on the basis of the previous day's inter-bank foreign exchange market rates and then current exchange rates in the world financial markets. During this period, the official exchange rate for the conversion of Renminbi to U.S. dollars remained generally stable. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loan principals and securities trading, still requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system.

On May 18, 2007, PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by PBOC. The floating band was further widened to 1.0% on April 16, 2012 and 2.0% on March 17, 2014. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for trading against the Renminbi on the following working day. Effective since August 11, 2015, market makers are required to quote their central parity rates for Renminbi against U.S. dollar to the China Foreign Exchange Trade System daily before the market opens by reference to the closing rate of the PRC inter-bank foreign exchange market on the previous trading day in conjunction with the demand and supply conditions in the foreign exchange markets and exchange rate movements of major currencies. PBOC has further authorized the China Foreign Exchange Trade System to announce its central parity rate for Renminbi against the U.S. dollar through a weighted averaging of the quotes from the market makers after removing the highest quote and the lowest quote. PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for trading against the Renminbi on the following working day. The PRC government may adopt further reforms of its exchange rate system, including but not limited to making the Renminbi freely convertible in the future.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

Period	Noon buying rate			
	Period end	Average <sup>(1)</sup>	High	Low
		<i>(RMB per US\$1.00)</i>		
2014 .....	6.2046	6.1620	6.2591	6.0402
2015 .....	6.4778	6.2869	6.4896	6.1870
2016 .....	6.9430	6.6549	6.9580	6.4480
2017 .....	6.5063	6.7564	6.9060	6.5063
2018 .....	6.8755	6.6292	6.9737	6.2649
2019				
January .....	6.6958	6.7863	6.8708	6.6958
February .....	6.6912	6.7367	6.7907	6.6822
March .....	6.7112	6.7119	6.7381	6.6916
April .....	6.7347	6.7161	6.7418	6.6870
May .....	6.9027	6.8519	6.9182	6.7319
June .....	6.8650	6.8977	6.9298	6.8510
July (through July 5, 2019) .....	6.8925	6.8734	6.8925	6.8487

Source: Federal Reserve H.10 Statistical Release

Note:

- (1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

## HONG KONG

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since October 17, 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK\$7.80 to US\$1.00. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China (the "Basic Law"), which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK\$7.80 to US\$1.00. In May 2005, the Hong Kong Monetary Authority broadened the 22-year-old trading band from the original rate of HK\$7.80 per U.S. dollar to a rate range of HK\$7.75 to HK\$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the link within that rate range. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, we cannot assure you that the Hong Kong government will maintain the link within the current rate range or at all.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

Period	Noon buying rate			
	Period end	Average <sup>(1)</sup>	High	Low
		<i>(HK per US\$1.00)</i>		
2014 .....	7.7531	7.7545	7.7669	7.7495
2015 .....	7.7507	7.7524	7.7686	7.7495
2016 .....	7.7534	7.7620	7.8270	7.7505
2017 .....	7.8128	7.7926	7.8267	7.7540
2018 .....	7.8305	7.8376	7.8499	7.8043
2019				
January .....	7.8463	7.8411	7.8463	7.8308
February .....	7.8496	7.8477	7.8496	7.8460
March .....	7.8498	7.8491	7.8499	7.8466
April .....	7.8451	7.8445	7.8497	7.8368
May .....	7.8387	7.8478	7.8497	7.8387
June .....	7.8103	7.8260	7.8430	7.8080
July (through July 5, 2019) .....	7.7956	7.8015	7.8127	7.7956

Source: Federal Reserve H.10 Statistical Release

Note:

- (1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

## CAPITALIZATION

The following table sets forth our indebtedness and capitalization as of December 31, 2018 on an actual basis and on an adjusted basis after giving effect to the issuance of the Notes in this offering before deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering. The following table should be read in conjunction with our consolidated financial information and related notes included in this offering memorandum.

	As of December 31, 2018			
	Actual		As Adjusted	
	<i>HK\$</i>	<i>US\$</i>	<i>HK\$</i>	<i>US\$</i>
	<i>(in thousands)</i>			
<b>Cash and cash equivalents</b> . . . . .	<b>2,508,223</b>	<b>320,315</b>	<b>4,998,322</b>	<b>638,315</b>
Short-term borrowings <sup>(1)</sup> . . . . .	1,455,839	185,919	1,455,839	185,919
Total short-term borrowings . . . . .	1,455,839	185,919	1,455,839	185,919
Long-term borrowings				
Senior notes <sup>(2)</sup> . . . . .	5,029,991	642,359	5,029,991	642,359
Long-term borrowings . . . . .	63,642	8,127	63,642	8,127
Notes offered hereby . . . . .	—	—	2,490,099	318,000
Total long-term borrowings . . . . .	5,093,633	650,486	7,583,732	968,486
<b>Total borrowings<sup>(3)</sup></b> . . . . .	<b>6,549,472</b>	<b>836,405</b>	<b>9,039,571</b>	<b>1,154,405</b>
<b>Total equity<sup>(4)</sup></b> . . . . .	<b>5,912,060</b>	<b>755,004</b>	<b>5,912,060</b>	<b>755,004</b>
<b>Total capitalization<sup>(5)</sup></b> . . . . .	<b>11,005,693</b>	<b>1,405,490</b>	<b>13,495,792</b>	<b>1,723,490</b>

*Notes:*

- (1) Included in short-term bank borrowings, unsecured, are certain balances relating to which we may be required to provide collateral from time to time. See “Description of Other Material Indebtedness — Offshore Loans.”
- (2) Included the 2014 Notes and the 2017 Notes.
- (3) Our borrowings do not include capital commitments. As of December 31, 2018, we had capital commitments of HK\$127.1 million (US\$16.2 million). As of the same date, we did not have any contingent liabilities.
- (4) HKFRS 16 “Leases” was issued in 2016 and effective for annual periods beginning on or after January 1, 2019. The total equity of our Group presented above does not take into account the adjustment to retained earnings as of January 1, 2019 for the adoption of HKFRS 16 with the simplified transition approach. Please refer to Note 2 to our consolidated financial statements as of and for the year ended December 31, 2018 included elsewhere in this offering memorandum for disclosure of the impact on adoption of HKFRS 16.
- (5) Total capitalization represents the sum of the total long-term borrowings and total equity.

Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our indebtedness or capitalization since December 31, 2018.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected consolidated financial information as of and for each of the years ended December 31, 2016, 2017 and 2018 (except for EBITDA data) has been derived from our consolidated financial statements for the years ended December 31, 2017 and 2018, which have been audited by PricewaterhouseCoopers, our independent auditor, and are included elsewhere in this offering memorandum. Our consolidated financial information has been prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The selected financial data below should be read in conjunction with our consolidated financial statements and the notes to those statements included elsewhere in this offering memorandum. Historical results are not necessarily indicative of results that may be achieved in any future period.

We have adopted new accounting standards since January 1, 2018, including HKFRS 9 “Financial Instruments” and HKFRS 15 “Revenue from Contracts with Customers,” which took effect from January 1, 2018. The impact of the initial application of the new accounting standards is disclosed in Note 2 to our audited consolidated financial statements as of and for the year ended December 31, 2018 as included elsewhere in this offering memorandum.

The classification and measurement and impairment requirements of HKFRS 9 are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. We adopted HKFRS 15 on all uncompleted contracts as of January 1, 2018 using the modified retrospective approach and any difference is recognized in the retained earnings as of January 1, 2018. Comparative financial information for the previous corresponding periods has not been restated, therefore, our consolidated financial information as of and for the years ended December 31, 2016 and 2017 may not be directly comparable to our consolidated financial information after January 1, 2018. Investors must therefore exercise caution when making comparisons of any financial figures after January 1, 2018 against our consolidated financial figures prior to January 1, 2018 and when evaluating our financial condition and results of operations.

SELECTED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the year ended December 31,			
	2016	2017	2018	
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(US\$'000)
				(unaudited)
<b>Revenue</b> . . . . .	6,446,452	7,651,280	9,410,131	1,201,728
Cost of sales . . . . .	(5,318,367)	(6,435,083)	(8,045,299)	(1,027,431)
<b>Gross profit</b> . . . . .	1,128,085	1,216,197	1,364,832	174,297
Other income . . . . .	26,735	30,262	30,069	3,840
Other gains, net . . . . .	137,780	22,901	18,936	2,418
Selling and distribution costs . . . . .	(66,537)	(50,507)	(57,270)	(7,314)
Administrative expenses . . . . .	(301,650)	(307,497)	(364,847)	(46,593)
Reversal of impairment losses on oil and gas properties under property, plant and equipment . . . . .	52,003	4,402	—	—
<b>Operating profit</b> . . . . .	976,416	915,758	991,720	126,648
Finance income . . . . .	83,310	101,741	146,818	18,750
Finance costs . . . . .	(201,946)	(203,677)	(206,712)	(26,398)
Share of losses of investments accounted for using the equity method . . . . .	(15,651)	(2,356)	(3,300)	(421)
<b>Profit before taxation</b> . . . . .	842,129	811,466	928,526	118,579
Taxation . . . . .	(184,461)	(188,527)	(250,301)	(31,965)
<b>Profit for the year</b> . . . . .	657,668	622,939	678,225	86,614
Other comprehensive (loss)/income:				
<i>Items that may be reclassified to profit or loss</i>				
Release of exchange reserve upon disposal of a subsidiary . . . . .	4,456	—	—	—
Currency translation differences . . . . .	(401,693)	482,811	(539,424)	(68,888)
Change in value of available-for-sale financial assets . . . . .	1,820	40,296	—	—
Change in value of debt investments at fair value through other comprehensive income . . . . .	—	—	(51,267)	(6,547)
<i>Items that will not be reclassified to profit or loss</i>				
Change in value of equity investments at fair value through other comprehensive income . . . . .	—	—	(4,830)	(617)
Other comprehensive (loss)/income for the year, net of tax . . . . .	(395,417)	523,107	(595,521)	(76,052)
<b>Total comprehensive income for the year</b> . . . . .	<u>262,251</u>	<u>1,146,046</u>	<u>82,704</u>	<u>10,562</u>
Profit attributable to:				
Owners of the Company . . . . .	311,791	250,467	281,904	36,001
Non-controlling interests . . . . .	345,877	372,472	396,321	50,613
	<u>657,668</u>	<u>622,939</u>	<u>678,225</u>	<u>86,614</u>

## OTHER FINANCIAL DATA (UNAUDITED)

	As of/For the year ended December 31,			
	2016	2017	2018	
	<i>(HK\$ in thousands,</i>			<i>(US\$'000)</i>
	<i>except for percentages and ratios)</i>			
<b>EBITDA<sup>(1)</sup></b>	1,204,465	1,348,509	1,462,278	186,740
<b>EBITDA margin<sup>(2)</sup></b>	18.7	17.6	15.5	15.5
<b>EBITDA/Gross interest expense<sup>(3)</sup></b>	3.9	4.4	4.8	4.8
<b>Total debt<sup>(4)</sup>/EBITDA</b>	4.5	4.2	4.5	4.5
<b>Net debt<sup>(5)</sup>/EBITDA</b>	2.9	2.5	2.7	2.7

### Notes:

- (1) We calculate EBITDA by adding depreciation, amortization, finance costs and share option on staff cost and subtracting interest income, reversal of impairment losses on oil and gas properties under property, plant and equipment, gains on disposals of an associate/a subsidiary and gain on bargain purchase from profit before taxation. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit attributable to shareholders or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. We have included EBITDA herein because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that the EBITDA as presented herein is calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes.

The following table reconciles our profit before taxation under HKFRS to our definition of EBITDA for the periods indicated.

	For the year ended December 31,			
	2016	2017	2018	
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(US\$'000)</i>
Profit before taxation	842,129	811,466	928,526	118,578
Add:				
Depreciation	415,992	428,491	470,165	60,043
Amortization	11,272	11,024	11,961	1,527
Finance costs	201,946	203,677	206,712	26,398
Share option on staff cost	3,441	3,753	3,953	505
Less:				
Interest income	83,310	101,741	146,818	18,750
Reversal of impairment losses on oil and gas properties under property, plant and equipment	52,003	4,402	—	—
Gains on disposals of an associate/a subsidiary	124,199	3,759	—	—
Gain on bargain purchase	10,803	—	12,221	1,561
EBITDA	1,204,465	1,348,509	1,462,278	186,740

See "Description of the Notes—Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.

- (2) EBITDA margin is calculated by dividing EBITDA by revenue for the relevant period, expressed as a percentage.
- (3) Gross interest expense represents interest expense before capitalization. Gross interest expense is not a standard measure under HKFRS. Gross interest expense presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our gross interest expense to the gross interest expense provided by other companies because not all companies use the same definition. Investors should also note that the gross interest expense presented herein is calculated differently from Consolidated Interest Expense as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated Interest Expense is defined for purposes of the Indenture governing the Notes.
- (4) Total debt represents the sum of senior notes and long-term borrowings included in non-current liabilities and short-term borrowings included in current liabilities.
- (5) Net debt is calculated as total debt less cash and cash equivalents and time deposits with maturity over three months.

SELECTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of December 31,			
	2016	2017	2018	
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(US\$'000) (unaudited)
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment . . . . .	6,624,992	7,725,219	7,924,722	1,012,033
Exploration and evaluation assets . . . . .	213,548	215,189	182,981	23,368
Land use rights . . . . .	393,344	456,458	415,234	53,028
Intangible assets . . . . .	1,002,291	1,035,324	974,526	124,452
Investments accounted for using the equity method . . . . .	300,065	321,167	312,754	39,940
Financial assets at fair value through other comprehensive income . . . . .	—	—	439,120	56,078
Available-for-sale financial assets . . . . .	638,262	596,360	—	—
Other non-current assets . . . . .	792,258	956,763	1,063,841	135,859
Deferred tax assets . . . . .	19,510	4,796	7,646	976
	<u>9,984,270</u>	<u>11,311,276</u>	<u>11,320,824</u>	<u>1,445,734</u>
<b>Current assets</b>				
Inventories . . . . .	190,573	244,438	282,777	36,112
Contract assets, deposits, trade and other receivables . . . . .	1,516,892	1,596,734	1,751,116	223,628
Financial assets at fair value through profit or loss . . . . .	47,448	48,842	—	—
Current tax recoverable . . . . .	6,003	6,333	6,024	769
Time deposits with maturity over three months . . . . .	25,170	48,531	158,679	20,264
Cash and cash equivalents . . . . .	1,833,483	2,290,447	2,508,223	320,315
	<u>3,619,569</u>	<u>4,235,325</u>	<u>4,706,819</u>	<u>601,088</u>
<b>Total assets</b> . . . . .	<u>13,603,839</u>	<u>15,546,601</u>	<u>16,027,643</u>	<u>2,046,822</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables . . . . .	1,327,747	1,431,733	1,415,917	180,821
Contract liabilities/receipt in advance . . . . .	1,156,195	1,584,003	1,470,128	187,744
Short-term borrowings . . . . .	360,907	689,258	1,455,839	185,919
Current tax payable . . . . .	152,095	215,042	269,369	34,400
	<u>2,996,944</u>	<u>3,920,036</u>	<u>4,611,253</u>	<u>588,884</u>
<b>Non-current liabilities</b>				
Senior notes . . . . .	5,006,417	4,970,240	5,029,991	642,359
Long-term borrowings . . . . .	—	60,000	63,642	8,127
Deferred tax liabilities . . . . .	240,801	260,359	270,019	34,483
Other non-current liabilities . . . . .	108,723	130,311	140,678	17,965
	<u>5,355,941</u>	<u>5,420,910</u>	<u>5,504,330</u>	<u>702,934</u>
<b>Total liabilities</b> . . . . .	<u>8,352,885</u>	<u>9,340,946</u>	<u>10,115,583</u>	<u>1,291,818</u>
<b>Equity</b>				
<b>Equity attributable to owners of the Company</b>				
Share capital . . . . .	58,257	58,257	58,391	7,457
Reserves . . . . .	2,772,174	3,286,289	3,137,516	400,679
	<u>2,830,431</u>	<u>3,344,546</u>	<u>3,195,907</u>	<u>408,136</u>
Non-controlling interests . . . . .	2,420,523	2,861,109	2,716,153	346,868
<b>Total equity</b> . . . . .	<u>5,250,954</u>	<u>6,205,655</u>	<u>5,912,060</u>	<u>755,004</u>
<b>Total equity and liabilities</b> . . . . .	<u>13,603,839</u>	<u>15,546,601</u>	<u>16,027,643</u>	<u>2,046,822</u>

## RESULTS OF OPERATIONS

### 2018 Compared to 2017

#### *Revenue*

Our revenue increased by 23.0% from HK\$7,651.3 million in 2017 to HK\$9,410.1 million (US\$1201.7 million) in 2018. This increase was primarily attributed to the increase in total gas sales and transmission volume by 15% to 4,695 million m<sup>3</sup> in 2018.

**Sales and distribution of natural gas and other related products.** Revenue from sales and distribution of natural gas and other related products contributed to approximately 88.5% and 90.1% of our total revenue in 2017 and 2018, respectively. Revenue from sales and distribution of natural gas and other related products significantly increased from HK\$6,773.8 million in 2017 to HK\$8,475.9 million (US\$1,082.4 million) in 2018. The increase of revenue was mainly attributable to the increase in total gas sales and transmission volume by 15% to 4,695 million m<sup>3</sup> in 2018.

**Gas pipeline construction and connection services income.** Revenue from gas pipeline construction and connection services decreased by 1.4% from HK\$524.7 million in 2017 to HK\$517.4 million (US\$66.1 million) for 2018. This was mainly attributable to the decrease in construction income from commercial and industrial users.

**Exploitation and production of crude oil and natural gas.** Revenue from exploitation and production of crude oil and natural gas increased by 18.1% from HK\$352.8 million in 2017 to HK\$416.8 million (US\$53.2 million) for 2018. This was mainly due to an increase in the international crude oil price and an increase of production by 11% to 5,383 barrels of oil equivalent per day in 2018.

#### *Cost of sales*

Cost of sales increased by 25.0% from HK\$6,435.1 million in 2017 to HK\$8,045.3 million (US\$1,027.4 million) in 2018. This increase was primarily due to an increase in gas purchasing volume and city-gas price. Our cost of sales as a percentage of revenue in 2017 and 2018 maintained at approximately 84.1% and 85.5%, respectively.

#### *Gross profit*

As a result of the foregoing, gross profit increased by 12.2% from HK\$1,216.2 million in 2017 to HK\$1,364.8 million (US\$174.3 million) in 2018. Our gross profit margin in 2017 and 2018 maintained at approximately 15.9% and 14.5%, respectively.

#### *Other income*

Other income slightly decreased by 0.7% from HK\$30.3 million in 2017 to HK\$30.1 million (US\$3.8 million) in 2018.

#### *Other gains, net*

Other gains, net decreased by 17.5% to HK\$18.9 million (US\$2.4 million) in 2018 from HK\$22.9 million in 2017. Such decrease was primarily due to a decrease in gains on disposals of available-for-sale assets, partially offset by our gain on bargain purchase in connection with our acquisition of oil and gas assets in West Central Alberta, Canada in 2018.

### *Selling and distribution costs*

Our selling and distribution costs increased by 13.5% from HK\$50.5 million in 2017 to HK\$57.3 million (US\$7.3 million) in 2018. As we particularly focus on the effectiveness and appropriateness of sales strategies, we managed to control our selling and distribution costs at approximately 0.6% of total revenue for both 2017 and 2018.

### *Administrative expenses*

Administrative expenses increased by 18.6% from HK\$307.5 million in 2017 to HK\$364.8 million (US\$46.6 million) in 2018, primarily due to the increase in salaries and wages of our Group as a whole. As a result, we successfully curbed our administrative expenses at 4.0% of total revenue for both 2017 and 2018.

### *Reversal of impairment losses on oil and gas properties under property, plant and equipment*

We recorded a reversal of impairment losses on oil and gas properties under property, plant and equipment of HK\$4.4 million in 2017, primarily due to an increase of the international oil price.

### *Operating profit*

As a result of the foregoing, operating profit increased by 8.3% from HK\$915.8 million in 2017 to HK\$991.7 million (US\$126.6 million) in 2018.

### *Finance income*

Finance income increased by 44.3% from HK\$101.7 million in 2017 to HK\$146.8 million (US\$18.8 million) in 2018, which was primarily attributable to an increase in the amount of interest income on bank deposits, loan to an associate and debt investments at FVOCI in 2018 as compared to 2017.

### *Finance costs*

Finance costs increased by 1.5% from HK\$203.7 million in 2017 to HK\$206.7 million (US\$26.4 million) in 2018, which mainly resulted from an increase in interest expense on bank borrowings, partially offset by a decrease in interest expense on senior notes as our 2013 Notes matured in 2018. The weighted average cost of all indebtedness (including bank borrowings, other borrowings and senior notes) as of December 31, 2018 was 5.3% as compared to 5.4% in 2017.

### *Share of losses of investments accounted for using the equity method*

Share of losses of investments accounted for using the equity method increased by 37.5% to HK\$3.3 million (US\$0.5 million) in 2018 from HK\$2.4 million in 2017.

### *Profit before taxation*

As a result of the foregoing, our profit before taxation increased by 14.4% from HK\$811.5 million in 2017 to HK\$928.5 million (US\$118.6 million) in 2018.

### *Taxation*

Our taxation increased from HK\$188.5 million in 2017 to HK\$250.3 million (US\$32.0 million) in 2018, largely in line with the increase in our profit before taxation.

### *Profit for the year*

As a result of the foregoing, our profit for the year increased by 8.9% from HK\$622.9 million in 2017 to HK\$678.2 million (US\$86.6 million) in 2018.

### **2017 Compared to 2016**

#### *Revenue*

Our revenue increased by 18.7% from HK\$6,446.5 million in 2016 to HK\$7,651.3 million in 2017. This increase was primarily due to the growth in sales and transmission volume of natural gas.

**Sales and distribution of natural gas and other related products.** Revenue from sales and distribution of natural gas and other related products contributed to approximately 84.1% and 88.5% of our total revenue in 2016 and 2017, respectively. Revenue from sales and distribution of natural gas and other related products increased by 24.9% from HK\$5,424.1 million in 2016 to HK\$6,773.8 million in 2017, primarily due to our natural gas sales volume increased by 20% to 3,309 million m<sup>3</sup> in 2017.

**Gas pipeline construction and connection services income.** Revenue from gas pipeline construction and connection services decreased by 27.2% from HK\$721.0 million in 2016 to HK\$524.7 million for 2017. This was mainly due to the slowdown of property development in areas where we operated.

**Exploitation and production of crude oil and natural gas.** Revenue from exploitation and production of crude oil and natural gas increased by 17.1% from HK\$301.3 million in 2016 to HK\$352.8 million in 2017. This was mainly due to an increase of the international crude oil prices.

#### *Cost of sales*

Cost of sales increased by 21.0% from HK\$5,318.4 million in 2016 to HK\$6,435.1 million in 2017, mainly as a result of an increase in natural gas purchase due to an increase in sales volume. Our cost of sales as a percentage of revenue slightly increased from 82.5% in 2016 to 84.1% in 2017.

#### *Gross profit*

As a result of the foregoing, gross profit increased by 7.8% from HK\$1,128.1 million in 2016 to HK\$1,216.2 million in 2017. Our gross profit margin in 2016 and 2017 maintained at approximately 17.5% and 15.9%, respectively.

#### *Other income*

Other income increased by 13.5% from HK\$26.7 million in 2016 to HK\$30.3 million in 2017, primarily due to our dividend income of HK\$3.1 million in 2017.

#### *Other gains, net*

Other gains, net decreased by 83.4% to HK\$22.9 million in 2017 from HK\$137.8 million in 2016. Such decrease was primarily due to a decrease in gains on disposals of an associate/a subsidiary, partially offset by an increase in gains on disposals of available-for-sale financial assets.

### *Selling and distribution costs*

Selling and distribution costs decreased by 24.1% from HK\$66.5 million in 2016 to HK\$50.5 million in 2017 primarily due to our emphasis on the effectiveness and appropriateness of sales strategies.

### *Administrative expenses*

Administrative expenses increased by 1.9% from HK\$301.7 million in 2016 to HK\$307.5 million in 2017, primarily due to an increase in salaries and wages of our Group as a whole.

### *Reversal of impairment losses on oil and gas properties under property, plant and equipment*

We recorded a reversal of impairment losses on oil and gas properties under property, plant and equipment of HK\$4.4 million and HK\$52.0 million in 2017 and 2016, respectively, primarily due to an increase of the international crude oil prices.

### *Operating profit*

As a result of the foregoing, operating profit decreased by 6.2% from HK\$976.4 million in 2016 to HK\$915.8 million in 2017.

### *Finance income*

Finance income increased by 22.1% from HK\$83.3 million in 2016 to HK\$101.7 million in 2017, primarily attributable to an increase in interest income on bank deposits.

### *Finance costs*

Finance costs increased slightly from HK\$201.9 million in 2016 to HK\$203.7 million in 2017.

### *Share of losses of investments accounted for using the equity method*

Share of losses of investments accounted for using the equity method decrease by 84.7% to HK\$2.4 million in 2017 from HK\$15.7 million in 2016.

### *Profit before taxation*

As a result of the foregoing, our profit before taxation slightly decreased by 3.6% from HK\$842.1 million in 2016 to HK\$811.5 million in 2017.

### *Taxation*

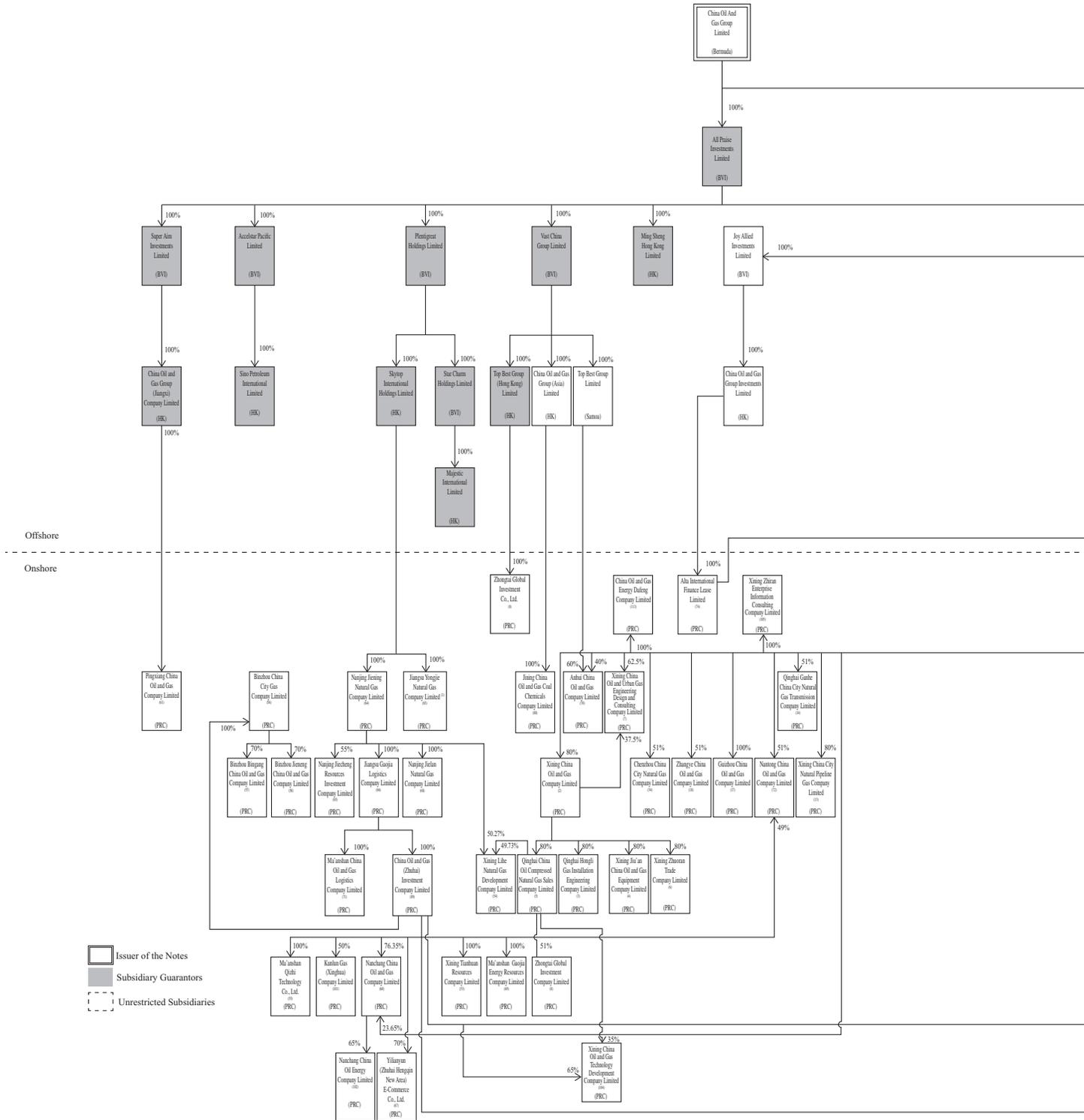
Our taxation increased by 2.2% from HK\$184.5 million in 2016 to HK\$188.5 million in 2017, primarily due to an increase in deferred tax liabilities, partially offset by a decrease in income tax.

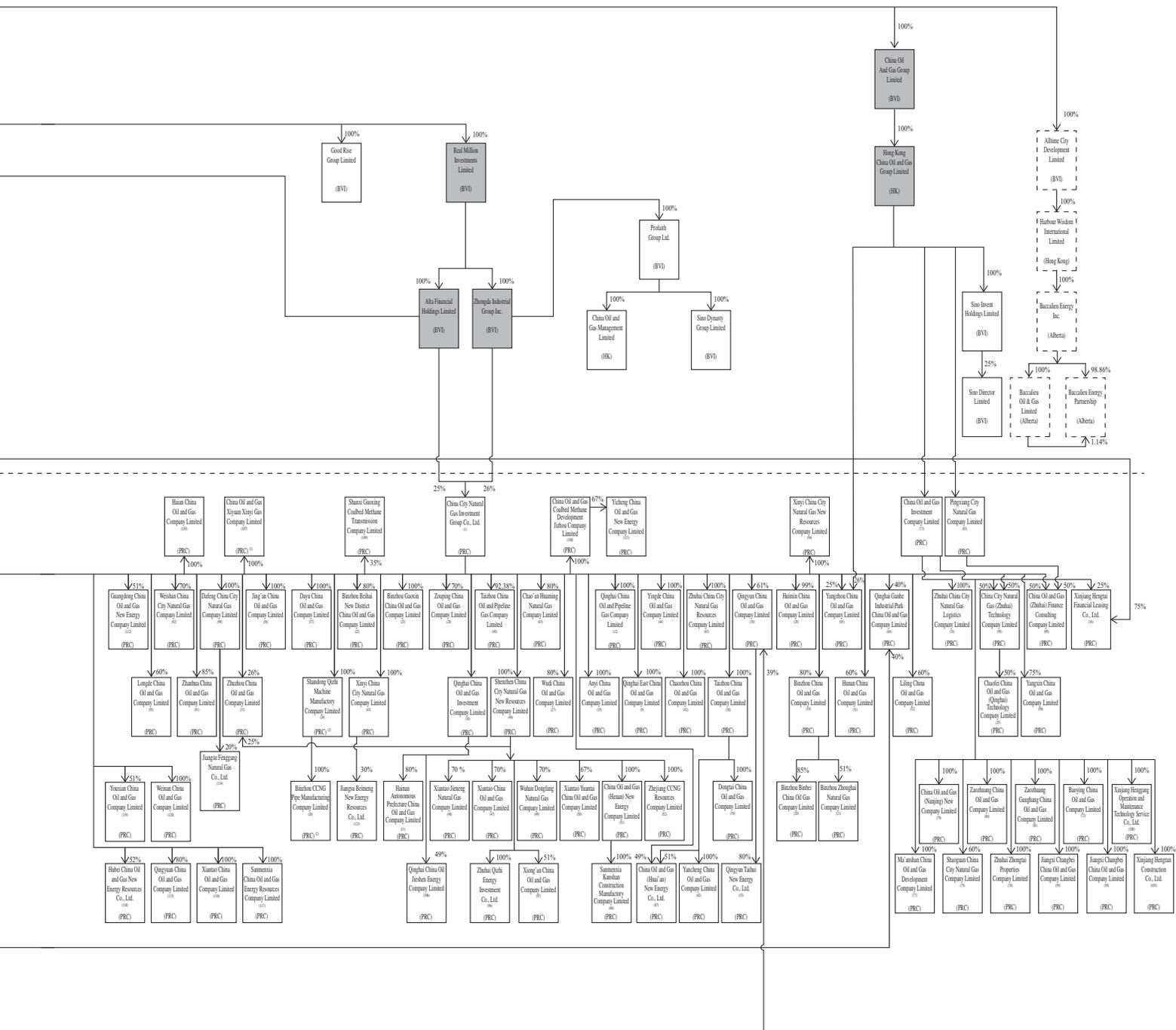
### *Profit for the year*

As a result of the foregoing, our profit for the year slightly decreased by 5.3% from HK\$657.7 million in 2016 to HK\$622.9 million in 2017.

# CORPORATE STRUCTURE

The following chart sets forth our corporate structure as of the date of this offering memorandum:





Notes:  
 (1) These companies are currently under cancellation of business registration.  
 (2) These companies will be merged to the parent company.

The Chinese names of the PRC entities in the corporate chart are as follows:

- (1) 中油中泰燃氣投資集團有限公司
- (2) 西寧中油燃氣有限責任公司
- (3) 青海宏利燃氣管道安裝工程有限責任公司
- (4) 西寧中油久安燃氣設備有限公司
- (5) 青海中油壓縮天然氣銷售有限公司
- (6) 西寧卓然商貿有限公司
- (7) 西寧中油城市燃氣工程設計諮詢有限公司
- (8) 中泰環球投資有限公司
- (9) 青海東部中油燃氣有限公司
- (10) 青海中油燃氣投資有限責任公司
- (11) 海南海州中油燃氣有限責任公司
- (12) 青海中油管道燃氣有限公司
- (13) 西寧中油中泰管道燃氣有限公司
- (14) 青海甘河中油中泰燃氣管輸有限公司
- (15) 慶雲泰惠新能源有限公司
- (16) 新疆恒泰融資租賃有限公司
- (17) 貴州中油燃氣有限公司
- (18) 張掖中油燃氣有限公司
- (19) 濱州中油燃氣有限責任公司
- (20) 濱州中油燃氣濱北有限責任公司
- (21) 濱州市中海燃氣有限公司
- (22) 濱州北海新區中油燃氣有限公司
- (23) 濱州中油燃氣高新有限責任公司
- (24) 山東齊智燃氣設備製造有限責任公司
- (25) 青海中油超飛信息技術有限公司
- (26) 濱州中油中泰管業有限公司
- (27) 無棣中油燃氣有限責任公司
- (28) 鄒平中油燃氣有限責任公司
- (29) 惠民中油燃氣有限責任公司
- (30) 慶雲中油燃氣有限責任公司
- (31) 湖南中油燃氣有限責任公司
- (32) 醴陵中油燃氣有限責任公司
- (33) 株州中油燃氣有限公司
- (34) 中油中泰(郴州)天然氣有限公司
- (35) 安義中油燃氣有限責任公司
- (36) 靖安中油燃氣有限責任公司
- (37) 大余中油燃氣有限責任公司
- (38) 泰州中油燃氣有限責任公司
- (39) 東台中油燃氣有限公司
- (40) 泰州中油管輸天然氣有限公司
- (41) 中油中泰新沂燃氣有限公司
- (42) 潮州中油燃氣有限公司
- (43) 潮州市潮安區華明燃氣有限公司
- (44) 英德中油燃氣有限公司
- (45) 中油中泰能源(珠海)有限公司
- (46) 中油中泰(深圳)新能源有限公司
- (47) 仙桃中油燃氣有限責任公司
- (48) 仙桃市潔能天然氣有限公司
- (49) 武漢市東方天然氣有限責任公司
- (50) 仙桃源泰中油燃氣有限公司
- (51) 中油中泰(河南)新能源有限公司
- (52) 浙江中油中泰能源有限公司
- (53) 西寧市天環能源有限公司
- (54) 西寧利和天然氣開發有限公司
- (55) 馬鞍山齊智科技有限公司
- (56) 濱州中油中泰燃氣有限公司
- (57) 濱州中油濱港燃氣有限公司
- (58) 濱州中油潔能燃氣有限公司
- (59) 江西昌北中油燃氣有限責任公司
- (60) 南昌中油燃氣有限責任公司
- (61) 萍鄉中油燃氣有限公司
- (62) 鹽城中油中泰燃氣有限公司
- (63) 江蘇永潔燃氣有限公司
- (64) 南京潔寧燃氣有限公司
- (65) 南京潔城能源投資有限公司
- (66) 江蘇高佳物流有限公司
- (67) 易聯雲(珠海市橫琴新區)電子商務有限公司
- (68) 南京潔藍燃氣有限公司
- (69) 馬鞍山高佳能源有限公司
- (70) 安徽中油燃氣有限公司
- (71) 馬鞍山中油燃氣物流有限公司
- (72) 寶應中油燃氣有限公司
- (73) 中油燃氣投資集團有限公司
- (74) 恆泰國際融資租賃有限公司
- (75) 韶關中油中泰燃氣有限公司
- (76) 中油中泰物流(珠海)有限公司
- (77) 馬鞍山中油燃氣開發有限公司
- (78) 珠海中泰置業有限公司
- (79) 中油燃氣(南京)有限公司
- (80) 棗莊中油燃氣有限公司
- (81) 棗莊中油港航燃氣有限公司
- (82) 江蘇北盟新能源科技有限公司
- (83) 萍鄉市燃氣有限公司
- (84) 青海中油甘河工業園區燃氣有限公司
- (85) 揚州中油燃氣有限責任公司
- (86) 三門峽昆山工程設備有限公司
- (87) 中油中泰(淮安)新能源有限公司
- (88) 濟寧中泰煤化有限公司
- (89) 中油燃氣(珠海)投資有限公司
- (90) 中油中泰大豐燃氣有限公司
- (91) 沾化中油燃氣有限責任公司
- (92) 中油中泰(微山)燃氣有限公司
- (93) 隆德中油燃氣有限公司
- (94) 中油中泰新沂新能源有限公司
- (95) 中油中泰(珠海)科技有限公司
- (96) 珠海齊智能源投資有限公司

- (97) 中油中泰河北雄安燃氣有限公司
- (98) 陽新中油燃氣有限公司
- (99) 中油燃氣(珠海)財務金融諮詢有限公司
- (100) 新疆恒港運維技術服務有限公司
- (101) 昆侖燃氣(興化)有限公司
- (102) 南昌中油能源有限責任公司
- (103) 新疆恒燃工程建設有限公司
- (104) 西寧中油燃氣技術開發有限公司
- (105) 西寧智然人力資源服務有限公司
- (106) 青海中油潔神能源有限責任公司
- (107) 中油中泰錫園新沂燃氣有限公司
- (108) 中油中泰煤層氣利用吉州有限責任公司
- (109) 山西國興煤層氣輸配有限公司
- (110) 海安中油燃氣有限責任公司
- (111) 中油中泰能源大豐有限公司
- (112) 廣東中油中泰新能源有限公司
- (113) 翼城中油中泰新能源有限責任公司
- (114) 江蘇豐港天然氣有限公司
- (115) 青遠中油中泰燃氣有限公司
- (116) 仙桃中泰燃氣有限公司
- (117) 三門峽中油中泰能源有限公司
- (118) 湖北中油中泰新能源有限公司
- (119) 攸縣中油中泰燃氣有限公司
- (120) 渭南中油中泰燃氣有限公司

## BUSINESS

### OVERVIEW

We are a national piped gas operator in China focused on providing natural gas to end customers through the operation of our own natural gas branch pipelines and city-gas distribution networks. We also operate LNG processing plants, transport and distribute LNG and CNG, build and operate vehicle refueling stations and design and construct natural gas pipelines. We have traditionally operated in the midstream and downstream natural gas market segments in China, particularly in the construction and operation of natural gas branch pipelines and city-gas distribution networks. We have an established portfolio of branch pipelines and city-gas concession rights over an extensive geographic area in China. As of December 31, 2018, we had business operations in 15 provinces and one autonomous region.

In the midstream market segment, we design and construct branch pipelines, transmit natural gas through our branch pipelines mainly to our downstream city-gas distribution networks or to other downstream distributors, and operate our transportation fleet as well as our LNG processing plants and CNG primary stations. As of December 31, 2018, we operated natural gas branch pipelines in Qinghai, Guangdong, Hunan, Jiangsu, Jiangxi, Shandong, Hubei, Guizhou and Anhui Provinces (as well as Shanxi Province through a joint venture in which we hold a minority equity interest) with an aggregate length of 1,087 k.m. and a total designed transmission capacity of over 12.6 billion m<sup>3</sup> per year, two LNG processing plants in Qinghai Province with a total designed daily processing production capacity of 450,000 m<sup>3</sup> and eight CNG primary stations with a designed daily production capacity of 735,000 m<sup>3</sup>. As of the same date, we also operated a fleet of 100 LNG and CNG logistics vehicles mainly to deliver natural gas to areas not yet covered by our city-gas distribution networks.

In the downstream market segment, we sell and distribute natural gas to our customers through our city-gas distribution networks and our LNG and CNG refueling stations. As of December 31, 2018, through our 71 city-gas concession rights and 11,423 k.m. of city-gas distribution networks, we were connected to approximately 1,343,844 residential users and 11,812 industrial, commercial and other users. As of the same date, we operated 55 natural gas refueling stations, comprising eight CNG primary stations, 31 CNG refueling stations, 10 LNG refueling stations and six LCNG refueling stations. In 2016, 2017 and 2018, our total volume of natural gas sold was 2,769 million m<sup>3</sup>, 3,309 million m<sup>3</sup> and 3,725 million m<sup>3</sup>, respectively. We also derive revenue from connection fees for connecting customers to our city-gas distribution networks.

In June 2014, we acquired Baccalieu Energy Inc., a Canadian oil and gas producer focused on the highly economic Cardium light oil resources in west central Alberta, Canada. Through the acquisition, we gained an upstream business segment based in North America. For the year ended December 31, 2018, our revenue contributed by Baccalieu Energy Inc. reached HK\$416.8 million (US\$53.2 million). In August 2018, we completed a business acquisition of oil and gas assets in West Central Alberta, Canada from an independent third party. For the year ended December 31, 2018, the acquired business contributed revenues of HK\$7.3 million (US\$0.9 million). Our upstream oil and gas business accounted for 4.4% of our total revenue in 2018. As of the same date, Baccalieu Energy Inc. had proved reserves of approximately 24.8 million barrels of oil equivalent and proved plus probable reserves of approximately 39.0 million barrels of oil equivalent. In 2018, the average daily production of our Canadian business reached 5,383 barrels of oil equivalent.

We procure most of our piped natural gas supply in China from PetroChina Group. In addition, we have in recent years begun to procure CBM from PetroChina Coalbed Methane, a subsidiary of PetroChina, and Sinopec Eastern China as a complementary natural gas source. We have not imported natural gas from our Baccalieu units in Alberta, Canada, but we believe there is significant potential for vertical integration in the future and diversification of our supply of natural gas.

We have recorded notable revenue and profit in recent years. In 2016, 2017 and 2018, we recorded revenue of HK\$6,446.5 million, HK\$7,651.3 million and HK\$9,410.1 million (US\$1,201.7 million), respectively. In the same years, we recorded profit for the year of HK\$657.7 million, HK\$622.9 million and HK\$678.2 million (US\$86.6 million), respectively.

## **COMPETITIVE STRENGTHS**

We believe we have the following competitive strengths:

### **Well-positioned in the fast-growing natural gas industry in China, which enjoys strong government support**

According to the BP Statistical Review of World Energy June 2018, China's natural gas consumption grew from 57.8 bcm/year in 2006 to 240.4 bcm/year in 2017, representing a CAGR of 13.8%. Despite such growth, natural gas accounted for only 6.6% of China's primary energy consumption in 2017, as compared to a global average of 25.0% which we believe indicates there is still considerable room for continued growth in China's natural gas consumption. The Chinese government stated its intention to increase this proportion up to 10.0% by 2020 in its Energy Development 13th Five-Year Plan.

In addition, China announced that it plans to reduce China's carbon dioxide emissions per unit of GDP by another 18% from 2015 levels by 2020. In 2017, coal, a fossil fuel with a significantly higher level of carbon dioxide emissions than natural gas, accounted for 60.4% of China's primary energy consumption. The rapid expansion of natural gas infrastructure, such as the continuing construction of major natural gas trunk pipelines, underpins the Chinese government's commitment to accelerate the transition from coal to cleaner burning fuels such as natural gas in order to reduce carbon dioxide emissions.

Our natural gas business covers an extensive geographic area in China, which has enabled us to take advantage of the favorable policies of the local governments of different locations. We believe we are well positioned to capitalize on the growth opportunities in the fast growing natural gas sector. Moreover, we believe China's strong government support of the natural gas market, together with continued economic development, urbanization and increased standards of living in the country, will bolster our expansion in the natural gas market in China.

### **Monopolistic nature of the natural gas industry**

Much of the midstream and downstream segments of the natural gas industry in China are subject to natural monopolies. Transmission pipelines and city-gas distribution networks form a key part of energy infrastructure in China, and any duplication in their construction would be highly inefficient. Therefore, they are typically operated by a single or a limited number of operators in a given region. For example, since 2004, city-gas projects in China have been required to operate with concession rights granted by local governments, which are in practice exclusive rights. Such concession rights last for periods of up to

50 years, endowing the operator with a long-term monopolistic position. In the case of branch pipelines, local governments generally avoid granting rights to build more than one such pipeline in the same location to avoid the duplication of resources.

The monopolistic nature of concession rights provides us with competitive and incumbency advantages in maintaining and expanding our business. In particular, in Qinghai Province, the largest contributor to our natural gas sales volume, we enjoy a substantial market share, primarily due to our concession rights in many of the major regions of the province, such as Xining, the provincial capital, as well as Ping'an County and Gonghe County.

**Strategic partnership with PetroChina, its parent company, CNPC, and Sinopec Eastern China, which provides us with a stable supply of natural gas and unconventional gas**

Our relationship with PetroChina and CNPC traces back to the establishment of our natural gas business in 2002. Through our extensive operational experience in locations across China, we have built up a strong, long-term strategic partnership with PetroChina. We cooperate with PetroChina Group and CNPC in many aspects of our business operations, including, among others:

- *Joint Venture Arrangements.* A key part of our strategic partnership with PetroChina is CCNG, a joint venture established in 2002, in which we hold a 51% equity interest and Kunlun Energy, a subsidiary of PetroChina, holds the remaining 49%. In 2016, 2017 and 2018, CCNG Group contributed 78.4%, 81.1% and 79.6% of our revenue from sales and distribution of natural gas and other related products. In 2011, CCNG acquired a 35% equity interest in Shanxi Guoxing from Kunlun Energy to support our CBM transmission and distribution business. Shanxi Guoxing commenced operations in the first half of 2013. We believe that the support and contribution of our joint venture partners have enabled us to achieve our past success and will continue to enable us to pursue business opportunities that may not otherwise be available to us at attractive valuations or at all.
- *Stable Gas Supply.* We have entered into several long-term procurement framework agreements with PetroChina Group and procure most of our piped natural gas supply from PetroChina. In January 2010, CCNG entered into a strategic cooperation framework agreement with PetroChina Coalbed Methane, a subsidiary of PetroChina, to procure CBM as a complementary source of natural gas supply. We believe our strategic partnership with PetroChina has provided us with a stable supply of natural gas, which gives us a competitive advantage when we apply for concession rights to local governments or when we negotiate tariffs with industrial and commercial customers since both local governments and industrial and commercial customers typically favor natural gas operators with stable supply of natural gas.

In addition, we have entered into a strategic cooperative agreement with Sinopec Eastern China, pursuant to which we are to cooperate on unconventional gas sales, natural gas sales and upstream exploration and development business.

We believe our long-term strategic partnership with PetroChina, CNPC and Sinopec Eastern China provides strong support for our future development and positions us to capture growth in demand for natural gas in China.

## **City-gas distribution networks strategically located in geographically diverse regions**

A substantial portion of our business is conducted in Qinghai Province, a strategically important region for natural gas operators. Qinghai Province is rich in natural gas resources, and the close proximity of our city-gas projects in Qinghai Province to such natural gas resources reduces our procurement costs of natural gas. In addition, Qinghai Province is part of China's Western Development Plan implemented in 1999. As such, some of our subsidiaries in Qinghai Province and Hunan Province have enjoyed a preferential income tax rate of 15% and one company in Qinghai Province currently enjoys a preferential income tax rate of 10%, much lower than the standard PRC corporate income tax rate of 25%. In recent years, we have diversified our operations by expanding into additional strategically important regions to reduce our degree of business concentration. For example, we expanded our geographic presence in China from four provinces as of December 31, 2007, comprising Qinghai, Hunan, Anhui and Shandong Provinces, to 15 provinces and one autonomous region as of December 31, 2018, with the addition of Shanxi, Jiangxi, Hubei, Guangdong, Jiangsu, Gansu, Zhejiang, Guizhou, Henan, Shaanxi, and Xinjiang Provinces and Ningxia Hui Autonomous Region.

We believe we have business presence in a diverse array of geographical areas, including highly industrialized, emerging high-growth and highly urbanized provinces or regions. For example, according to the China Statistical Yearbook (2017) published by the National Bureau of Statistics of China, in 2017, each of Jiangsu, Zhejiang, Guangdong, Shandong and Hubei Provinces had a GDP per capita higher than the national average of RMB59,201. These economically established provinces have high industrialization rates, which generally lead to a higher demand for natural gas than other regions, primarily due to heating and other urban activities. Moreover, according to the China Statistical Yearbook (2017), from 2012 to 2017, each of Guizhou, Jiangsu, Hubei, Jiangxi, Anhui, Guangdong and Shaanxi Provinces had a GDP per capita CAGR higher than the national average of 8.2%. We believe these emerging high-growth provinces provide a potential for expansion of natural gas use and create opportunities for the growth of our business. Further, according to the China Statistical Yearbook (2017), in 2017, each of Guangdong, Jiangsu, Zhejiang, Shandong and Hubei Provinces had an urban population percentage higher than the national average of 58.5%. Urban populations tend to have higher demand for natural gas than rural populations, and we believe the high degree of urbanization in these provinces will be an important factor driving our future growth. Finally, according to the China Statistical Yearbook (2017), in 2017, each of Shaanxi, Jiangxi, Anhui, Henan, Ningxia, Shandong, Jiangsu, Qinghai, Shanxi, Hubei, Zhejiang, and Guangdong Provinces had a percentage GDP contribution from industrial activities higher than the national average of 40.5%. We believe our business presence in these regions gives us access to a large number of potential industrial customers. Historically, industrial and commercial customers contributed the largest portion of our natural gas sales revenue.

We believe our city-gas distribution networks strategically located in geographically diverse regions will enable us to access a wide customer base and facilitate our continued growth and expansion.

## **Healthy financial metrics and stable margins underpinned by attractive customer mix and diversified customer base**

We believe we have an attractive customer mix of both industrial and commercial customers and residential customers. Our sales to industrial and commercial customers accounted for 57.7%, 64.5% and 64.2% of our total gas sales volume in 2016, 2017 and 2018, respectively. Sales to industrial and commercial customers typically generate higher margins than sales to residential customers, primarily because we can pass through increases in our procurement costs of natural gas by negotiating a higher tariff with industrial and commercial customers, whereas tariffs we charge our residential customers are

strictly regulated by relevant PRC governmental authorities. Sales to our residential customers, on the other hand, provide us with a stable income stream and margins since they are typically less susceptible to changes in economic conditions.

We also have a diversified customer base. We do not depend on a limited number of key customers. In 2016, 2017 and 2018, sales to our top ten customers in the PRC accounted for 13.2%, 16.8% and 13.9% of our revenue, respectively. In addition, our commercial and industrial customers span a wide variety of industries including manufacturing, public service, energy, chemicals and vehicle refueling stations. As such, we are less susceptible to any downturn in a single industry that may otherwise materially and adversely affect our business, financial condition and results of operations. We believe our diversified customer base gives us a competitive advantage over other natural gas operators with a more concentrated customer base.

We believe our attractive customer mix and diversified customer base have led to our past success and will continue to enable us to maintain healthy financial metrics and stable margins and achieve growth going forward. Our gross profit increased by 7.8% from HK\$1,128.1 million in 2016 to HK\$1,216.2 million in 2017 and grew by 12.2% to HK\$1,364.8 million (US\$174.3 million) in 2018. In 2016, 2017 and 2018, we recorded a gross profit margin of 17.5%, 15.9% and 14.5%, respectively.

### **Experienced management team with a strong performance track record**

We have been in the natural gas business in China for more than fifteen years, and each of the senior members of our management team has more than 12 years of industry experience. Our experienced management team has developed strong working relationships with local governments and business partners and have accumulated extensive experience in, and substantial understanding of, the regions in which we operate and each of the key market segments of the natural gas industry in China. See “Management.” Our experienced management team has helped us achieve prudent growth. In 2016, 2017 and 2018, we recorded net cash flows from operating activities of HK\$1,289.5 million, HK\$1,385.8 million and HK\$1,272.4 million (US\$162.5 million), respectively. We believe our management’s expertise, market knowledge and strong performance track record give us a significant competitive advantage over our existing competitors and new market entrants.

## **BUSINESS STRATEGIES**

We intend to grow and strengthen our business through the implementation of the following core business strategies:

### **Capitalize on opportunities to further expand our city-gas business**

As a result of the Chinese government’s continued focus on increasing the supply and consumption of cleaner-burning energy sources such as natural gas, we believe the prospect for the natural gas market is promising and will present new business opportunities. We plan to capitalize on such new opportunities to further develop our city-gas business.

In particular, we plan to embark on a two-pronged strategy of new market development and increasing penetration of our existing markets. For instance, we entered the market in Gansu and Guizhou Provinces after the China-Myanmar Pipeline and West-to-East Gas Pipeline 3 started operation. With the new Guangdong-Zhejiang Pipeline of Sinopec and the expansion of the West-to-East Pipeline of PetroChina, we plan to expand to the Fujian and Zhejiang markets. We plan to seek opportunities to

broaden our operations into CBM, shale gas and gas storage. Provinces may also open up in future for the supply of gas transmitted via these trunk pipelines. We expect that these trunk pipelines will increase natural gas supply to these regions.

We also expect that our existing markets, such as Qinghai Province, will continue to contribute a significant portion of our natural gas sales volume. We aim to increase our natural gas sales volume in Qinghai Province by leveraging potential population growth in Xining and attracting more industrial customers from the industrialization in Qinghai Province that we expect to continue.

We also aim to increase our total natural gas sales volume by increasing customer numbers, obtaining new city-gas concession rights and expanding the total length of our city-gas pipeline networks.

### **Proactively develop our LNG and CNG business**

As of December 31, 2018, we operated two LNG processing plants in Qinghai Province with a total designed daily processing capacity of 450,000 m<sup>3</sup>, a transportation fleet of 100 LNG and CNG vehicles and 55 LNG, CNG and LCNG gas stations, allowing us to reach customers who are not connected to existing natural gas pipelines.

Due to its high energy density, relatively low cost and environmental benefits, LNG is becoming increasingly popular in China. In recent years, the PRC government has been increasingly focused on reducing pollution, including air pollution from vehicle emissions, and has been encouraging the use of cleaner non-oil and non-coal energy such as natural gas, as indicated in the Chinese government's 13th Five-Year Plan. Some cities offer subsidies to vehicle owners who convert their vehicles to use natural gas as fuel. As a result, an increasing number of drivers have converted their vehicles to use LNG or CNG. We believe that as a result of such and other environmental protection initiatives and the continued increase in the number of vehicles in China, the demand for LNG and CNG from vehicle owners as an alternative energy source will continue to grow.

To capitalize on such expected growth in demand, we plan to leverage our existing LNG and CNG assets and our experience in the natural gas industry to actively pursue the business of LNG and CNG conversions for vehicles and vessels and to further expand our LNG processing, distribution and transportation capabilities, including by increasing the size of our transportation fleet of LNG and CNG vehicles and the number of our LNG, CNG and LCNG gas stations.

### **Build new branch pipelines and procure CBM to leverage new gas sources**

We plan to accelerate our construction of new branch pipelines so as to keep pace with the construction of new national natural gas trunk pipelines over the next few years. The West-to-East Line 3 has been commissioned in late 2016 and accordingly to industry sources, the Shaanxi-Beijing Gas Pipeline IV has been commissioned by the end of 2017. We expect this to provide us with access to new natural gas sources in Central Asia and the western regions of China, and we aim to build our own new branch pipelines connected to these new trunk pipelines. Owning such branch pipelines enables us to offtake gas from natural gas suppliers for transmission to and distribution by our own city-gas distribution networks, and also enables us to act as a wholesale distributor to transmit gas from upstream suppliers to external downstream city-gas distributors, which generates additional and stable gas transmission revenue. In addition, branch pipeline ownership generally offers competitive advantages in the relevant region, which helps in securing new city-gas projects.

We also plan to continue to pursue complementary natural gas sources, such as CBM. We have in recent years begun to procure CBM from PetroChina Coalbed Methane. Since 2015 we have also procured CBM from Sinopec Eastern China. In 2011, CCNG acquired a 35% equity interest in Shanxi Guoxing from Kunlun Energy, which commenced operations in the first half of 2013 to support our CBM transmission and distribution business.

### **Maintain prudent financial policies and a proactive approach to our capital structure**

Our business expansion and development require sufficient and stable financing. We have, in the past, financed our growth through internal funds, borrowings and other funds raised from capital markets, such as the proceeds from the issuance of our shares. Our strategic partner, PetroChina, has also provided us with funds through joint venture arrangements and the CPHK Loan Facility. See “— Competitive Strengths — Strategic partnership with PetroChina and its parent company, CNPC, provides us with stable supply of natural gas and favorable financing arrangements.”

In addition, we plan to maintain our sound financial profile. We had cash and cash equivalents of HK\$1,833.5 million, HK\$2,290.4 million and HK\$2,508.2 million (US\$320.3 million) as of December 31, 2016, 2017 and 2018, respectively. As of the same dates, we had net current assets of HK\$622.6 million, HK\$315.3 million, HK\$95.6 million (US\$12.2 million), respectively. We believe we are in a strong financial position to support our growth and development for the foreseeable future. We will continue to closely monitor and manage our capital and cash positions, as well as our procurement costs, construction costs and other operating expenses.

We plan to continue to closely monitor the maturity profiles of our borrowings, take advantage of our diversified funding platforms and manage the level of our liquid assets to ensure the availability of sufficient cash flows to service our indebtedness and meet cash requirements arising from our business. We will remain disciplined in our capital commitments and proactive in managing our capital structure to meet our ongoing capital requirements.

### **Strengthen our strategic alliance with PetroChina Group and Sinopec Eastern China**

Through our extensive operational experience in locations across China, we have built up a deep and long-term relationship with PetroChina Group, which supplies most of the piped natural gas we sell to our customers, and Sinopec Eastern China, which supplies us unconventional gas and natural gas. We plan to continue to develop and grow our strategic alliance with PetroChina Group and Sinopec Eastern China in order to continue securing stable long-term supplies of natural gas for sale to our new and existing customers, thereby keeping pace with the continued expansion of our business and the expected increase in demand for natural gas from our customers.

### **Maintain a desirable balance between our Canadian upstream business and our established PRC midstream and downstream businesses and create synergies**

In June 2014, we acquired Baccalieu Energy Inc., an upstream oil and gas production business based in Alberta, Canada. In August 2018, we completed a business acquisition of oil and gas assets in West Central Alberta, Canada from an independent third party. We intend to maintain a desirable balance between our upstream assets in Canada and our established midstream and downstream operations in China. We intend to maintain continuity in the operations of the acquired business in the near future. We have kept the existing management in place and intend to continue to engage their services. At the same time, we intend to achieve synergies from our upstream assets in Canada and our established midstream and downstream operations in China. In view of sizeable gap between natural gas prices in Canada and China, we believe there is significant potential for profit in importing natural gas from Canada to China in the future.



## SUMMARY OF ASSETS AND OPERATIONAL DATA

### Natural gas branch pipelines

We operate our branch pipelines mainly through CCNG and its subsidiaries. The table below sets forth certain information relating to our natural gas branch pipelines in operation as of December 31, 2018:

#### Gas source

No.	Pipeline name	Location	COD <sup>(1)</sup>	Trunk pipeline	Total length (k.m.)	Designed transmission capacity (million m <sup>3</sup> /year)	Designed pressure (MPa)
A1	Western regional branch pipelines	Qinghai (Xining, Ganhe, eastern Qinghai), Shanxi <sup>(2)</sup> , Gansu	April 2006	Se-Ning-Lan Line; Sha'an-Jing Line 2 & 3; West-to-East Line 3	397	7,250	4-6.4
A2	Hunan regional branch pipelines	Hunan (Liling, Xiangtan)	April 2006	Zhong-Wu Line; West-to-East Line 2	218	600	6.4
A3	Jiangxi regional branch pipelines	Jiangxi (Anyi, Nanchang, Pingxiang)	September 2011 (Anyi and Nanchang); September 2012 (Pingxiang)	West-to-East Line 2	88	500	4.0
A4	Jiangsu Taizhou regional branch pipelines	Jiangsu (Taizhou — Jiangyan — Dainan)	End of 2011	West-to-East Ji-Ning Line	88	500	4.0
A5	Jiangsu Nantong regional branch pipelines	Jiangsu (Rugao — Hai'an)	July 2011	West-to-East Ji-Ning Line	58	800	4.0
A6	Jiangsu Jiangdu regional branch pipelines	Jiangsu (Jiangdu)	April 2011	West-to-East Ji-Ning Line	10	200	6.3
A7	Northern Jiangsu regional branch pipelines	Jiangsu (Xinyi)	End of 2012 and early 2013	West-to-East Ji-Ning Line	17	360	4.0
A8	Shandong regional branch pipelines	Shandong (Gaoqing-Binzhou, Hi & New-Tech District, Zouping Zhanhua)	October 2012	Cang-Zi Line	158	1,500	4.0
A9	Hubei regional branch pipelines	Hubei (Xiantao Wuhan)	October 2015	Xiaoqian Line	7	300	6.3
A10	Guizhou regional branch pipelines	Guizhou (Zunyi)	October 2014	Zhongwei-Guiyang Line	25	300	4.0
A11	Anhui regional branch pipelines	Anhui (Ma'anshan)	March 2007	West-to-East Line 1; Nan-Wu Line	1	150	4.0
A12	Shanxi regional branch pipelines	Shanxi (Jixian, Ningxiang)	December 2015	Yanchuannan Gas Field	21	180	6.4
<b>Total:</b>					<b>1,087</b>	<b>12,640</b>	

#### Notes:

- (1) Except for a portion of the western regional branch pipelines which were acquired by us in October 2008 and June 2011, all the branch pipelines set forth in this table above were constructed by us.
- (2) 35% owned by CCNG through Shanxi Guoxing.

## LNG processing plants

The table below sets forth certain information relating to our LNG processing plants as of December 31, 2018:

No.	Province	Plant name	COD	Processing capacity	Production in 2018	CCNG interest	Our effective interest
				(m <sup>3</sup> /day)	(m <sup>3</sup> )		
B1	Qinghai	Xining Zhongyou Chengxi LNG	November 2009	200,000	—	80%	40.8%
B2	Qinghai	Qinghai Zhongyou Chengdong LNG	December 2007, September 2008 and October 2012	250,000	38,187,852	100%	51%
<b>Total:</b>				<b>450,000</b>	<b>38,187,852</b>		

## Natural gas networks

The table below sets forth certain information relating to our natural gas networks as of December 31, 2018:

No.	Province	Location	No. of concession rights	Concession tenure	Concession end date	Pipeline length <sup>(1)</sup>	CCNG interest	Our effective interest
				(years)		(k.m.)		
C1	Guangdong	Zhuhai	—	—	—	21.0	0%	100%
C2	Qinghai	Xining	1	Long term	Long term	1,573.0	80%	41%
C3	Qinghai	Datong	1	30	September 19, 2047	—	—	—
C4	Qinghai	Xining	—	—	—	20.0	100%	51%
C5	Qinghai	Ganhe	1	Long term	Long term	56.0	40%	60%
C6	Qinghai	Ganhe	—	—	—	25.0	51%	26%
C7	Qinghai	Xining	1	—	—	89.4	100%	51%
C8	Qinghai	Huangyuan	1	Long term	Long term	198.7	80%	41%
C9	Qinghai	Gonghe	1	Long term	Long term	—	—	—
C10	Qinghai	Xining	1	5	November 20, 2022	—	—	—
C11	Qinghai	Xining	—	—	—	54.7	80%	41%
C12	Gansu	Zhangye	1	30	July 6, 2046	—	51%	26%
C13	Ningxia	Longde	1	30	June 23, 2043	1.0	60%	31%
C14	Shandong	Binzhou	1	Long term	Long term	1,834.3	80%	41%
C15	Shandong	Binzhou	1	20	March 19, 2030	—	51%	26%
C16	Shandong	Binzhou	—	—	—	—	68%	35%
C17	Shandong	Binzhou	1	30	April 16, 2040	99.2	100%	51%
C18	Shandong	Binzhou	—	—	—	—	100%	51%
C19	Shandong	Binzhou	1	Long term	Long term	42.4	80%	41%
C20	Shandong	Qingyun	1	50	April 4, 2052	254.7	61%	70%
C21	Shandong	Qingyun	1	50	September 25, 2063	—	—	—
C22	Shandong	Qingyun	1	50	October 8, 2063	—	—	—
C23	Shandong	Huimin	1	50	April 16, 2051	246.0	99%	50%
C24	Shandong	Wuli	1	Long term	Long term	—	80%	41%
C25	Shandong	Zouping	1	50	May 5, 2060	269.7	70%	36%
C26	Shandong	Zouping	1	Long term	Long term	—	—	—
C27	Shandong	Zouping	1	Long term	Long term	—	—	—
C28	Shandong	Zhanhua	1	30	October 3, 2042	8.5	85%	43%
C29	Hubei	Qichun	1	30	December 10, 2045	—	52%	27%
C30	Hubei	Xiantao	1	25	November 17, 2041	1,049.0	70%	36%
C31	Hubei	Xiantao	1	25	March 21, 2042	—	—	—
C32	Hubei	Xiantao	1	25	June 30, 2042	—	—	—
C33	Hubei	Xiantao	1	20	December 31, 2034	—	—	—
C34	Hubei	Xiantao	1	30	December 31, 2041	33.6	100%	51%

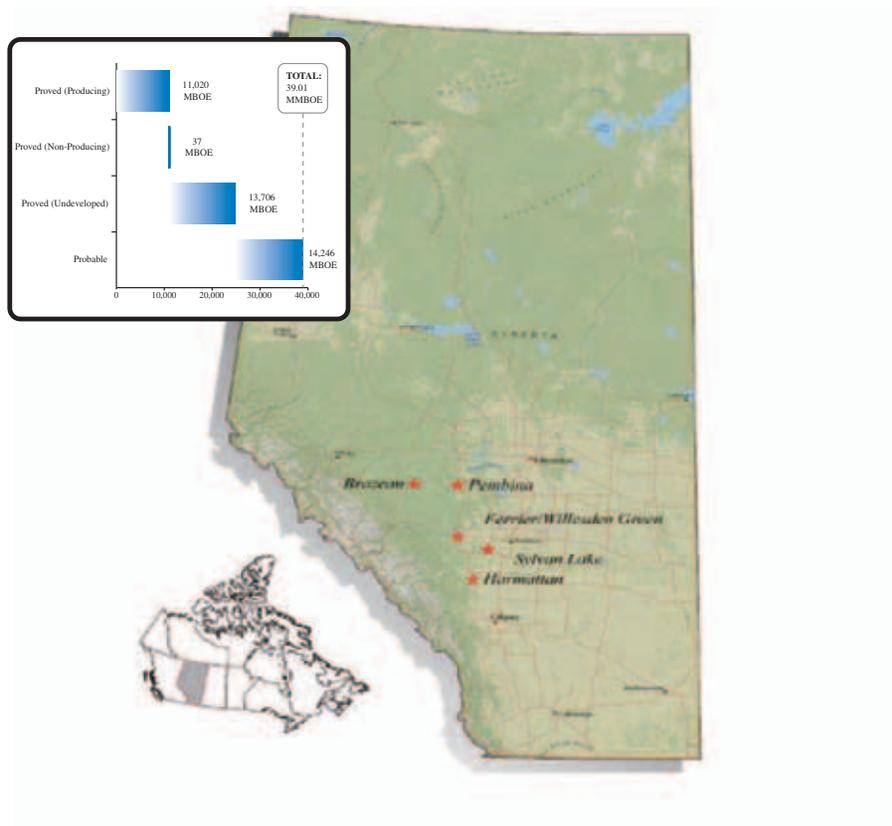
No.	Province	Location	No. of concession rights	Concession tenure	Concession end date	Pipeline length <sup>(1)</sup>	CCNG interest	Our effective interest
				(years)		(k.m.)		
C35	Hubei	Wuhan	1	30	November 11, 2033	785.5	70%	36%
C36	Hunan	Zhuzhou	1	30	July 26, 2042	189.4	51%	26%
C37	Hunan	Liling	1	30	September 10, 2042	1,525.6	60%	31%
C38	Hunan	Changsha	—	—	—	67.0	60%	31%
C39	Hunan	Chenzhou	1	Long term	Long term	—	51%	26%
C40	Jiangxi	Nanchang	1	50	August 22, 2051	178.9	24%	88%
C41	Jiangxi	Changbei	1	50	December 6, 2052	265.4	0%	100%
C42	Jiangxi	Anyi	1	30	May 7, 2039	266.8	100%	51%
C43	Jiangxi	Dayu	1	30	June 25, 2043	28.2	100%	51%
C44	Jiangxi	Jingan	1	30	September 20, 2041	61.4	100%	51%
C45	Jiangxi	Pingxiang	1	30	May 17, 2041	1,142.6	0%	51%
C46	Jiangxi	Pingxiang	1	Long term	Long term	—	—	—
C47	Jiangsu	Taizhou	1	30	August 17, 2044	301.4	100%	51%
C48	Jiangsu	Taizhou	1	30	July 31, 2036	—	—	—
C49	Jiangsu	Dongtai	1	30	December 8, 2042	6.1	100%	51%
C50	Jiangsu	Dongtai	1	25	April 7, 2041	—	—	—
C51	Jiangsu	Taizhou	—	—	—	76.0	92%	47%
C52	Jiangsu	Nantong	1	30	August 28, 2038	680.1	51%	75%
C53	Jiangsu	Haian	1	30	July 15, 2042	159.5	100%	51%
C54	Jiangsu	Xinyi	1	30	January 11, 2043	136.8	100%	51%
C55	Jiangsu	Xinyi	1	30	April 10, 2043	—	—	—
C56	Jiangsu	Xinyi	—	—	—	—	100%	51%
C57	Jiangsu	Huai'an	1	30	October 19, 2046	—	100%	51%
C58	Jiangsu	Dafeng	1	30	June 12, 2043	20.0	100%	51%
C59	Jiangsu	Yancheng	1	30	July 9, 2047	—	100%	51%
C60	Jiangsu	Yangzhou	1	30	April 9, 2044	97.7	25%	38%
C61	Jiangsu	Nanjing	1	30	August 31, 2041	258.5	0%	100%
C62	Jiangsu		1	30	December 27, 2037	—	—	—
C63	Jiangsu		1	30	December 30, 2039	—	—	—
C64	Jiangsu		1	50	February 4, 2060	—	—	—
C65	Jiangsu	Nanjing	1	30	September 8, 2045	25.5	0%	100%
C66	Jiangsu	Xinghua	—	—	—	37.4	0%	50%
C67	Jiangsu	Baoying	1	30	April 26, 2047	5.0	0%	100%
C68	Anhui	Anhui	—	—	—	0.8	40%	80%
C69	Anhui	Ma'anshan	1	30	April 16, 2041	32.3	0%	100%
C70	Guangdong	Yingde	1	30	August 20, 2038	34.3	100%	51%
C71	Guangdong	Chaozhou	1	30	December 7, 2038	82.0	100%	51%
C72	Guangdong	Chaozhou	1	30	December 7, 2038	—	80%	41%
C73	Guangdong	Yingde	1	25	October 27, 2040	12.8	51%	26%
C74	Jiangxi	Jizhou	1	30	June 30, 2041	28.2	100%	51%
C75	Shanxi	Jiaokou	1	Long term	Long term	103.8	35%	18%
C76	Shanxi	Shenchi	1	Long term	Long term	—	—	—
C77	Shanxi	Zhongyang	1	Long term	Long term	—	—	—
C78	Shanxi	Fangshan	1	Long term	Long term	—	—	—
C79	Shanxi	Liulin	1	Long term	Long term	—	—	—
C80	Shanxi	Lvliang	1	Long term	Long term	—	—	—
C81	Guizhou	Shangji	1	30	—	24.7	100%	51%
C82	Shaanxi	Weinan	1	30	October 17, 2048	—	100%	51%
Total:			<u>71<sup>(2)</sup></u>			<u>12,510</u>		

Notes:

- (1) The length of each pipeline may have been rounded up or down. Accordingly, actual pipeline length may differ from those contained herein and the total amount of pipeline length may not be equal to the apparent total of the individual items due to rounding.
- (2) On January 13, 2016, we disposed of our equity interest in Yinchuan Jingcheng China Oil and Gas Company Limited (銀川中油精誠燃氣有限公司), together with its long-term concession right to pipelines of 262 k.m in Yinchuan City, Ningxia Province. In 2018, we disposed four Guizhou concessions. We consolidated six concessions in Taizhou into one concession.

## Our Upstream Business in Canada

In June 2014, we, through one of our indirect wholly owned subsidiaries, acquired a 100% equity interest in Baccalieu Energy Inc., a Canadian oil and gas producer with operations in west central Alberta, Canada, at a consideration of C\$235.5 million. As of December 31, 2018, Baccalieu Energy Inc. held interests in 259 gross sections (approximately 664 square kilometers) of land, 49% of which was undeveloped and including 173 gross sections (approximately 443 square kilometers) with Cardium rights. Baccalieu Energy Inc. also owned and operated approximately 300 k.m. of oil and gas gathering systems, including 23 gross oil batteries with a combined capacity of approximately 2,100 m<sup>3</sup> per day and 15 gross gas compressors with approximately 1.0 million m<sup>3</sup> per day of combined capacity. These facilities are connected to third party gas processing plants. Baccalieu Energy Inc. had a total of 358 gross (226 net) oil and gas production wells. According to a reserve report prepared by GLJ Petroleum Consultants dated December 31, 2018, Baccalieu Energy Inc. had proved reserves of approximately 24.8 million barrels of oil equivalent, of which 60% was light oil and natural gas liquids and 40% was natural gas, and proved plus probable reserves of approximately 39 million barrels of oil equivalent, of which 58.5% was light oil and natural gas liquids and 41.5% was natural gas. In August 2018, we completed a business acquisition of certain oil and gas assets in West Central Alberta, Canada from an independent third party at cash consideration of C\$8,627,000 (US\$6,322,926). In 2018, the average daily production of our Canadian business reached 5,383 barrels of oil equivalent, of which 59% was light oil and natural gas liquids and 41% was natural gas.



## OUR MIDSTREAM AND DOWNSTREAM BUSINESS ACTIVITIES IN CHINA

The table below sets forth the highlights of our midstream and downstream business activities as of and for the years ended December 31, 2016, 2017 and 2018:

	As of/For the year ended December 31,		
	2016	2017	2018
Volume of gas sold by province/autonomous region (million m <sup>3</sup> ):			
Qinghai . . . . .	1,284	1,451	1,482
Hunan . . . . .	302	291	327
Jiangsu and Anhui. . . . .	376	437	532
Shandong . . . . .	275	345	361
Guangdong, Jiangxi, Hubei, Ningxia, Shanxi, Gansu, Zhejiang and Guizhou . . . . .	532	785	1,023
	<u>2,769</u>	<u>3,309</u>	<u>3,725</u>
Length of existing pipelines (k.m.):			
Branch . . . . .	1,055	1,073	1,087
City-gas . . . . .	7,530	9,648	11,423
	<u>8,585</u>	<u>10,721</u>	<u>12,510</u>
Transportation volume to third party (million m <sup>3</sup> ) . . . . .	<u>340</u>	<u>756</u>	<u>943</u>
LNG processing plants:			
Number . . . . .	2	2	2
Design capacity (m <sup>3</sup> /day). . . . .	450,000	450,000	450,000
Transportation fleet:			
Number of CNG vehicle . . . . .	27	27	27
Number of LNG vehicle . . . . .	73	73	73
	<u>100</u>	<u>100</u>	<u>100</u>
Transportation volume to third party (million m <sup>3</sup> ) . . . . .	<u>11</u>	<u>11</u>	<u>27</u>
Number of gas stations:			
CNG refueling station . . . . .	31	31	31
LNG refueling station . . . . .	10	10	10
LCNG refueling station . . . . .	6	6	6
CNG primary station . . . . .	8	8	8
	<u>55</u>	<u>55</u>	<u>55</u>

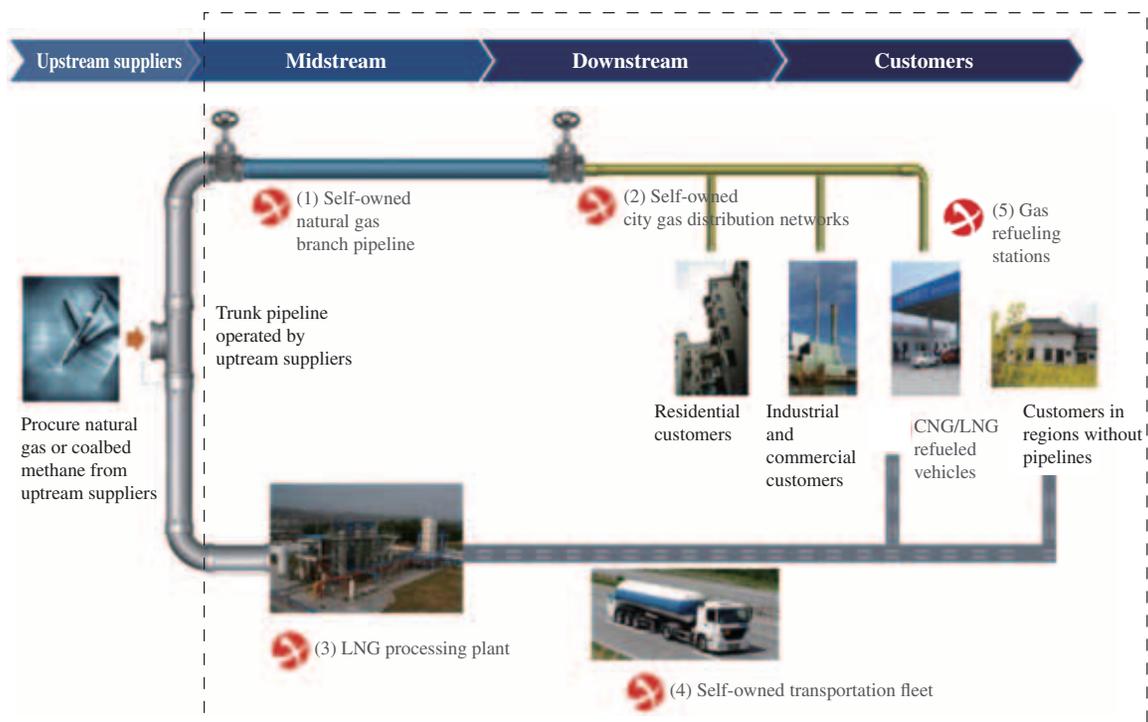
*Notes:*

- (1) Refers to volume of natural gas transmitted by branch pipelines for which we charged end-user tariffs.
- (2) Refers to volume of natural gas transmitted by branch pipelines for which we charged only transmission fees.

The natural gas market in China consists of three market segments: upstream, midstream and downstream, which generally correspond to production, transmission and distribution, respectively. Production involves underground exploration, drilling, extraction and refining of natural gas. Refined natural gas is then transmitted from the refineries via long-distance trunk pipelines under high pressure so

that natural gas may be supplied to a large number of locations near such pipelines at high speed. Natural gas is then transmitted through branch pipelines to city-gas distribution networks for distribution to customers or is processed into LNG or CNG for onward distribution to customers. As we are primarily an operator of natural gas branch pipelines and city-gas distribution networks, we focus our business operations on the midstream and downstream market segments.

The chart below illustrates our major business activities as they relate to the standard natural gas distribution process in China:



Our midstream and downstream business comprises five major components: (i) natural gas branch pipeline and city-gas distribution networks operations, (ii) LNG processing plants, (iii) LNG and CNG transportation and logistics, (iv) operations of LNG, CNG and LCNG vehicle refueling stations, and (v) others, including branch pipeline construction, vehicle and vessel gas conversion and procurement and sale of unconventional gas sources. By the end of 2012, we had suspended our LPG sales business.

**(i) Natural gas branch pipelines and city-gas pipeline operations**

*Branch pipelines*

As part of the midstream natural gas market segment, we build, own and operate natural gas branch pipelines, through which we transmit natural gas through long-distance transmission pipelines. As of December 31, 2018, we had completed the construction of and operated natural gas pipelines with an aggregate length of 1,087 k.m. in Qinghai, Ningxia, Hunan, Jiangsu, Jiangxi, Shandong, Hubei, Guangdong, Guizhou and Anhui Provinces (as well as Shanxi Province through a joint venture in which we hold a minority equity interest).

We transmit natural gas through our branch pipelines to both our own city-gas pipeline networks and other downstream distributors. For the natural gas transmitted to city-gas pipeline networks, the pressure is reduced at city-gate stations to a lower level more suitable for customer usage. These pressure-reducing city gate stations are referred to in our industry as the “city gate.” For the natural gas transmitted to other downstream distributors, the pressure is maintained at the same level.

#### *City-gas distribution networks*

As part of the downstream natural gas market segment, we build and operate city-gas distribution networks, through which we distribute and sell natural gas delivered at the city gate from branch pipelines to customers connected to our city-gas pipeline network.

#### *Investment and development process*

##### *(1) Preliminary review and feasibility studies*

We select new locations for our operations after conducting preliminary evaluations and extensive feasibility studies on target locations and after assessing the projects’ return on investment. Some of the factors we consider include:

- (a) size and concentration of population;
- (b) number of existing converted customers and penetration rate;
- (c) extent and concentration of industrial and commercial activities;
- (d) likely level of connection fees and end-user tariffs;
- (e) extent of the local government’s commitment to environmental protection, environmental policies in place and the local population’s awareness of environmental issues;
- (f) whether exclusive operational rights and preferential treatment on taxes and governmental fees will be obtained;
- (g) types of gas supply (piped natural gas, LNG or CNG) and methods of delivery available, whether by way of intermediate pipelines, or LNG or CNG vehicles, which, in turn, depends on the distance between the source of gas and customer locations;
- (h) current and projected future economic condition; and
- (i) in the case of acquisition of existing gas projects, the cost of acquisition, quality of assets and/or business to be acquired, extent of liabilities of the business and whether we are able to resolve problems perceived or encountered in respect of the relevant existing gas projects.

Based on the findings of feasibility studies, which cover the above mentioned factors, our business development team decides whether to make a recommendation to the management for approval to proceed with discussions and negotiations on the new project.

(2) *Securing new operational locations*

As with other natural gas operators, we secure a new location for our operations through obtaining a city-gas concession from the relevant local government. There are generally three ways of obtaining a city-gas concession:

- (a) through a public tender process. In a public tender process, participating bidders first submit their tender documents in response to the government's tender invitation. The government then conducts a review of the tender documents and selects a successful bidder with which it will enter into a concession right agreement. The successful bidder then establishes a project company to invest in the project. After this step is taken, a concession right certificate is issued to the successful bidder;
- (b) through submission of a project proposal to the government. In such circumstance, a concession right applicant submits to the local government a project proposal and carries out market due diligence after obtaining a positive response to the proposal from the government. If the applicant is satisfied with the results of the due diligence, it enters into a concession right agreement with the government and establishes a project company to invest in the project. After this step is taken, a concession right certificate will be issued to the applicant;
- (c) through acquisition of other natural gas companies with concession rights. After we acquire the target companies, we will go through the relevant procedures, if any, with the relevant local governments to effectuate our acquisition of the concession rights and licenses or permits, if any, owned by the target companies.

(3) *Connection of city-gas pipelines*

After we obtain the concession right to operate in a new location, we begin the design and construction of the city-gas pipelines to connect with our branch lines and our customers. After our design of the city-gas pipelines is reviewed by a design institute approved by the local government, we will engage external contractors to construct the pipelines. The completion time of this process varies with the size and complexity of the projects.

**(ii) LNG processing plants**

Our first and second LNG processing plants commenced operations in 2008 and 2009, respectively, both of which are located in Qinghai Province. As of December 31, 2018, our LNG processing plants had a combined designed daily processing capacity of 450,000 m<sup>3</sup>. Our LNG processing plants refine and liquefy natural gas into LNG, which is transported to customers and refueling stations.

**(iii) Transportation and logistics**

We operate a fleet of LNG and CNG vehicles to expand the delivery of natural gas primarily to areas not yet covered by city-gas distribution networks. In 2016, 2017 and 2018, our total volume of LNG and CNG transported was 51.2 million m<sup>3</sup>, 58.6 million m<sup>3</sup> and 85.2 million m<sup>3</sup>, respectively.

**(iv) LNG and CNG refueling stations**

We sell LNG and CNG to vehicle customers through our LNG, CNG and LCNG refueling stations. As of December 31, 2018, we owned 31 CNG refueling stations, 10 LNG refueling stations and six LCNG station. The operation of LNG, CNG and LCNG refueling stations is one of our important business activities which we expect to become a significant sales channel of natural gas.

**(v) Other business**

*Design and construction of branch pipelines*

We engage in the design and construction of natural gas branch pipelines for our gas projects as well as those of other downstream distributors. Leveraging our accumulated knowledge and experience, we believe we have strong design and construction capabilities which enable us to streamline our project development process and enhance our cost efficiency. Our internal engineers and independent external inspectors monitor the entire construction process to ensure that each stage of construction meets our quality and safety standards and the relevant legal requirements.

*Vehicle and vessel gas conversion*

We offer vehicle and vessel gas conversion services to our customers in locations where we operate our LNG and CNG refueling stations. Our target customers for such services are owners and operators of buses, taxis and vessels. The vehicle or vessel gas conversion process generally includes the following steps:

- Engine refitting, which involves the disassembly and reassembly of the engines, refitting certain existing engine parts;
- Installation of LNG or CNG cylinders;
- Installation of natural gas electronic control and supply systems; and
- Testing and trial use.

The conversion normally takes about 20 days to complete or one to two days if accessories are complete. Upon completion of conversion, vehicles and vessels can burn both diesel fuel and LNG or CNG. We also engage third parties to carry out the conversion, and bear all costs and expenses incurred in connection therewith. We also lend funds to large fleet operators for them to purchase LNG or CNG vehicles or vessels. In exchange for our gas conversion services or loans to purchase LNG and CNG vehicles or vessels, vehicle or vessel owners or large fleet operators are obligated to purchase LNG or CNG from us through written agreements. We deem the provision of the conversion services and the new LNG or CNG vehicles as an effective way to develop new customers.

We have installed CBM natural gas compressors in the vicinity of the extraction sites of PetroChina Coal Methane in Shanxi Province and have begun sales of CNG to the surrounding communities. In addition, in 2011, CCNG acquired a 35% equity interest in Shanxi Guoxing from Kunlun Energy to support our CBM transmission and distribution business, which commenced operations in the first half of 2013.

## CUSTOMER BASE

We have a broad and diversified customer base, primarily comprising residential, industrial and commercial customers and customers in our vehicle gas refueling business. The table below sets forth a breakdown of our customer base and volume of piped gas sold by type for the years indicated:

	As of December 31,					
	2016	% of total	2017	% of total	2018	% of total
Number of connected customers:						
Industrial, commercial and other users . . .	9,269	0.8	10,426	0.8	11,812	0.9
Residential . . . . .	1,108,397	99.2	1,235,497	99.2	1,343,844	99.1
<b>Total . . . . .</b>	<b>1,117,666</b>	<b>100</b>	<b>1,245,923</b>	<b>100</b>	<b>1,355,656</b>	<b>100</b>
	For the year ended December 31,					
	2016	% of total	2017	% of total	2018	% of total
Volume of piped gas sold (million m <sup>3</sup> ):						
Industrial and commercial . . . . .	1,599	57.7	2,135	64.5	2,392	64.2
Residential . . . . .	808	29.2	805	24.3	906	24.3
Gas stations . . . . .	362	13.1	369	11.2	427	11.5
<b>Total . . . . .</b>	<b>2,769</b>	<b>100</b>	<b>3,309</b>	<b>100</b>	<b>3,725</b>	<b>100</b>

### Industrial, commercial and other customers

Natural gas has a wide variety of applications for industrial customers such as fueling industrial boilers, furnaces, ovens, incinerators, foundries and steamers as well as water and space heating in staff canteens and dormitories within the industrial customers' premises. Commercial customers use natural gas primarily for water and space heating and cooking purposes. These customers include, among others, hotels, restaurants, office buildings, shopping malls, hospitals, schools, sports and leisure facilities and exhibition halls. We enter into supply contracts with these customers for the connection of gas to their premises, and receive both connection fees (payable in advance by installments based on the percentage of completion of the pipeline construction work) and gas usage charges (payable monthly in arrears) from such customers.

Sales to industrial and commercial customers generally generate higher margins than sales to residential customers, primarily because we can pass through increases in our procurement costs of natural gas by negotiating a higher tariff with industrial and commercial customers, whereas tariffs we can charge our residential customers are strictly regulated by relevant PRC governmental authorities. See “Regulatory Overview — Natural Gas Industry Policies — Pricing policy of natural gas.”

### **Residential customers**

Natural gas is primarily used by residents for cooking and water and space heating. To develop new residential customers, we target property developers, SOEs and government departments and organizations which may build residential complexes to provide housing for their employees. These entities typically enter into master supply contracts with us for the connection of gas to all the units within a residential development (including new or existing units, owned by such entities or their employees). These entities are responsible for, or coordinate, the advance payment of connection fees to us, while gas usage charges are paid by the individual users.

### **Gas stations**

Our gas stations include our CNG primary stations and LNG, CNG and LCNG refueling stations. A portion of the CNG compressed at our CNG primary stations is wholesaled to other downstream distributors. Customers of our LNG and CNG refueling stations include owners and operators of taxis, buses and trucks.

## **SALES**

Our revenue is composed of three operating segments: (i) sales and distribution of natural gas and related products, (ii) gas pipeline construction and connection services income and (iii) exploitation and production of crude oil and natural gas.

### **Sales and distribution of natural gas and related products**

Sales and distribution of natural gas and related products consists of revenue from sales of natural gas, including LNG and CNG, as well as revenue from the transmission of natural gas to other downstream distributors through our branch pipelines and distribution of natural gas to our end customers and downstream distributors. Sales and distribution of natural gas and related products constituted our most significant source of revenue in 2016, 2017 and 2018, constituting 84.1%, 88.5% and 90.1% of our total revenue respectively, and we intend to continue to focus on this business segment in the future. Gas usage charges are based on actual usage on a per m<sup>3</sup> basis.

Residential customers purchase gas units in cash at our sales outlets with details of the prepaid gas amounts stored electronically in a smart card. The smart card is inserted into a smart card gas meter installed at the user’s premises to activate the gas supply. Amounts of gas used are deducted from the smart card. When the level of prepaid gas units drops to a certain level, the gas meter will remind the customer to top up the smart card. The smart card system minimizes payment default risks with respect to gas sales to residential customers.

For industrial and commercial customers and those residential customers without smart card gas meters installed, payments for gas usage charges are made in advance based on the usage amount of the previous month. Gas meters that record actual gas consumption are installed at the users’ premises and

meter readings are taken physically by us every month. Monthly bills based on the actual usage are then sent to customers. Surplus of advance payments is credited to the customer's account. If the actual usage charge exceeds the advance payment amount, the shortfall will be included in the customer's advance payment for the following month. In the event a customer defaults in payment, the customer's gas supply will be suspended. In respect of commercial users with large gas usage volume, we may offer discounts on the approved charges, the extent of which will be subject to negotiation and agreement.

Vehicle owners with smartcards may deduct the charges for units of gas purchased at our refueling stations from such smartcards, or they may pay for the charges with cash, or with credit or debit cards if acceptable at the refueling stations.

### **Gas pipeline construction and connection**

Revenue from gas pipeline construction and connection consists of construction fees charged for pipeline construction services performed for other downstream distributors and connection fees charged for connection of customers to our city-gas networks.

Residential customers are generally required to pay connection fees in full prior to our commencement of connection work. In some cases, connection fees are paid by the real estate developers of new residential developments. In the event that supply contracts are entered into for the connection of gas to a large number of households within a residential development (e.g. staff quarters of SOEs or governmental organizations), we may offer discounts of the approved fee payable, the extent of which will be subject to negotiation and agreement of the contract parties.

Connection fees are collected from industrial and commercial customers in advance by installments based on the percentage-of-completion of the pipeline construction work. Discounts of the approved fee payable may be offered to industrial and commercial customers with high volume usage, subject to negotiation and agreement of the contract parties. In the event customers default in the payment of connection fees, we will not start the supply of gas to these customers until the connection fees are fully paid. The deposits received from customers upon the signing of supply contracts generally cover our costs.

### **Exploitation and production of crude oil and natural gas**

Revenue from the exploitation and production of crude oil and natural gas consists income derived from exploitation and production of light oil and natural gas in Canada. In June 2014, we, through an indirect wholly owned subsidiary, acquired 100% equity interest in Baccalieu Energy Inc., a Canadian oil and gas producer. In August 2018, we completed a business acquisition of oil and gas assets in West Central Alberta, Canada from an independent third party. In 2016, 2017 and 2018, our Canadian business related to the exploitation and production of crude oil and natural gas recorded a revenue of HK\$301.3 million, HK\$352.8 million and HK\$416.8 million (US\$53.2 million), respectively. During the same time, our exploitation and production segment recorded a realized crude oil price of C\$49.98 per barrel of oil equivalent, C\$60.26 per barrel of oil equivalent and C\$66.92 per barrel of oil equivalent, respectively, and the WTI recorded an average of US\$43.37, US\$50.93 and US\$64.78, respectively.

## **PRICING**

### **Gas sales**

End-user gas tariffs for residential users and any adjustments to such fees may only be approved by local pricing bureaus following a public hearing, except in cities where the end-user price is automatically linked to upstream supply costs. In cities with established price linkage mechanisms, retail prices to downstream residential users of natural gas will be adjusted in line with adjustments in prices for upstream purchases of natural gas supply. See the section entitled “Regulatory Overview — Natural gas industry policies — Pricing policy of natural gas” for details. Pursuant to PRC laws and regulations governing pricing of natural gas, when considering applications for an increase in end-user tariffs, the local state price bureau may consider factors such as increases in the wholesale price of gas or operating expenses, inflation, additional capital expenditures, and whether the profit margin remains fair and reasonable. Indicative prices for industrial and commercial customers and LNG and CNG vehicle refueling station customers are set by the local governments. We charge customers based on the indicative price set by the local government.

Prices of natural gas for vehicle use are also subject to PRC government regulation. In June 2010, the NDRC determined that CNG for vehicle use should be priced no lower than 75% of the price of gasoline. As this is much higher than the then prevailing price for CNG for vehicle use, the NDRC set the then prevailing floor price for CNG for vehicle use at 60% of the price of gasoline. The floor price will be gradually adjusted to 75% of the price of gasoline over a two-year period.

### **Gas connection**

Gas connection fees are determined based upon a number of factors such as estimated capital expenditure, number of users, growth in penetration rates, income levels and affordability of local residents. The level of connection fees and any increase in connection fees are subject to the approval of the local pricing bureau.

### **Gas pipeline construction**

Gas pipeline construction fees are determined by reference to our budget for a particular construction project. In formulating such budget, we take into account a number of factors mainly including costs of pipes as raw materials, construction, design, project supervision and testing.

## **PURCHASES**

Our main categories of purchases are natural gas and construction materials. In 2018, our cost of sales attributable to our five largest suppliers was approximately 64.7% of our total cost of sales. We believe we have established good business relationships with our major suppliers, and we have not experienced any difficulty in sourcing natural gas or other major supplies.

### **Gas**

We procure most of our piped natural gas from PetroChina Group, with whom we typically enter into long-term gas supply framework agreements, with terms typically ranging from 15 to 30 years, and annual supply contracts, which sets forth the specific terms such as supply volume and price. Our natural

gas annual supply agreements with PetroChina Group generally contain minimum procurement volumes, under which we remain obligated to pay certain price for the difference between the actual volume of gas used and the supply volume set forth in the relevant annual supply contract.

We procure our CBM supply from PetroChina Coalbed Methane and Sinopec Eastern China and have entered into a strategic cooperation framework agreement with PetroChina Coalbed Methane to procure coalbed methane as a complementary source of natural gas supply.

### **Construction materials**

We purchase construction materials, primarily consisting of pipes of various diameters and wall thickness, as well as machinery and other equipment, for installation in different segments of the gas pipeline infrastructure (the specifications of which must comply with PRC standards and regulations). Such construction materials are generally sourced domestically.

### **SEASONALITY**

The natural gas business is generally affected by seasonality, particularly in Qinghai Province where we have substantial business operations. During winter time, we typically see higher demand for our natural gas as more customers use gas for heating purposes.

### **SAFETY AND QUALITY CONTROL**

#### **Safety**

We place great emphasis on safety control and have established a safety department to oversee safety issues for our project companies and have adopted a comprehensive safety administration system and regular inspections during Chinese public holidays. We have also prescribed and implemented the Operational Safety Manual (“安全生產管理手冊”) for the detection and prevention of the occurrence of accidents in facilities such as long-distance natural gas transmission pipelines, natural gas processing and compressing stations, LNG and CNG vehicle refueling stations and LNG and CNG transportation vehicles, and during the natural gas pipeline or LNG and CNG vehicle refueling station operating process.

We generally carry out our comprehensive inspection of the branch pipelines, city-gas distribution networks, gas meters and gas appliances at our customers’ premises twice a year and regular inspections during major Chinese public holidays. These inspections are free unless major repairs are required, in which case we charge the customers for labor, replacement parts and other materials used for the repairs. In addition, we also conduct unscheduled inspections during our ordinary course of business.

We place great emphasis on the safety operations of our LNG and CNG vehicle transportation. Our transportation vehicles are required to pass the annual vehicle inspections regulated by the local governments. In addition, we also conduct our regular inspections internally on our transportation vehicles.

We believe in educating users about safety procedures. Accordingly, before gas is supplied, we will give a thorough explanation of safety procedures to users, and will arrange regular seminars or distribute brochures and booklets on safety for end customers. Our project companies are linked to the “110” emergency call center so that they will be notified of any emergency reports. Our project companies have also set up 24-hour hotline for enquiries and reporting of emergency matters.

For us to effectively monitor the operations of the pipelines, in particular, gas usage, gas leakages, or any other irregularities, we collect information about the temperature, pressure and volume of gas from key points along the pipelines through a computerized system. Each project company conducts a major inspection of its pipelines, natural gas processing station(s) and other equipment at least twice a year. If gas leakages or any other irregularities are detected, we will take remedial action immediately. We continue to upgrade the information technology systems of our project companies to enhance our safety monitoring and management efficiency. We also focus on providing safety training to our staff.

We did not experience any material accidents resulting in serious injury or death in 2016, 2017 and 2018.

### **Quality control**

Quality control begins in the design and construction phase of the gas supply infrastructure. Our quality control team conducts regular inspection visits and testing to ensure that construction work meets our required standards. We also have strict quality control procedures for the sourcing of raw materials. Accordingly, we only purchase from our internally approved list of qualified suppliers, which are required to have satisfied the relevant national standards.

To effectively monitor the quality of gas that we purchase, we regularly obtain gas composition reports from our gas suppliers. Such reports include details on the heat content and composition of impurities.

### **CUSTOMER SERVICE**

We believe that quality customer service is key to maintaining good, long-term relationships with our customers and is the bedrock for our sustainable business development. We use information systems to provide rapid and efficient services to our customers.

To ensure safe operation, all of our project companies conduct annual safety inspections for each connected customer. These inspections help alleviate potential hazards, strengthen our relationships with our customers and increase customer confidence in our after-sales services. In addition to regularly monitoring the quality of such services through our public service monitoring network and service and complaint hotlines, we periodically carry out customer surveys with customers to seek customer feedback on the quality of our installation work and after-sales services.

### **ENVIRONMENTAL MATTERS**

We believe that serious damage, such as gas leakage and gas explosion, to our major infrastructure facilities, natural gas pipelines, gas stations and vehicle storage tanks may harm the environment. Accordingly, we have set up a number of procedures and policies designed to prevent and manage any potential damage to the fullest extent possible.

In addition to our internally commissioned control, hazard prevention and emergency recovery procedures, we also need to comply with the relevant environmental protection regulations and obtain specific licenses for our operations.

As of the date of this offering memorandum, some of our PRC subsidiaries are not in full compliance with the applicable environmental laws and several of our PRC subsidiaries have not undergone an environmental impact review or obtained an environmental impact review approval upon

completion. See “Risk Factors — Risks relating to our business — We may incur significant costs to comply with environmental protection laws and regulations, and any non-compliance could subject us to fines, rectification orders, suspension or cessation of production.”

## **COMPETITION**

Due to the nature of the piped natural gas supply business, where substantial capital investment and extensive physical installation of gas pipeline infrastructure are required, it is generally not economically or practically feasible for more than one distribution company to operate in one location. Therefore, the local government will normally grant concession rights to a selected distributor to operate in a location and may grant rights of first refusal to extend the franchise period. Once we have identified a potential operational location, we will negotiate with the local government to obtain a concession right to supply gas to that operational location, which might cover the whole or the most densely populated areas of such operational location. While attempting to secure such concession rights, we may face competition from other distribution companies, which include SOEs and non-SOEs. Once we have successfully obtained a concession right, we face little or no competition from other piped gas distribution companies in that locality during the concession period, which ranges from 20 to 30 years. Due to our extensive experience and sound track record of safe and reliable piped gas supply to customers, we believe that we are well-positioned to obtain concession rights to supply gas to new operational locations and rights of first refusal to extend the concession period.

After we have secured an operational location, we face competition from existing providers of other fuel substitutes such as bottled LPG, coal and, to a lesser extent, electricity (as electricity for heating purposes is more expensive than gas and less popular for cooking purposes). We believe that with the PRC government’s plan to decrease the use of coal in line with its environmental policies, and the comparative advantage of natural gas over coal and LPG as a safer, cleaner and more convenient form of fuel, competition from other fuel substitutes does not represent a serious threat to our business. In addition, from a cost perspective and on an energy adjusted per unit basis, natural gas is more economical than bottled LPG and electricity.

We expect to face competition in our LNG, CNG and LCNG vehicle refueling station businesses. Unlike the piped natural gas business, the local governments in China typically do not grant exclusive rights or rights of first refusal to one company to operate in a location. Moreover, our current and potential competitors may include companies under large conglomerates, including SOEs. These companies may have greater resources than we do, including longer operating histories, larger customer bases, stronger customer relationships, greater brand or name recognition and greater financial, technical, marketing, relationship and other resources. The growth of our LNG, CNG and LCNG vehicle refueling station business also depends on increased adoption of natural gas by vehicle owners. As such, we also face competition from distributors of diesel and gasoline. We believe our effective and safe management of vehicle gas refueling stations has earned us loyalty from customers, which helps us remain competitive in the vehicle refueling station business.

## **INSURANCE COVERAGE**

Consistent with what we believe to be the customary industry practice in China, we currently maintain property insurance covering a small portion of our property, plant and equipment (including certain pipelines owned by us) and vehicle insurance on our transportation vehicles. Our insurance policies do not typically cover third party liabilities, business interruptions or environmental damages arising from our operations or caused by natural disasters, such as earthquakes. This practice is consistent with what

we believe to be the industry practice in China. Accordingly, there may be circumstances in which we will not be covered or compensated for certain losses, damages and liabilities, which may in turn adversely affect our financial position and results of operations.

For the years ended December 31, 2016, 2017 and 2018, we had not filed any material claims against our insurers or had material disputes with our insurers.

## PROPERTY

We both own and lease properties for our operations. When we state that we own certain properties in China, we own the relevant long-term land use rights. In China, with very few exceptions, industrial land is owned by the state.

We occupy our owned properties for purposes of, among others, production, storage, pipelines installation and office use. As of December 31, 2018, certain of our subsidiaries had not obtained the valid land use rights certificate and building ownership certificates for certain properties.

We currently lease properties for office and other uses. The landlords of certain of our lease properties do not have valid land use right certificates and/or building ownership certificates. See “Risk Factors — Risks Relating to Our Business — We and the lessors of certain of our leased properties do not have a valid land use certificates and building ownership certificates.”

## INTELLECTUAL PROPERTY RIGHTS

As of the date of this offering memorandum, we have several registered trademark, software copyright and domain names owned by some of our PRC subsidiaries.

## EMPLOYEES

As of December 31, 2018, we employed a total of approximately 3,595 employees (including the employees of Baccalieu Energy Inc.). The following table sets out a breakdown of our employees:

Employee Function	Number of Employees
Sales and marketing . . . . .	1,282
Mechanics, engineer and technicians . . . . .	1,202
Management and officers . . . . .	468
Administration and others . . . . .	643
Total . . . . .	3,595

## LEGAL PROCEEDINGS

As of the date of this offering memorandum, we are not aware of any material legal proceedings, claims or disputes currently existing or pending against us. We believe that there were no material legal proceedings or disputes which were of material importance or which have adversely affected us since January 1, 2016.

## REGULATORY OVERVIEW

The following discussion summarizes the principal PRC laws, regulations, policies and administrative directives to which we are subject.

### NATURAL GAS INDUSTRY POLICIES

On October 14, 2012, the NDRC promulgated Policies on Natural Gas Utilization (《天然氣利用政策》) pursuant to which the use of natural gas is regulated on a demand basis. Under the policy, the usage of natural gas is categorized into four main areas: city-gas, industrial fuel, power generation by natural gas, and chemical engineering using natural gas. Balancing factors such as its social, environmental and economic benefits, and the different profiles of its users, natural gas utilization is also divided into the following categories: prioritized, permitted, restricted and prohibited.

#### Gas operation license

Beginning August 1, 1996, fuel gas operators were required to apply for and obtain the Urban Gas Enterprise Qualification Certificate (城市燃氣企業資質證書) to operate business in accordance with the administrative regulations promulgated by the Ministry of Housing and Urban-Rural Development (formerly known as the Ministry of Construction) (“MOHURD”) on the Urban Gas and Heat Supply Enterprise Qualification Certificates (《城市燃氣和集中供熱企業資質管理規定》). However, such qualification requirement was abolished in November 2002 under the State Council’s Circular on the Cancellation of the First Batch of Administrative Approval Projects (《國務院關於取消第一批行政審批項目的決定》) (“Guo Fa 2002 No. 24”).

On August 5, 2003, the MOHURD enacted the Replies to Questions about the State Council’s Cancellation of Administrative Approval Projects (《關於對國務院取消行政審批項目中涉及建設部項目有關問題的復函》), which specifies that although Guo Fa 2002 No. 24 abolished the requirement for urban gas operators to obtain an Urban Gas Enterprise Qualification Certificate, in its opinions submitted to the State Council, the MOHURD had retained the authority of examination prior to the commerce and industrial registration of urban gas enterprises to regulate urban gas market entrants. Therefore, the relevant branches of the MOHURD may gradually implement the concession grant system in order to monitor urban gas operators.

Pursuant to the Decision of the State Council to Implement Administrative Licensing for Reserved Administrative Approved Items (《國務院對確需保留的行政審批項目設定行政許可的決定》), effective as of July 1, 2004 and amended on January 29, 2009 and August 25, 2016, an enterprise which intends to engage in the gas operation business in the PRC is required to obtain a prior approval from the local government in charge of construction before it can apply for incorporation registration with local commerce and industry authority.

In November 2010, the State Council issued the Regulations on the Administration of Fuel Gas in Towns and Cities (《城鎮燃氣管理條例》) (the “Gas Regulations”), effective as of March 1, 2011 and amended on February 6, 2016, to regulate the fuel gas (including, but not limited to, natural gas, artificial coal gas, and LNG) industry, such as fuel gas operation and services, use of fuel gas, protection of fuel gas facilities, and the prevention and handling of accidents concerning fuel gas safety and related activities. Pursuant to the Gas Regulations, any enterprise which engages in the gas operation business in the PRC is required to obtain a gas operation license from the local government in charge of construction.

Pursuant to the Gas Regulations, an enterprise which carries on gas operation in the PRC must meet the following requirements to obtain a gas operation license from the local government at or above the county level in charge of gas administration:

1. conform to the fuel gas development planning requirements;
2. have gas sources and gas facilities that meet national standards;
3. have fixed business premises, a safety management system and a sound management plan;
4. assign a principal responsible person from the enterprise, personnel for the administration of production safety and operation and personnel for maintenance and repair who have received professional training and passed relevant examinations; and
5. other requirements provided by PRC laws, rules and regulations.

On November 19, 2014, the MOHURD published the Administrative Measures on the Fuel Gas Operation License (as amended on March 11, 2019) and Administrative Measures on the Professional Training and Assessment for the Employees of the Fuel Gas Operation Enterprise (《住房和城鄉建設部關於印發〈燃氣經營許可管理辦法〉和〈燃氣經營企業從業人員專業培訓考核管理辦法〉的通知》) (“Fuel Gas Measures”), to strengthen the administration of the fuel gas operation license. According to the Fuel Gas Measures, the enterprise shall obtain fuel gas operation license for gas operation and shall apply for relevant changes of such license when its name, registered address or its legal representative changed. Particularly, if the legal representative changes, the new legal representative shall obtain the Qualification Certificate for the Professional Training and Assessment of Personnel in Fuel Gas Operation (燃氣從業人員專業培訓考核合格證書) (“Qualification Certificate”). In addition, if (i) the operation categories, operation areas, supply modes changes, or (ii) the division or merger of the enterprise happens, such enterprise shall reapply for the gas operation license. Pursuant to the Fuel Gas Measures, the principal, the management personnel for safety production, and the operation, maintenance and repair personnel in fuel gas operation enterprise shall take professional training and assessment, and the fuel gas administration department at provincial level shall issue the corresponding Qualification Certificate to the persons who have passed the professional assessment.

### **Concession rights**

Our subsidiaries and joint ventures as city-gas distributors are required to operate under a concession system according to the Opinions on Accelerating the Market Pace of Urban Public Utilities (《關於加快市政公用行業市場化進程的意見》) issued by the MOHURD on December 27, 2002.

On March 19, 2004, the MOHURD issued the Municipal Utility Concession Administrative Measures (《市政公用事業特許經營管理辦法》) (the “Concession Measures”), effective as of May 1, 2004 and amended on May 4, 2015, to promote concession systems in utility industries including the pipeline gas distribution industry. Pursuant to the Concession Measures, local governments will normally grant concession rights to operate piped gas distribution businesses in a specified area. Such specified area may be part or all of the city or county, depending on the terms of the concession rights granted. The PRC government authorities in charge of utilities at the city or county level are responsible for the implementation of the Concession Measures. Pursuant to the Concession Measures, the concession period normally will not exceed 30 years.

On May 22, 2006, the MOHURD published a standard form of concession contract with respect to piped gas distribution and urban sewage treatment for guidance (《建設部關於印發城鎮供熱、城市污水處理特許經營協議示範文本的通知》). The form of concession contract has specific provisions mainly in respect of:

1. granting, revocation and termination of the concession;
2. construction, maintenance and improvement of the gas distribution facilities;
3. gas distribution safety;
4. quality of the gas and standards of services;
5. fees;
6. rights and obligations;
7. default liabilities;
8. force majeure; and
9. dispute resolution.

On April 25, 2015, the NDRC promulgated Measures for the Administration of Concession for Infrastructure and Public Utilities (《基礎設施和公用事業特許經營管理辦法》) to encourage using social capital in the infrastructure and public utilities for the protection of the public benefits and safety. The government authorities in charge of public utilities at or above the county level may propose plans to implement such concession projects based on the social development and choose the concession operator through competitive bidding, negotiation, etc. Further, if applicable, the government may provide subsidy to concession operators if their compensations cannot cover the construction and business operation costs as well as its reasonable profits.

### **Pricing policy of natural gas**

According to the PRC Pricing Law (《中華人民共和國價格法》) promulgated on December 29, 1997, the PRC government may direct, guide or fix the prices of public utilities according to a pricing schedule prescribed by the central or the local governments. The PRC's pricing regime for domestic natural gas comprises three components: wellhead prices, transmission charges and end-user tariffs. The NDRC determines the benchmark prices as well as the transmission tariff for national long-distance transmission pipelines, but also allows natural gas purchasers and sellers to contractually agree on a wellhead price not exceeding 110% of its benchmark wellhead price. Provincial pricing bureaus determine the transmission charges for provincial gas pipelines, including provincial long-distance transmission pipelines. Local pricing bureaus determine the end-user tariffs.

The pipeline transmission tariff we charge for transmitting natural gas to other downstream distributors through our branch pipelines is determined by the provincial pricing bureau, based on a price schedule released by the NDRC. Any enterprise which engages in the gas distribution business shall obtain approval from the relevant local pricing authorities for the retail price of the piped natural gas that it sells

in a particular region, as well as any adjustment of the retail price. In the case of natural gas for residential use, the relevant local pricing authorities determine the end user tariffs and any price adjustment is subject to a public hearing process that involves the affected residence.

On November 8, 2007, the NDRC published the Notice on Issues Concerning the Adjustment of Natural Gas Price (《關於調整天然氣價格有關問題的通知》), which requires the suppression of over-consumption of natural gas by industrial users, irrational development of gas-powered automobiles, and reduction of the price gap between natural gas and alternative energy sources. The main points of this notice are: (i) to appropriately increase the benchmark ex-plant price of natural gas for industrial uses; (ii) to relax control over the ex-plant price of natural gas supplied to LNG-production enterprises; and (iii) to rationalize the price difference between natural gas and gasoline for automobiles.

On May 31, 2010, the NDRC issued the Notice on Price Increase of Natural Gas (《國家發展改革委關於提高國產陸上天然氣出廠基準價格的通知》), effective as of June 1, 2010, to promote energy conservation, adjust the price difference between natural gas and other alternative energy resources and optimize the reasonable allocation of natural gas resources. The key focuses of this notice are: (i) to increase the ex-plant price of domestically produced natural gas and perfect relevant pricing policies, including increasing the benchmark ex-plant prices of domestically produced natural gas, abolishing the “dual-track” pricing system and expanding the floating price range by allowing natural gas purchasers and sellers to contractually agree on a sales price not exceeding 110% of the new benchmark ex-plant prices; (ii) to reach a reasonable sales price for natural gas; and (iii) to enhance the relevant ancillary measures.

As stipulated in the Notice on Price Increase of Natural Gas, the ex-plant price of natural gas is subject to the indicative price set by the local government. In practice, the provincial and local governments adopt different policies to control the transmission charges and end-user tariffs of the natural gas. For example, in Jiangxi, Guangdong, Jiangsu, Anhui and certain other provinces, the transmission charge is at a fixed price set by the relevant provincial government. End-user tariffs for sales to industrial and commercial users in China are determined and adjusted by local pricing bureaus after consulting with users or operators. Ningxia, Hunan, Guangdong, Jiangsu and certain other provinces have set up indicative prices for sales to industrial and commercial customers, while in some other provinces, such as Qinghai, Shandong and Anhui, the governments apply fixed prices for sales to industrial and commercial customers.

The Notice on Price Increase of Natural Gas provides that selling prices of LNG and CNG to vehicle customers should be determined according to the highest retail price of No. 90 gasoline price in the same region where LNG and CNG is sold. In June 2010, the NDRC determined that CNG for vehicle use should be priced no lower than 75% of the price of gasoline. As this was much higher than the then prevailing market price for natural gas for vehicle use, the NDRC set the floor for natural gas price at 60% of the price of gasoline in areas where immediate price adjustment of natural gas price to 75% of the price of gasoline is impracticable, and allowed a two-year phase-in period for the floor price to increase to 75% of the price of gasoline.

On June 28, 2013, the NDRC launched a new pricing mechanism through the Notice on Natural Gas Price Adjustment (《國家發展改革委關於調整天然氣價格的通知》) for non-residential natural gas consumption. The administration of natural gas prices shall be adjusted from the wellhead stage to the city-gate stage. City-gate prices are government-guided prices subject to the price ceiling. The supplier and the user may, within the scope of price ceiling as prescribed by the State, determine a specific price through negotiation. The new ceiling for city-gate prices is based on a two-tiered pricing mechanism,

namely, for the (i) existing volume, price hike of not more than RMB0.4 per m<sup>3</sup> and (ii) incremental volume, to be priced at 85% of the weighted average prices of fuel oil and LPG with weighting of 60% and 40%, respectively.

On March 20, 2014, the NDRC published the Guiding Opinions on Establishing the Step Type Price Mechanism for Residential Natural Gas (《國家發展和改革委員會關於建立健全居民生活用氣階梯價格制度的指導意見》), which divides the price for residential natural gas into three steps corresponding to the three tiers of gas consumption. The price for first step shall be determined based on the principal of compensating the costs for gas supply; the price for the second step shall be 1.2 times compared with the first step; and the price for the third step shall be 1.5 times against the first step.

On February 26, 2015, the NDRC promulgated the Notice on Price Rationalization for Non-Residential Natural Gas (《國家發改委關於理順非居民用天然氣價格的通知》), effective as of April 1, 2015, to combine the price for existing volume with the price for incremental volume of non-residential natural gas. The maximum gate price for incremental volume gas decreased RMB440 per thousand cubic meters, while the maximum price for the existing volume gas increased RMB40 per thousand cubic meters, in order to rationalize the price for non-residential natural gas.

The State Council and the Central Committee of Communist Party of China promulgated Several Opinions of the Central Committee of the Communist Party of China and the State Council on Promoting the Price Mechanism Reform (《中共中央、國務院關於推進價格機制改革的若干意見》) on October 12, 2015, which provided that the price of natural gas shall be comprehensively rationalized as soon as possible and the source and selling price for natural gas shall be liberalized at an accelerated pace.

On November 18, 2015, the NDRC issued the Circular of the National Development and Reform Commission on Reducing the Gate Station Prices of Natural Gas Used for Non-residential Purpose and Further Accelerating the Market-oriented Price Reform (《國家發展改革委關於降低非居民用天然氣門站價格並進一步推進價格市場化改革的通知》), according to which the maximum gate station prices of natural gas used for non-residential purpose shall be reduced by RMB700 per thousand cubic meters. The price administration shall follow the benchmark gate station price instead of the maximum gate station prices which may be used as a basis to decide the benchmark price by an increase up to 20%.

On October 9, 2016, the NDRC issued Circular of the National Development and Reform Commission on Printing and Issuing the Administrative Measures for the Price of the Natural Gas Pipeline Transmission (for Trial Implementation) and the Measures for the Supervision and Examination of the Pricing and Costs of the Natural Gas Pipeline Transmission (for Trial Implementation) (《國家發展改革委關於印發〈天然氣管道運輸價格管理辦法(試行)〉和〈天然氣管道運輸定價成本監審辦法(試行)〉的通知》) to further strengthen the pricing administration of trans-provincial natural gas pipeline transmission, according to which the price of the trans-provincial natural gas pipeline transmission shall be determined and adjusted by the NDRC. The enterprises engaged in trans-provincial natural gas pipeline transmission may calculate specific price list for trans-provincial natural gas pipeline transmission according to the rate determined by the NDRC and transmission distance between entrance and exit locations of natural gas.

On May 25, 2018, the NDRC issued the Circular of the National Development and Reform Commission on Rationalizing the Gate Station Prices of Natural Gas Used for Residential Purpose (《國家發展改革委關於理順居民用氣門站價格的通知》), pursuant to which the price of natural gas used for residential purpose is changed from the price management of the maximum gate station to the price management of the benchmark gate station. One year after the implementation of this circular, supply and

demand parties can negotiate and determine the specific gate station price within 20% of the upward floating limit, without downward floating limit, and to further realize the unification of the residential gate station price with the non-residential gate station price mechanism.

On August 30, 2018, the State Council promulgated Several Opinions on Promoting the Coordination and Stable Development of Natural Gas (《國務院關於促進天然氣協調穩定發展的若幹意見》), which provided that the Ministry of Finance is responsible for i) accelerating the establishment of a linkage mechanism for upstream and downstream natural gas prices, ii) improving regulatory rules, price adjustment publicity and information disclosure systems, iii) establishing a constraint and incentive mechanism for the cost of gas source procurement, iv) implementing different price policies such as seasonal price difference and interruptible gas price, to promote peaking and valley filling and guide enterprises to increase the capacity of gas storage and low-peak season adjustment, v) strengthening the price supervision of natural gas transmission and distribution links, and effectively reducing the price of transmission and distribution in the provincial areas, and vi) strengthening the supervision and inspection of natural gas prices and strictly investigating and dealing with price violations.

On March 27, 2019, the NDRC issued the Circular of the National Development and Reform Commission on Adjusting the Benchmark Gate Station Prices of Natural Gas (《國家發展和改革委員會關於調整天然氣基準門站價格的通知》), which provided that the price of the natural gas base gate stations is adjusted in accordance with the adjustment of the natural gas value-added tax rate.

### **Project approval and environmental protection**

A PRC gas operator must obtain certain permits and approvals from the relevant PRC administrative authorities for the construction of gas pipeline and facilities. According to the Notice Regarding Strengthening and Regulating the Administration of Newly-commenced Projects (《關於加強和規範新開工項目管理的通知》), issued by the General Office of the State Council on November 17, 2007, and other relevant laws and regulations, before commencement of construction, all kinds of projects shall fulfill certain conditions and obtain relevant permits and approvals, including, among other things, a project verification and approval document, a land planning permit, a construction planning permit and a construction permit.

Pursuant to the PRC Urban and Rural Planning Law(《中華人民共和國城鄉規劃法》) implemented on January 1, 2008 and amended on April 24, 2015 and April 23, 2019, the PRC Construction Law (《中華人民共和國建築法》) implemented on March 1, 1998 and amended on April 22, 2011 and April 23, 2019, and the Administrative Regulation of Construction Work Quality (《建設工程質量管理條例》) implemented on January 30, 2000 and amended on April 23, 2019, a construction planning permit and a construction permit must be obtained in relation to the engagement of the planning and construction of facilities and pipelines.

According to the Administrative Measures on Inspection Upon Completion of Buildings and Municipal Infrastructure (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) promulgated by the MOHURD in April 2000, and amended in October 2009, after completion of construction works for a project, the gas operator must organize an acceptance examination by relevant government authorities and experts and file with the construction authority at or above the county level where the project is located within 15 days after the construction is qualified for the acceptance examination.

Pursuant to PRC Administrative Regulations on Environmental Protection for Development Projects (《建設項目環境保護管理條例》) implemental on November 29, 1998 and amended on July 16, 2017 and other relevant environmental protection laws and regulations, depending on the impact of the project on the environment, an environmental impact report, an environmental impact analysis table or an environmental impact registration form must be submitted by a gas operator before the relevant authorities grant approval for the commencement of construction of the gas operation project. In addition, upon completion of such project, the relevant environmental authorities will also inspect the project to ensure compliance with the applicable environmental protection standards and regulations.

Pursuant to the newly revised Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), issued by the Standing Committee of the National People's Congress on April 24, 2014 and effective on January 1, 2015:

- any development and utilization plan without the environmental impact assessment conducted according to law may not be organized for implementation; any construction project without the environmental impact assessment conducted according to law may not start construction;
- enterprises and public institutions that discharge pollutants shall establish an environmental protection responsibility system and specify the responsibilities of the persons-in-charge of the entities and the relevant personnel;
- the State implements control system for total emissions of key pollutants. Control indicators of total emissions of key pollutants shall be released by the State Council and shall be separately carried out by the people's governments of all provinces, autonomous regions and municipalities directly under the Central Government. The enterprises and institutions shall, when implementing the national and local pollutant discharge standards, follow the control indicators of total emissions of key pollutants divided into the enterprises and institutions;
- the State implements the pollution discharge license management system in accordance with the law. The enterprises and institutions and other producers and operators that implement the pollution discharge license management shall discharge pollutants according to the requirements of the pollution discharge license; those that fail to obtain the pollution discharge license shall not discharge pollutants;
- the enterprises and institutions shall, in accordance with the relevant provisions of the State, prepare emergency response plans for emergency incidents and report the same to the competent department of environmental protection and the relevant departments for record. When emergency incidents occur or may occur, the enterprises and institutions shall immediately take measures and timely notify the entities and residents that may be harmed and report the incidents to the competent department of environmental protection and the relevant departments; and
- key pollution discharge entities shall truthfully disclose the names of their major pollutants, discharge ways, emission concentration and total emissions, excessive emissions as well as the construction and operation of pollution prevention and control facilities and accept the social supervision.

Pursuant to the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) promulgated on October 28, 2002 and amended on July 2, 2016 and December 29, 2018 respectively, manufacturers must prepare an environmental impact study report which sets forth the impacts that the proposed construction project may have on the environment and measures to prevent or mitigate the impacts for approval by the government authority prior to commencing construction of the relevant project.

Pursuant to the Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation) (《排放許可管理辦法(試行)》) promulgated on January 10, 2018 by the Ministry of Environmental Protection, the Ministry of Environmental Protection shall develop and issue a classification administration list of pollutant discharge, which provides fixed pollution sources, and specify the administrative scope and application time limit. The enterprises, public institutions and other producers and businesses on the classification administration list shall apply for and obtain a pollutant discharge permit within the prescribed application time limit.

### **Petroleum and natural gas pipeline protection**

The PRC Petroleum and Natural Gas Pipeline Protection Law (《中華人民共和國石油天然氣管道保護法》) was promulgated on June 25, 2010 and took effect on October 1, 2010, which regulates the protection of pipelines for transmission of petroleum and natural gas in the PRC as well as their ancillary facilities. The National Energy Administration regulates the national pipeline protection in the PRC in accordance with the PRC Petroleum and Natural Gas Pipeline Protection Law and other relevant departments of the State Council are responsible for the related work on protection of pipelines within their respective functions. The energy departments of provinces, autonomous regions and municipalities and departments designated by the governments of the municipalities and counties regulate the protection of pipelines of the administrative areas according to the law, and the other relevant departments of the local governments above county level are responsible for the related work on protection of pipelines within their respective functions in accordance with relevant laws and administrative regulations.

### **Safety supervision on gas operation**

Any enterprise engaging in the gas operation business is required by the Gas Regulations and other relevant regulations to fulfill certain security standards with respect to storage, transport, supply or use of gas and construction, installation and use of gas fittings. A gas operator shall establish its safety assessment schemes for gas operation, risk management system and emergency response plans for accidents involving gas. If a gas operator identifies any potential accidents involving gas, it shall immediately take remedial measures to eliminate potential accidents identified. In the case of an accident involving gas, a gas operator shall initiate its emergency response plans and carry out repair and restoration work.

The Regulations on the Safety Administration of Hazardous Chemicals (《危險化學品安全管理條例》) were promulgated by the State Council on January 26, 2002 and became effective on March 15, 2002 (amended on March 2, 2011 and became effective on December 1, 2011, and further amended on December 7, 2013). Pursuant to the Regulations on the Safety Administration of Hazardous Chemicals, the production, storage, usage, operation and transportation of hazardous chemicals within the PRC must comply with the provisions of the aforesaid regulations. Any entity or individual shall not be engaged in the operation of hazardous chemicals without permission from the relevant regulatory authorities.

The Measures for the Administration of Hazardous Chemical Operation License (《危險化學品經營許可證管理辦法》) were promulgated by the State Administration of Work Safety on July 17, 2012 and became effective on September 1, 2012 and amended on May 27, 2015. The Measures for the Administration of Hazardous Chemical Operation License and other relevant regulations established a licensing system for the operation and sale of hazardous chemicals. Entities engaged in the operation and sale of hazardous chemicals must obtain a hazardous chemical operation license (危險化學品經營許可證) for operation sale of hazardous chemicals pursuant to the aforesaid measures.

### **Gas cylinder filling permit**

The Regulations on Safety Supervision of Special Equipment (《特種設備安全監察條例》) were promulgated by the State Council on March 11, 2003 and became effective on June 1, 2003 (amended on January 24, 2009 and effective from May 1, 2009). The “special equipment” referenced in the regulations refers to boilers, pressure vessels (including gas cylinders), pressure pipelines, elevators, lifting appliances (factory) special motor vehicles, passenger ropeways, and large amusement devices, which impact the safety of human lives or involve high risk.

Pursuant to the Regulations on Safety Inspection of Gas Cylinders (《氣瓶安全監察規定》) promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC on April 24, 2003 and effective as of June 1, 2003, an enterprise operating gas cylinders filling shall obtain a gas cylinders filling permit (氣瓶充裝許可證) issued by the provisional quality supervision department.

### **Road transportation**

#### *Road transportation operation license*

Any entity engaging in the road transportation business or other related business, shall comply with the relevant laws and regulations governing the road transportation. According to the Regulations of the PRC on Road Transportation (《中華人民共和國道路運輸條例》) (the “Road Transportation Regulations”), promulgated by the State Council on April 30, 2004 and came into effect on July 1, 2004 (as amended on November 9, 2012, February 26, 2016 and March 2, 2019), the administrative department of communications of the State Council is responsible for the road transportation administration of the whole country. The administrative departments of communications of the government at the county level or above are responsible for organizing and leading the road transportation administration within its own administrative area. The road transportation administrative departments at the county level or above are responsible for carrying out the specific administration of the road transportation business.

According to the Road Transportation Regulations, entities intending to engage in freight transportation business shall have vehicles and drivers meeting the relevant requirements under the relevant laws and regulations, and shall establish a set of sound rules and bylaws regarding safe operations. The road transportation operators shall apply to the road transportation authority of the county level or above and obtain the Road Transportation Operation License (道路運輸經營許可證) before it could conduct the relevant business.

## *Road transportation of dangerous goods*

The Provisions on the Administration of the Road Transportation of Dangerous Goods (《道路危險貨物運輸管理規定》) were promulgated by the Ministry of Communications on December 28, 1993 (amended on July 12, 2005, October 27, 2010 and January 23, 2013, respectively). Any enterprise applying for transportation of dangerous goods on road shall meet requirements with respect to of special vehicles, parking place, employees and sound management system for safety in production. Meanwhile, enterprises requesting for operation in transportation of dangerous goods on road shall obtain the Road Transportation Operation License.

## **FOREIGN INVESTMENT IN THE LEASING INDUSTRY**

The Ministry of Commerce (the “MOFCOM”) promulgated the Administrative Measures Concerning Foreign Investment in the Leasing Sector (外商投資租賃業管理辦法) (the “Measures”) on February 3, 2005 and amended on October 28, 2015 to regulate the operation of foreign-invested leasing business and financial leasing business.

Under the Measures, foreign-invested financial leasing companies may conduct the following businesses: (i) financial leasing business; (ii) leasing business; (iii) purchase of leased property inside and outside China; (iv) maintenance of assets underlying the leases and disposal of the residual value of assets underlying the leases; (v) lease transaction consultancy and security services; and (vi) other businesses approved by MOFCOM. The leased objects allowed include (i) movable properties such as manufacturing equipment, telecommunication equipment, medical equipment, scientific and research equipment, inspection and testing equipment, engineering and machinery equipment and office equipment; (ii) transportation equipment, such as airplanes, automobiles and ships; and (iii) intangible assets such as software and technology that are attached to the moveable properties and transportation equipment mentioned above provided that the value of such attached intangible assets shall not exceed half value of the movable properties or transportation equipment they are attached to. The Measures were abolished in February 22, 2018 under the Decision of the Ministry Commerce on Revising Certain Regulations and Normative Documents (《商務部關於廢止和修改部分規章的決定》).

According to the Circular of General Office of the MOFCOM on the Relevant Matters Concerning the Adjustment of the Management Liability of Financial Leasing Companies, Commercial Factoring Companies and Pawn Shops (《商務部辦公廳關於融資租賃公司、商業保理公司和典當行管理職責調整有關事宜的通知》) promulgated on May 5, 2018, the MOFCOM has assigned the China Banking and Insurance Regulatory Commission (the “BIRC”) to formulate operational and regulatory rules for financial leasing companies, commercial factoring companies and pawnshops, effective on April 20, 2018.

## **FOREIGN EXCHANGE**

Under the PRC Foreign Currency Administration Rules (《中華人民共和國外匯管理條例》), promulgated in 1996 and revised in 1997 and as amended in 2008 and various regulations issued by the SAFE and other relevant PRC government authorities, the Renminbi is convertible into other currencies for the purpose of current account items, such as trade related receipts and payments and the payment interest and dividend. The conversion of Renminbi into other currencies and remittance of the converted foreign currency outside the PRC for the purpose of capital account items, such as direct equity investments, loans and repatriation of investment, requires the prior approval from the SAFE or its local office. Payments for transactions that take place within the PRC must be made in Renminbi. Unless otherwise approved, PRC companies may repatriate foreign currency payments received from abroad or

retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by the SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the State. For foreign exchange proceeds under the capital accounts, approval from the SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the rules and regulations of the State.

## **LABOR PROTECTION AND SOCIAL SECURITY**

According to the Labor Law of the PRC (《中華人民共和國勞動法》), which took effect on January 1, 1995 and was amended on August 27, 2009 and December 29, 2018, enterprises and institutions shall establish and perfect their systems of work place safety and sanitation, strictly abide by State rules and standards on work place safety and sanitation and educate laborers on work place safety and sanitation.

The Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) and its implementation rules which took effect on January 1, 2008, and amended on December 28, 2012, emphasizes the conclusion of employment contracts in written form and imposes severe consequences for non-compliance. If the employer fails to conclude a written employment contract with an employee for one month to one year after the actual commencement of work, the employer must pay the employee double salary from the day after one month of the actual commencement of work to the day before the conclusion of employment contract. If the employer fails to conclude a written employment contract with an employee for more than one year after the actual commencement of work, an unfixed-term of contract is deemed to have been concluded. Enterprises and institutions are forbidden from forcing employees to work beyond the time limit and the employers shall pay employees for overtime work in accordance with national regulations.

The PRC has established a social security system providing people with basic pension insurance, unemployment insurance, medical insurance, maternity insurance, work injury insurance, and housing funding by promulgating the Social Security Law (《社會保險法》), which took effect on July 1, 2011 and was amended on December 29, 2018, the Provisional Regulations on the Collection and Payment of Social Insurance Premiums (《社會保險費征繳暫行條例》), Regulations on Work Injury Insurance (《工傷保險條例》), Regulations on Unemployment Insurance (《失業保險條例》), Decision on Establishing a Unified Basic Pension Insurance System for Enterprise Employees (《關於建立統一的企業職工基本養老保險制度的決定》), Regulations on the Administration of Housing Accumulation on Funds (《住房公積金管理條例》) and other regulations. Any employer who fails to pay its social insurance premiums or withhold the employee's portion may be ordered by the PRC Ministry of Human Resources and Social Security or the PRC Tax Bureau to make such payments within a stipulated period, and may be liable for a penalty.

## **PRC TAXATION**

### **Enterprise income tax**

On March 16, 2007, the Standing Committee of the National People's Congress adopted the Enterprise Income Tax of the People's Republic of China Law (the "EIT Law")(《中華人民共和國企業所得稅法》), effective as of January 1, 2008 and amended on February 24, 2017 and December 29, 2018, together with its implementation rules promulgated by the PRC State Council on December 6, 2007 and amended on April 23, 2019. Prior to the enactment of the EIT Law and its implementation rules which became effective on January 1, 2008, our PRC subsidiaries and joint ventures were generally subject to an enterprise income tax and a unified enterprise income tax rate is set at 25% for domestic enterprises,

whether they are foreign-invested enterprises or not. The EIT Law and its implementation rules provide certain reliefs to enterprises that were established prior to March 16, 2007, including but not limited to (i) continuously enjoying the preferential income tax rate during a five-year transition period if such enterprises are entitled to a preferential income tax rate prior to the enactment of the EIT Law, (ii) continuously enjoying the preferential income tax rate until its expiry if such enterprises are entitled to tax holidays for a fixed period under the relevant laws and regulations. However, according to the Notice of the State Council on the Implementation of the Transitional Preferential Policies in respect of Enterprise Income Tax (《國務院關於實施企業所得稅過渡優惠政策的通知》), if the preferential tax treatment has not commenced because losses or accumulated loss has not been fully offset, such preferential tax treatment shall be deemed to commence from January 1, 2008 and expire on December 31, 2012. In addition, dividends from PRC subsidiaries to their foreign shareholders will be subject to a withholding tax at a rate of 10% unless any lower treaty rate is applicable. However, under the EIT Law and its implementation rules, enterprises established under the laws of foreign jurisdictions but whose “de facto management bodies” are otherwise located in the PRC are treated as “resident enterprises” for PRC tax purposes, and will be subject to the PRC income tax on the enterprises’ worldwide income.

Under the implementation rules of the EIT Law, “de facto management bodies” is defined as bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. However, there remains uncertainty as to how the EIT law and its implementation rules will be interpreted or implemented by the relevant tax bureaus.

Pursuant the Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), the 10% withholding tax on the dividends received by the Hong Kong resident enterprise from a PRC resident enterprise may be reduced to 5%, provided that such individual or entity is deemed as a “beneficial owner” to those dividends and holds at least 25% equity interests in the PRC resident enterprise. However, based on the Circular on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) issued on February 20, 2009 by the State Administration of Taxation (the “SAT”), if the relevant PRC tax authorities determine in their discretion that a company benefits from such reduced income tax rate due to a corporate structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. Additionally, based on the Announcement of the SAT on Issues Relating to “Beneficial Owner” in Tax Treaties (《國家稅務總局關於稅收協定中“受益所有人”有關問題的公告》) (the “Beneficial Owner Announcement”), which came into effect on April 1, 2018, nonresident enterprises shall provide requisite valid supporting documents as “beneficial owners” to be considered as a “beneficial owner,” and such a “beneficial owner” analysis is conducted on a case-by-case basis according to factors set forth in the Beneficial Owner Announcement.

### **Value-added tax**

The VAT of foreign-invested enterprises is governed by the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》), which came into effect on January 1, 1994, and was amended on November 10, 2008, February 6, 2016 and November 19, 2017. Under the above regulations, VAT is payable on the sale or import of goods and the provision of processing, repair and labor replacement services in the PRC after offset input VAT. The VAT rate is generally levied at 17%, however, a tax rate of 13% is applicable to the sale or import of certain categories of necessities.

On January 1, 2012, the Chinese State Council officially launched a pilot VAT reform program (the “Pilot Program”) in selected industries. Businesses covered by the Pilot Program would pay VAT instead of business tax. The Pilot Program initially applied only to transportation industry and “modern service industries” (the “Pilot Industries”) in Shanghai. The research and development technical services and information technology services included in the Pilot Industries are subject to a VAT tax rate of 6%. Subsequently, the Pilot Program has been expanded to ten additional regions, including, among others, Beijing and Guangdong province, and nationwide to the designated pilot industry. The Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業稅改征增值稅試點的通知》), which was promulgated on March 23, 2016 and became effective on May 1, 2016, set out that the Pilot Program shall be promoted nationwide in a comprehensive manner and all taxpayers of business tax engaged in the construction industry, real estate industry, financial industry and life service industry should be included in the scope of the Pilot Program after May 1, 2016.

## MANAGEMENT

### DIRECTORS

Our Board of Directors is responsible and has general powers for the management and conduct of our business.

The rights and obligations of each member of the Board of Directors are regulated by the bye-laws and by our shareholders during our general meetings.

Our Board of Directors is responsible for the leadership and control of our Company, and is responsible for setting up the overall strategy as well as reviewing the operation and financial performance of the Group.

Our governance framework provides for checks and balances while allowing our management flexibility for prompt decision making in the ordinary course of business. Post-implementation audits of significant expenditures are conducted and reviewed by designated committees and by our Board of Directors.

The members of the Board of Directors are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Mr. Xu Tie-liang . . . . .	55	Chairman, chief executive officer and executive Director
Ms. Guan Yijun . . . . .	54	Executive Director
Mr. Liu Chunsun . . . . .	60	Executive Director
Mr. Li Yunlong . . . . .	67	Independent non-executive Director
Mr. Wang Guangtian . . . . .	55	Independent non-executive Director
Mr. Yang Jie . . . . .	55	Independent non-executive Director

### Executive Directors

**Mr. Xu Tie-liang**, aged 55, was appointed as an executive Director and the Chairman of the Board of the Company on August 30, 2006. He was also appointed as the Chief Executive Officer of the Company on November 4, 2009. Mr. Xu is the chairman of the corporate governance committee of the Company (the “CG Committee”), also the chairman of China City Natural Gas Investment Group Co., Ltd and Baccalieu Energy Inc. and a director of certain subsidiaries of the Company. Mr. Xu is also an Honorary Life Chairman of Cross-Strait Peaceful Development Federation; vice chairman of Hong Kong Energy and Minerals United Associations; Honorary Chairman of The Hong Kong Chinese Enterprises Association (Shandong). Mr. Xu graduated from Xi’an Shiyou University (西安石油大學) and the University of International Business and Economics (對外經濟貿易大學), Postgraduate degree, EMBA of Tsinghua University (清華大學經管學院). He is a certified public accountant and lawyer. Mr. Xu has 30 years’ experience in management, investments, legal and finance.

**Ms. Guan Yijun**, aged 54, was appointed as an executive Director of the Company on 10 September 2010. She was appointed as the vice president of the Company on September 1, 2006. Ms. Guan is a member of each of the CG Committee and the remuneration committee of the Company (“Remuneration

Committee”). She is also a director of certain subsidiaries of the Company. She graduated from Changchun Normal University in the early years and studied at the Advanced Business Administration of Peking University. She has extensive business operation management experiences over 20 years.

**Mr. Liu Chunsun**, aged 60, was appointed as an executive Director of the Company on June 12, 2018. He is a member of each of the nomination committee of the Company (the “Nomination Committee”) and the CG committee. Mr. Liu graduated from China University of Mining And Technology in 1987 and completed correspondence course at China University of Petroleum in 1996. He is a certified accountant. He is engaged in the oil industry for 40 years and the gas industry over 18 years. Since 2002, he joined China City Natural Gas Investment Group Co., Ltd. (中油中泰燃氣集團投資有限責任公司), a non-wholly owned subsidiary of the Company, served successively as deputy general manager of investment department, manager of financial division, assistant to general manager, vice president, director and chief member of remuneration and assessment committee. Mr. Liu has extensive investment and financial management experiences.

### **Independent Non-Executive Directors**

**Mr. Li Yunlong**, aged 67, 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 of the Company (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’s 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 18 years in various audit departments, and is currently a partner of Hua Wen CPA Ltd. (華聞會計師事務所) in the PRC. He was employed as a senior researcher (professor grade) by The Institute of Modern Communication Research, Shandong University. He is also a national financial expert of The Ministry of Science and Technology of the PRC. He is a financial consultant of various companies in the PRC. He has extensive experience in legal, accounting, auditing and finance aspects.

**Mr. Wang Guangtian**, aged 55, was appointed as an independent non-executive Director of the Company on November 4, 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 Hebei University and has over 34 years of experience in financial and administrative management. He is currently the managing director of Gainful Investment Corporation and Guofu (Hong Kong) Holdings Limited. He was an independent non-executive director of ENN Energy Holdings Limited, a company listed on the Stock Exchange, from December 2000 to May 2015. He was appointed as a managing director of Hebei Overseas Listed Equity Investment Fund Co., Ltd. in June 2015.

**Mr. Yang Jie**, aged 55, was appointed as an independent non-executive Director of the Company on May 18, 2017. He is a member of the Audit Committee. Mr. Yang graduated with a Bachelor’s Degree from University of International Business and Economics. Mr. Yang is currently serving as the Executive Director and Chief Executive Officer of MEC Advisory Limited, which is the sole advisor of Can-China Global Resource Fund, and the Executive Director of EMC Financial Limited, which is the general partner of Can-China Global Resource Fund. Mr. Yang has more than 20 years of experience in mining investment and capital operation. He served as a board member of several Canadian listed mining companies and senior adviser of several Chinese companies for their overseas investment. He has participated in corporate financing, mergers and acquisitions for numerous Canadian mining companies. Mr. Yang served as senior vice president in Hunter Dickinson Inc. and Partner and director in Continental Mineral Corp. Mr. Yang is currently a director of Highbury Project Inc., a company listed in Canada.

## SENIOR MANAGEMENT

**Ms. Law Yin Shan, Jenny**, aged 44, was appointed as the chief financial officer of the Company in December 2008. She was granted license of Certified Public Accountant by the State of Washington in U.S. and an auditor for seven years before joining the Company.

**Mr. Xu Youjun**, aged 57, was appointed as a director of COGI in March 2010. His main duties are to assist the president in charge of matters relating to legal affairs, equity, contract, and rules and regulations. He graduated from China University of Political Science and Law majoring in Law in 1998 and is qualified as a lawyer and an intermediate engineer. He worked as a general legal consultant of China Petroleum Pipeline Bureau during 1992 to 2010.

**Mr. Gao Falian**, aged 55, was appointed as a director of COGI in 2018. He is in charge of the human resources department, the audit and supervision department of CCNG. He graduated from Peking University with a bachelor's degree in law in 2003 and is qualified as a senior engineer. He worked as a manager, chief and deputy general manager of various departments of China Petroleum Pipeline Bureau consecutively during 1985 to 2010.

**Mr. Liu Lianyong**, aged 44, was appointed as a president of COGI in 2018. He is in charge of our sales and market development department. He is responsible for managing the business in China. He was graduated from the Foreign Trade Management College of business administration in 2006, and is qualified as assistant engineer, and certified Budgeter.

**Mr. Tang Qile**, aged 56, was appointed as a senior vice president of COGI on December 31, 2011. He is mainly responsible for assisting the president in market development and resource coordination. He is also in charge of the market development department of CCNG, and responsible for the regional coordination in Guizhou Province, Guangxi Province and Fujian Province. He graduated from Beijing University of Chemical Technology with a master's degree in project management in 2008 and is qualified as a senior engineer. He worked as a deputy manager and a project manager of Second Engineering Company of China Petroleum Pipeline Bureau and also was a department manager consecutively during 1983 to 2011.

**Ms. Meng Xianying**, aged 46, was appointed as a senior vice president of COGI in 2018. Her main duties are to assist the president in financial works. She is also in charge of the department of financial assets of CCNG. She graduated from Inner Mongolia University of Finance and Economics with a bachelor's degree in business administration in 2006 and is qualified as an accountant and appraiser. She worked as an assistant to general manager of Beijing Ganda Management Consulting Center (北京港大管理諮詢中心) during 2006 to 2007.

**Mr. Wang Letian**, aged 58, was appointed as a secretary of Board of Director of COGI on July 9, 2009. He is mainly responsible for assisting the president in work relating to the party and corporate culture. He is also responsible for monitoring and supervising corporate security. In addition, he is in charge of management of the general office and responsible for regional coordination in Jiangsu Province and Guangdong Province. He graduated from China University of Mining and Technology with a bachelor's degree in management engineering in 2004.

**Mr. Jiang Zhaowei**, aged 54, was appointed as a vice president of COGI on February 21, 2011. He is mainly responsible for assisting the president in the management of production, engineering and construction, and material procurement. He is also in charge of the engineering department of CCNG and

responsible for the regional coordination in Guizhou Province and Shanxi Province. He graduated from Ministry of Petroleum Industry Staff Higher Education College majoring in civil engineering in 1988 and is qualified as an intermediate engineer. He worked in China Petroleum Pipeline Bureau and he was a general manager of China City CBM Utilization Jizhou Co., Ltd. and Nanchang China Oil and Gas Company Limited consecutively from 2005 to 2011.

**Mr. Xu Gengzhi**, aged 45, was appointed as a vice president of COGI on November 1, 2012. He is responsible for the development, coordination and management of coal chemical business and associated gas market. He was graduated from Qinghai University in 1996 of human resources management.

## **COMPANY SECRETARY**

**Ms. Chan Yuen Ying, Stella**, aged 48, was appointed as the company secretary on October 24, 2005. Ms. Chan is a fellow member of the Institute of Chartered Secretaries and Administrators and a fellow member of the Hong Kong Institute of Chartered Secretaries. She is also a member of the Hong Kong Institute of Directors. Ms. Chan has over 21 years' experience in handling listed company secretarial matters.

## **BOARD COMMITTEES**

### **Audit Committee**

Our Company established the Audit Committee in 1998 in compliance with the Listing Rules. The terms of reference adopted by the Audit Committee deal clearly with its duties and responsibilities. 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 and internal control procedures.

The Audit Committee comprises three members, namely Mr. Li Yunlong, Mr. Wang Guangtian, and Mr. Yang Jie. They are all independent non-executive Directors. The Audit Committee is chaired by Mr. Li Yunlong.

### **Remuneration Committee**

Our Company established the Remuneration Committee on January 13, 2006 with written terms of reference which deal clearly with its duties and responsibilities. The Remuneration Committee is mainly responsible for making recommendation to our Board of Directors on our policy and structure of the remuneration of Directors and senior management, and on the establishment of a formal and transparent procedure for developing remuneration policy.

The Remuneration Committee has three members, comprising Mr. Li Yunlong and Mr. Wang Guangtian, both being independent non-executive Directors, and Ms. Guan Yijun, an executive Director. The Remuneration Committee is chaired by Mr. Li Yunlong.

## **Nomination Committee**

Our Company established the Nomination Committee on March 15, 2006 with written terms of reference which deal clearly with its duties and responsibilities. The Nomination Committee is responsible for reviewing and monitoring the structure, size and diversity of the Board of Directors at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identifying qualified individuals to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; assessing the independence of the independent non-executive Directors; reviewing the Board Diversity Policy and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and Chief Executive Officer.

The Nomination Committee has three members, comprising Mr. Wang Guangtian and Mr. Li Yunlong, both being independent non-executive Directors, and Mr. Liu Chunsun, an executive Director. The Nomination Committee is chaired by Mr. Wang Guangtian.

## **Corporate Governance Committee**

Our Company established the CG Committee on March 20, 2012 with written terms of reference which deal clearly with its duties and responsibilities. The CG Committee is responsible for developing and reviewing the Company's policies and practices on corporate governance to comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules and other legal or regulatory requirements and making recommendations to the Board, overseeing the Company's orientation program for new Director, reviewing and monitoring the training and continuous professional development of Directors and senior management, developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors, and reviewing the Company's disclosure in the Corporate Governance Report as set out in Appendix 14 to the Listing Rules.

The CG Committee has five members, comprising Mr. Xu Tie-liang, Ms. Guan Yijun and Mr. Liu Chunsun, all being executive Directors, Ms. Law Yin Shan Jenny and Ms. Chan Yuen Ying Stella. The CG Committee is chaired by Mr. Xu Tie-liang.

## **SHARE OPTION SCHEME**

### **Old Share Option Scheme**

We adopted a share option scheme on January 31, 2002 (the "Old Share Option Scheme") and terminated the same at our special general meeting on November 23, 2011. As of the date of this offering memorandum, no share options remain outstanding under the Old Share Option Scheme.

### **Restrictive Share Award Scheme**

On November 4, 2011, our Board adopted a restrictive share award scheme, amended on October 31, 2013, to recognize the contributions by our eligible employees and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for our further development. As of December 31, 2018, 30,860,000 restricted shares were outstanding under the scheme.

## **Existing Share Option Scheme**

We adopted a new share option scheme on November 23, 2011 (the “Existing Share Option Scheme”). Our Board may at its discretion offer options to any eligible participant who is our employee, executive or officer (including executive and non-executive directors) and any suppliers, consultants or advisers who will provide or have provided services to us. On July 3, 2018, 13,440,000 share options were exercised at the exercise price of HK\$0.46 per Share under the Share Option Scheme. The closing market price of the Share on June 29, 2018, being the date immediately before the date of exercise, was HK\$0.61. As of March 27, 2019, the total number of Shares available for issue under the Share Option Scheme is 481,771,621 Shares, representing approximately 8.25% of the Shares in issue as of March 27, 2019.

## PRINCIPAL SHAREHOLDERS

As of December 31, 2018, according to the register we maintain in accordance with Section 336 of the SFO, the following parties have interests or short positions in 5% or more of the issued share capital of the Company.

Name	Capacity	Nature of interest	Number of shares held	Percentage of shareholding in our Company
Xu Tie-liang <sup>(1)</sup> . . . . .	Interest in controlled corporations	Long position	1,441,334,130	24.68%
Sino Best International Group Limited <sup>(1)</sup> . . . . .	Interest in controlled corporations	Long position	1,441,334,130	24.68%
Sino Vantage Management Limited <sup>(1)</sup> . . . . .	Beneficial owner	Long position	1,088,214,000	18.63%
Sino Advance Holdings Limited <sup>(1)</sup> . . . . .	Beneficial owner	Long position	353,120,130	6.05%

*Note:*

(1) Sino Advance Holdings Limited (“Sino Advance”) and Sino Vantage Management Limited (“Sino Vantage”) are wholly owned by Sino Best International Group Limited which in turn is wholly and beneficially owned by Mr. Xu Tie-liang. Hence, Mr. Xu is deemed to hold 353,120,130 ordinary shares and 1,088,214,000 ordinary shares of the Company held through Sino Advance and Sino Vantage, respectively.

Except as disclosed above, no other parties were recorded in the register of the Company required to be maintained under Section 336 of the SFO as having interests or short positions in the shares or underlying shares of the Company as of December 31, 2018.

## **RELATED PARTY TRANSACTIONS**

As at December 31, 2018, the Company was indirectly owned by Sino Best International Group Limited, a company incorporated in the British Virgin Islands which in turn was wholly and beneficially owned by Mr. Xu Tie-liang, our Chairman and executive director, as to approximately 24.7%. The remaining 75.3% 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.

## DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing business operations and to finance our working capital requirements, we have borrowed money, incurred indebtedness or obtained financing through debt offering. As of December 31, 2018, our total borrowings including senior notes amounted to HK\$6,549.5 million (US\$836.4 million). The weighted average cost of all indebtedness (including bank borrowings, other borrowings and senior notes) was 5.3%. Since December 31, 2018, we have from time to time incurred additional indebtedness in the ordinary course of business. We set forth below a summary of the material terms and conditions of our loans and other indebtedness.

### PRC LOANS

Some of our PRC subsidiaries have entered into loan agreements with various companies and financial institutions such as China Merchants Bank. These loans generally have terms within one year. As of December 31, 2018, the aggregate outstanding principal amount under these loans totaled approximately RMB1,136.5 million (US\$165.3 million).

#### *Interest*

The principal amounts outstanding under these loans generally bear interest at fixed rates calculated by reference to the PBOC benchmark interest rate. Interest is payable either monthly and payment must be made on each payment date as provided in the particular loan agreement.

#### *Covenants*

Under these loans, many of our subsidiary borrowers have agreed, among other things, not to take the following actions without first obtaining the relevant lenders' prior consent:

- increase debt financing;
- make any major changes to its corporate structure, such as entering into joint ventures, mergers and acquisitions and reorganizations;
- grant guarantees or security interests to any third parties; and
- transfer property rights or make material investments.

#### *Events of Default*

The loans contain certain customary events of default, including credit deterioration, misrepresentations, false warrants and breaches of the terms of the loan agreements. The banks are entitled to terminate their respective agreements and/or demand immediate repayment of the loans and any accrued interest upon the occurrence of an event of default. These loans generally contain cross-default provisions, under which the lenders can request immediate repayment in full of the loans if the relevant subsidiary defaults in payments under its other financing documents.

## **OFFSHORE FINANCINGS**

### **Offshore Loans**

Our offshore loans are credit facilities for short-term borrowings to finance our investment in financial assets, including debt and equity securities and certificates of deposit.

### **CIBC and ATB Financial Financing Commitment**

Baccalieu Energy Inc., our indirectly wholly owned Canadian subsidiary which was acquired in June 2014, entered into a financing commitment dated April 27, 2010, as amended from time to time, jointly with Canadian Imperial Bank of Commerce (“CIBC”) and Alberta Treasury Branches (“ATB Financial”), in connection with a revolving credit facility of a maximum C\$100 million (the “CIBC and ATB Financial Financing Commitment”). The term of this facility is extended to May 30, 2020 and is renewable and further extendable by agreement of both parties. As of the date of this offering memorandum, C\$70 million (US\$51 million) in principal amount was outstanding under this facility.

Baccalieu Energy Inc. and its subsidiaries have been designated as unrestricted subsidiaries under the 2014 Indenture and the 2017 Indenture and will be Unrestricted Subsidiaries on the Original Issue Date.

### ***Interest and Fees***

Each CIBC prime rate loan will bear interest at a variable rate of interest per annum equal to the prime rate of CIBC plus 1.0% per annum. Each U.S. base rate loan will bear interest at variable rate of interest per annum equal to the U.S. base rate of CIBC plus 1.0% per annum. Interests of each of these loans is payable monthly in arrears. For each bankers’ acceptance, the stamping fees for each bankers’ acceptance will be calculated on the face amount of the bankers’ acceptance for the term thereof and will be equal to a Bankers’ Acceptance market screen rate plus 2% annum. Fees on letters of credit and letters of guarantee of 1.5% per annum or portion thereof in advance with a minimum of C\$350 are payable. Extension fee will be paid as 0.1% per annum multiplied by individual commitment amount.

### ***Guarantee and Security***

The CIBC and ATB Financial Financing Commitment is guaranteed by each of Baccalieu Oil & Gas Ltd. and Baccalieu Energy, Baccalieu Energy Inc.’s wholly owned Canadian subsidiaries. In addition, this facility is secured by collateral provided by Baccalieu Energy Inc. itself, and Baccalieu Oil & Gas Ltd. and Baccalieu Energy which includes all of their respective present and after acquired real and personal property.

### ***Covenants***

Under the CIBC and ATB Financial Financing Commitment, Baccalieu Energy Inc. agrees not to, and will not permit or cause Baccalieu Oil & Gas Ltd. and Baccalieu Energy to provide any financial support by loan, guarantee, pledge of their respective shares, granting of any lien of any kind, other than certain permitted encumbrances as set out in the CIBC and ATB Financial Financing Commitment, or otherwise to any person other than CIBC and ATB Financial, or an affiliate thereof hereunder, without the prior written consent of CIBC and ATB Financial, in its sole discretion.

## **The 2014 Notes**

On November 7, 2014, we entered into an indenture (as amended and supplemented from time to time, the “2014 Indenture”) pursuant to which we issued US\$300 million in aggregate principal amount of the 2014 Notes. As of the date of this offering memorandum, the entire principal amount of the 2014 Notes is outstanding.

### ***Guarantee***

The obligations pursuant to the 2014 Notes are guaranteed by our existing subsidiaries (the “2014 Subsidiary Guarantors”) other than those organized under the laws of the PRC and certain other subsidiaries specified in the 2014 Indenture.

Each of the 2014 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under, the 2014 Notes.

### ***Collateral***

In order to secure the obligations under the 2014 Notes, the Company and the 2014 Subsidiary Guarantors under the 2014 Indenture pledged the capital stock of substantially all of such 2014 Subsidiary Guarantors for the benefit of the holders of the 2014 Notes (the “2014 Collateral”).

### ***Interest***

The 2014 Notes bear an interest rate of 5.00% per annum. Interest is payable semi-annually in arrears.

### ***Covenants***

Subject to certain conditions and exceptions, the 2014 Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;

- entering into agreements that restrict the related restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger.

***Events of Default***

The 2014 Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the 2014 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the 2014 Indenture. If an event of default occurs and is continuing, the trustee under the 2014 Indenture or the holders of at least 25% of the outstanding 2014 Notes may declare the principal of the 2014 Notes plus any premium and any accrued and unpaid interest to be immediately due and payable.

***Change of Control***

Upon the occurrence of a certain events of change of control and a rating decline, we will make an offer to repurchase all outstanding 2014 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

***Maturity and Redemption***

The maturity date of the 2014 Notes is November 7, 2020.

On or after May 7, 2018, we may on any one or more occasions redeem all or any part of the 2014 Notes, at the redemption price (expressed as percentages of principal amount) set forth below, plus any accrued and unpaid interest to the redemption date, if redeemed during the twelve-month period beginning on May 7 of the years indicated below:

<b>Period</b>	<b>Redemption Price</b>
2018 . . . . .	102.50%
2019 and thereafter . . . . .	101.25%

We may redeem the 2014 Notes, in whole but not in part, at any time prior to May 7, 2018, at a redemption price equal to 100% of the principal amount of the 2014 Notes redeemed, plus a premium and any accrued and unpaid interest to the redemption date.

At any time and from time to time prior to May 7, 2018, we may redeem up to 35% of the aggregate principal amount of the 2014 Notes at a redemption price equal to 105.00% of the principal amount of the 2014 Notes redeemed, plus any accrued and unpaid interest to the redemption date, with the proceeds from sales of certain kinds of the Company's capital stock, subject to certain conditions.

Additionally, if we or a 2014 Subsidiary Guarantor under the 2014 Indenture would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the 2014 Notes at a redemption price equal to 100% of the principal amount of the 2014 Notes, plus any accrued and unpaid interest to the redemption date, subject to certain exceptions.

## **The 2017 Notes**

On April 20, 2017, we entered into an indenture (as amended and supplemented from time to time, the “2017 Indenture”) pursuant to which we issued US\$350 million in aggregate principal amount of the 2017 Notes. As of the date of this offering memorandum, the entire principal amount of the 2017 Notes is outstanding.

### ***Guarantee***

The obligations pursuant to the 2017 Notes are guaranteed by our existing subsidiaries (the “2017 Subsidiary Guarantors”) other than those organized under the laws of the PRC and certain other subsidiaries specified in the 2017 Indenture.

Each of the 2017 Subsidiary Guarantors, jointly and severally, guarantees the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under, the 2017 Notes.

### ***Collateral***

In order to secure the obligations under the 2017 Notes, the Company and the 2017 Subsidiary Guarantors under the 2017 Indenture pledged the capital stock of substantially all of such 2017 Subsidiary Guarantors for the benefit of the holders of the 2017 Notes (the “2017 Collateral”).

### ***Interest***

The 2017 Notes bear an interest rate of 4.625% per annum. Interest is payable semi-annually in arrears.

### ***Covenants***

Subject to certain conditions and exceptions, the 2017 Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- entering into, renewing or extending transactions with shareholders or affiliates;
- creating liens;
- entering into sale and leaseback transactions; and
- selling assets.

### ***Events of Default***

The 2017 Indenture contains certain customary events of default, including default in the payment of principal, or of any premium, on the 2017 Notes, when such payments become due, default in payment of interest which continues for 30 days, breaches of covenants, insolvency and other events of default specified in the 2017 Indenture. If an event of default occurs and is continuing, the trustee under the 2017 Indenture or the holders of at least 25% of the outstanding 2017 Notes may declare the principal of the 2017 Notes plus any premium and any accrued and unpaid interest to be immediately due and payable.

### ***Change of Control***

Upon the occurrence of a certain events of change of control and a rating decline, we will make an offer to repurchase all outstanding 2017 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest.

### ***Maturity and Redemption***

The maturity date of the 2017 Notes is April 20, 2022.

On or after April 20, 2020, we may on any one or more occasions redeem all or any part of the 2017 Notes, at the redemption price (expressed as percentages of principal amount) set forth below, plus any accrued and unpaid interest to the redemption date, if redeemed during the twelve-month period beginning on April 20 of the years indicated below:

<b>Period</b>	<b>Redemption Price</b>
2020 . . . . .	102.313%
2021 and thereafter . . . . .	101.156%

We may redeem the 2017 Notes, in whole but not in part, at any time prior to April 20, 2022, at a redemption price equal to 100% of the principal amount of the 2017 Notes redeemed, plus a premium and any accrued and unpaid interest to the redemption date.

At any time and from time to time prior to April 20, 2022, we may redeem up to 35% of the aggregate principal amount of the 2017 Notes at a redemption price equal to 104.625% of the principal amount of the 2017 Notes redeemed, plus any accrued and unpaid interest to the redemption date, with the proceeds from sales of certain kinds of the Company's capital stock, subject to certain conditions.

Additionally, if we or a 2017 Subsidiary Guarantor under the 2017 Indenture would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the 2017 Notes at a redemption price equal to 100% of the principal amount of the 2017 Notes, plus any accrued and unpaid interest to the redemption date, subject to certain exceptions.

## DESCRIPTION OF THE NOTES

For purposes of this “Description of the Notes,” the term “Company” refers only to China Oil And Gas Group Limited, and any successor obligor on the Notes, and not to any of its subsidiaries. Each Subsidiary of the Company which Guarantees the Notes is referred to as a “Subsidiary Guarantor,” and each such guarantee is referred to as a “Subsidiary Guarantee.”

The Notes are to be issued under an indenture (the “Indenture”), to be dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors, as guarantors, and Citicorp International Limited, as trustee (the “Trustee”).

The following is a summary of certain provisions of the Indenture, the Notes, the Subsidiary Guarantees and the Intercreditor Agreement. This summary does not purport to be complete and is subject to and qualified in its entirety by reference to all of the provisions of the Indenture, the Notes, the Subsidiary Guarantees and the Intercreditor Agreement. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date at the corporate trust office of the Trustee at 39/F, Champion Tower, 3 Garden Road, Central, Hong Kong.

### BRIEF DESCRIPTION OF THE NOTES

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with the 2014 Notes, the 2017 Notes and all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described below under “— The Subsidiary Guarantees” and in “Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral” of this offering memorandum;
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (defined below); and
- effectively subordinated to all existing and future secured obligations of the Company and the Subsidiary Guarantors, to the extent of the value of the collateral securing such obligations (other than the Collateral).

In addition, on the Original Issue Date, subject to the limitations described in “Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral” of this offering memorandum, the Notes will be secured by a pledge of the Collateral as described below under “— Security” and will, for so long as any 2014 Note or 2017 Note remains outstanding:

- be entitled to a first-priority lien on the Collateral (subject to any Permitted Liens and the Intercreditor Agreement) shared on a *pari passu* basis pursuant to the Intercreditor Agreement with (i) the holders of the 2014 Notes, (ii) the holders of the 2017 Notes and (iii) the holders of other Permitted *Pari Passu* Secured Indebtedness; and
- rank effectively senior in right of payment to unsecured obligations of the Company and the Subsidiary Guarantor Pledgors with respect to the value of the Collateral pledged by the Company and the Subsidiary Guarantor Pledgors securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Notes will mature on January 25, 2023, unless earlier redeemed pursuant to the terms thereof and the Indenture. The Indenture allows additional Notes to be issued from time to time (the “Additional Notes”), subject to certain limitations described under “— Further Issues.” Unless the context requires otherwise, references to the “Notes” for all purposes of the Indenture and this “Description of the Notes” include any Additional Notes that are actually issued.

The Notes will bear interest at 5.5% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semiannually in arrears on January 25 and July 25 of each year (each an “Interest Payment Date”), commencing January 25, 2020. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months. So long as the Notes are held in global form, each payment in respect of the Notes will be made to the person shown as the holder of the Notes in the Notes register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payments, where “Clearing System Business Day” means a weekday (Monday to Friday, inclusive) except December 25 and January 1.

Interest on the Notes will be paid to the Holders of record at the close of business on January 10 or July 10 immediately preceding an Interest Payment Date (each, a “Record Date”), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. In any case in which the date of the payment of principal of, premium on, or interest on, the Notes is not a Business Day, then payment of principal, premium or interest need not be made in such place on such date but may be made on the next succeeding Business Day. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date.

The Notes will be issued only in fully registered form, without coupons, in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of the Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose (which initially will be an office of the Paying Agent, currently located at One North Wall Quay, Dublin 1, Ireland), and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided* that, at the option of the Company, payment of interest may be made by check mailed (at the expense of the Company) to the address of the Holders as such address appears in the Note register maintained by the Registrar or by wire transfer. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

## THE SUBSIDIARY GUARANTEES

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of All Praise Investments Limited, Super Aim Investments Limited, China Oil and Gas Group (Jiangxi) Company Limited, Accelstar Pacific Limited, Sino Petroleum International Limited, Plentigreat Holdings Limited, Skytop International Holdings Limited, Star Charm Holdings Limited, Majestic International Limited, Vast China Group Limited, Top Best Group (Hong Kong) Limited, Ming Sheng Hong Kong Limited, Real Million Investments Limited, Alta Financial Holdings Limited, Zhongda Industrial Group Inc., China Oil And Gas Group Limited (the Company's Wholly Owned Subsidiary incorporated in the British Virgin Islands), Hong Kong China Oil and Gas Group Limited. None of the existing or future Restricted Subsidiaries organized under the laws of the PRC (the "PRC Non-Guarantor Subsidiaries") or Restricted Subsidiaries organized outside the PRC other than the initial Subsidiary Guarantors (the "Initial Non-Guarantor Subsidiaries," and, together with the PRC Non-Guarantor Subsidiaries, and for as long as they are not Subsidiary Guarantors, the "Existing Non-Guarantor Subsidiaries") will provide a Subsidiary Guarantee on the Original Issue Date. All of the initial Subsidiary Guarantors are holding companies that do not have significant operations.

The Company will cause each of its future Restricted Subsidiaries (other than Exempted Subsidiaries, Listed Subsidiaries and Persons organized under the laws of the PRC), as soon as practicable and in any event within 30 days after it becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary or a Listed Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which it will Guarantee the payment of the Notes. Notwithstanding the foregoing sentence, the Company may elect to have any future Restricted Subsidiary organized outside the PRC not provide a Subsidiary Guarantee at the time such entity becomes a Restricted Subsidiary or ceases to be an Exempted Subsidiary or a Listed Subsidiary (the "New Non-Guarantor Subsidiary" and, together with the Existing Non-Guarantor Subsidiaries, the "Non-Guarantor Subsidiaries"); *provided* that, after giving effect to the Consolidated Assets of such Restricted Subsidiary, the Consolidated Assets of all Restricted Subsidiaries organized outside the PRC (other than Exempted Subsidiaries and Listed Subsidiaries) that are not Subsidiary Guarantors do not account for more than 25% of Total Assets.

In the case of a Subsidiary Guarantor with respect to which the Company or any of its Restricted Subsidiaries is proposing to sell, whether through the sale of existing shares or the issuance of new shares, no less than 20% of the Capital Stock of such Subsidiary Guarantor, the Company may concurrently with or as soon as practicable after the consummation of such sale or issuance of Capital Stock, (a) instruct the Trustee to release the Subsidiary Guarantees provided by such Subsidiary Guarantor and each of its Restricted Subsidiaries organized outside the PRC, and upon such release such Subsidiary Guarantor and its Restricted Subsidiaries organized outside the PRC will become "New Non-Guarantor Subsidiaries" (such that each New Non-Guarantor Subsidiary will no longer Guarantee the Notes) and (b) instruct the Collateral Agent to (i) discharge the pledge of the Capital Stock granted by each such New Non-Guarantor Subsidiary and (ii) discharge the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the shares it owns in such New Non-Guarantor Subsidiary (in each case, without any requirement to seek the consent or approval of the Holders of the Notes), *provided* that, after the release of such Subsidiary Guarantees, the consolidated assets of all Restricted Subsidiaries organized outside the PRC that are not Subsidiary Guarantors or JV Subsidiary Guarantors (including the New Non-Guarantor Subsidiaries but excluding Exempted Subsidiaries and Listed Subsidiaries) do not account for more than 25% of Total Assets. A Subsidiary Guarantee of a Subsidiary Guarantor may only be released pursuant to this paragraph if as of the date of such proposed release, no document exists that is binding on the Company or any of the Restricted Subsidiaries that would have the effect of (a) prohibiting

the Company or any of the Restricted Subsidiaries from releasing such Subsidiary Guarantee or (b) requiring the Company or such Subsidiary Guarantor to deliver or keep in place a guarantee of other Indebtedness of the Company by such Subsidiary Guarantor.

Each Restricted Subsidiary that Guarantees the Notes after the Original Issue Date is referred to as a “Future Subsidiary Guarantor” and, upon execution of the applicable supplemental indenture to the Indenture, will be a “Subsidiary Guarantor.”

None of the existing PRC Non-Guarantor Subsidiaries will provide a Subsidiary Guarantee at any time in the future. Moreover, no future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee at any time in the future. Although the Indenture contains limitations on the amount of additional Indebtedness that Non-Guarantor Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, such Non-Guarantor Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to the Company.

As of December 31, 2018,

- the Company and its consolidated subsidiaries (including the Non-Guarantor Subsidiaries) had total consolidated indebtedness of approximately HK\$6,549.5 million (US\$836.4 million); and
- the Non-Guarantor Subsidiaries had total indebtedness of approximately HK\$1,284.2 million (US\$164.0 million).

In addition, as of December 31, 2018, the Non-Guarantor Subsidiaries had capital commitments and contingent liabilities of HK\$127.1 million (US\$16.2 million) and nil, respectively.

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to the secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets (other than the Collateral) serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee;
- ranks at least *pari passu* with the subsidiary guarantee of such Subsidiary Guarantor for the 2014 Notes and the 2017 Notes, if any, and all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law); and
- is effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

In addition, subject to the limitations described in “Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral” of this offering memorandum, the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor will, for so long as any 2014 Note or 2017 Note remains outstanding:

- be entitled to a first-ranking security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor shared on a *pari passu* basis pursuant to the Intercreditor Agreement with (i) the holders of the 2014 Notes, (ii) the holders of the 2017 Notes and (iii) the holders of other Permitted Pari Passu Secured Indebtedness, as described below under “— Security”; and
- rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors will jointly and severally Guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The Subsidiary Guarantors will (1) agree that their obligations under the Subsidiary Guarantees will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees will be reinstated with respect to such payments as though such payment had not been made. All payments under the Subsidiary Guarantees are required to be made in U.S. dollars.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be Guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally. If a Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness (including Guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor, and, depending on the amount of such indebtedness, a Subsidiary Guarantor’s liability on its Subsidiary Guarantee could be reduced to zero.

The obligations of each Subsidiary Guarantor under its respective Subsidiary Guarantee and the enforceability of the Collateral granted in respect of the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors may be limited, or possibly invalid, under applicable laws. See “Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral — The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees” of this offering memorandum.

### ***Release of the Subsidiary Guarantees***

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under Defeasance — “Defeasance and discharge”;
- upon the designation by the Company of a Subsidiary Guarantor as an Unrestricted Subsidiary in compliance with the terms of the Indenture;

- upon the sale, disposition or merger of a Subsidiary Guarantor in compliance with the terms of the Indenture (including the covenants under “— Certain Covenants — Limitation on sales and issuances of Capital Stock in Restricted Subsidiaries,” “— Certain Covenants — Limitation on Asset Sales” and “— Consolidation, Merger and Sale of Assets”) resulting in such Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company’s other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale, disposition or merger are used for the purposes permitted or required by the Indenture; or
- in the case of a Subsidiary Guarantor that becomes a New Non-Guarantor Subsidiary, in compliance with the terms of the Indenture.

As of the date of the Indenture, all of the Company’s Subsidiaries (other than Alltime City Development Limited, Harbour Wisdom International Limited, Baccalieu Energy Inc., Baccalieu Oil & Gas Limited and Baccalieu Energy (Partnership)) will be “Restricted Subsidiaries.” Under the circumstances described below under “— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries,” the Company will be permitted to designate certain of its Subsidiaries as “Unrestricted Subsidiaries.” The Company’s Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture. The Company’s Unrestricted Subsidiaries will not Guarantee the Notes.

## SECURITY

The Company and the initial Subsidiary Guarantor Pledgors have pledged in favor of the Collateral Agent the Capital Stock of the initial Subsidiary Guarantors (the “Collateral”) (subject to Permitted Liens and the Intercreditor Agreement) in order to secure the obligations of the Company under the 2014 Notes and the 2017 Notes and the indentures for the 2014 Notes and the 2017 Notes and of such Subsidiary Guarantor Pledgors under their respective subsidiary guarantees, if any, of the 2014 Notes and the 2017 Notes. The Company has agreed to extend, or cause the initial Subsidiary Guarantor Pledgors to extend, as the case may be, the benefit of the security interest created over the Collateral to the Holders on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and of such initial Subsidiary Guarantor Pledgor under its Subsidiary Guarantee, for so long as any 2014 Note or 2017 Note remains outstanding. Upon the execution of the Supplement to the Intercreditor Agreement in the manner as described under “— Intercreditor Agreement,” the security interest over the Collateral described above will be so extended.

The initial Subsidiary Guarantor Pledgors are All Praise Investments Limited, Super Aim Investments Limited, Accelstar Pacific Limited, Plentigreat Holdings Limited, Star Charm Holdings Limited, Vast China Group Limited, China Oil And Gas Group Limited (the Company’s Wholly Owned Subsidiary incorporated in the British Virgin Islands) and Real Million Investments Limited.

None of the Capital Stock of the Non-Guarantor Subsidiaries will be pledged on the Original Issue Date. In addition, none of the Capital Stock of any future Restricted Subsidiary that is organized under the laws of the PRC, or any Restricted Subsidiary owned directly by a Subsidiary organized under the laws of the PRC, will be pledged at any time in the future, *provided* that if the Company designates any of the Other Non-Guarantor Subsidiaries as a Subsidiary Guarantor after the Original Issue Date, the Capital Stock of such Subsidiary Guarantor will be pledged, as soon as practicable but in any event within 30 days after such designation, to secure the obligations of the Company under the Notes and the Indenture, and of the Subsidiary Guarantors under the Subsidiary Guarantees in the manner described above.

For so long as any 2014 Note or 2017 Note remains outstanding, the Company has agreed, for the benefit of the Holders, to pledge, or cause each Subsidiary Guarantor to pledge, the Capital Stock owned directly by the Company or such Subsidiary Guarantor of any Person that becomes a Subsidiary Guarantor or additional shares of Capital Stock acquired or otherwise received by the Company or such Subsidiary Guarantor of any existing Subsidiary Guarantor (in each case, other than Subsidiary Guarantors that become New Non-Guarantor Subsidiaries) after the Original Issue Date, as soon as practicable and in any event within 30 days after such Person becomes a Subsidiary Guarantor, to secure (subject to Permitted Liens and the Intercreditor Agreement) the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, in the manner described above.

Each Subsidiary Guarantor that pledges Capital Stock of a Restricted Subsidiary after the Original Issue Date is referred to as a “Future Subsidiary Guarantor Pledgor” and, upon giving such pledge, will be a “Subsidiary Guarantor Pledgor.”

The Collateral will be shared on a *pari passu* basis by the Holders, the holders of the 2014 Notes, the holders of the 2017 Notes and the holders of other Permitted *Pari Passu* Secured Indebtedness. Accordingly, in the event of a default on the Notes, the 2014 Notes, the 2017 Notes or other Permitted *Pari Passu* Secured Indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the holders of *pari passu* secured indebtedness in proportion to the outstanding amounts of each class of *pari passu* secured indebtedness.

The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement) is unlikely to be sufficient to satisfy the Company’s and each of the Subsidiary Guarantor Pledgors’ obligations under the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement), and the Collateral securing the Notes and such Subsidiary Guarantees (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement) may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and other Permitted *Pari Passu* Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture and the Intercreditor Agreement. See “— Release of Security” and “Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral — The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Notes and other *pari passu* secured indebtedness” of this offering memorandum.

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture, the Intercreditor Agreement and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes or the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors (as reduced by the obligations owed to other secured creditors under the Intercreditor Agreement). Some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Payment Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company and any Subsidiary Guarantor Pledgor, as the case may be, will be entitled to exercise any and all voting rights and to receive, retain and use any and all

cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

### ***Permitted Pari Passu Secured Indebtedness***

On or after the Original Issue Date, for so long as any 2014 Note or 2017 Note remains outstanding, the Company and any Subsidiary Guarantor Pledgor may create Liens on the Collateral *pari passu* with the Lien for the benefit of the Holders to secure Indebtedness of the Company (including Additional Notes) or any Subsidiary Guarantor and any Pari Passu Guarantee with respect to such Indebtedness (such Indebtedness of the Company or any Subsidiary Guarantor and any such Pari Passu Guarantee, “Permitted Pari Passu Secured Indebtedness”); *provided that* (1) the Company or such Subsidiary Guarantor was permitted to Incur such Indebtedness under the covenant described under “— Limitation on Indebtedness;” (2) the holders of such Indebtedness (or their trustee, representative or agent), other than with respect to Additional Notes, become party to the Intercreditor Agreement referred to below; and (3) the Company and such Subsidiary Guarantor Pledgor deliver to the Trustee and the Collateral Agent (as defined below) an Opinion of Counsel and an Officers’ Certificate with respect to corporate and collateral matters in connection with the Security Documents, which shall include a statement that either (x) all necessary actions have been taken with respect to the recording, registering and filing of the Security Documents, financing statements or other instruments necessary to make effective the Liens intended to be created by the Security Documents or (y) no such action is necessary to make such Lien effective, in form and substance reasonably satisfactory to the Trustee and the Collateral Agent. The Trustee and/or the Collateral Agent, as the case may be, will be permitted and authorized, without the consent of any Holder, to enter into any amendments to the Security Documents, the Intercreditor Agreement or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with this paragraph and the terms of the Indenture (including, without limitation, the appointment of any collateral agent under the Intercreditor Agreement referred to below to hold the Collateral on behalf of the Holders and the holders of Permitted Pari Passu Secured Indebtedness).

Except for certain Permitted Liens and the Permitted Pari Passu Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

### ***Intercreditor Agreement***

(i) The Company, (ii) the initial Subsidiary Guarantor Pledgors, (iii) the Collateral Agent, (iv) Citicorp International Limited, as trustee for the 2013 Notes and (v) Citicorp International Limited, as trustee for the 2014 Notes entered into an intercreditor agreement (as amended, waived, restated, replaced and/or supplemented from time to time, the “Intercreditor Agreement”) dated November 7, 2014, pursuant to which certain rights and interests with respect to the Collateral are regulated and a mechanism for the holders of any future Permitted Pari Passu Secured Indebtedness (or their trustee, representative or agent) to become bound, including the conditions under which the Collateral Agent shall enforce the rights of the secured parties thereto, and be entitled to receive a *pro rata* entitlement to and equal priority in the Collateral is created. The trustee for the 2017 Notes acceded to the Intercreditor Agreement on April 20, 2017. On the Original Issue Date, the Trustee will execute a supplement to the Intercreditor Agreement pursuant to which the holders of the Notes (through the Trustee) will agree, among other things, (1) that the secured parties thereto and the holders of any future Permitted Pari Passu Secured Indebtedness (or

their trustee, representative or agent) will share equal priority and *pro rata* entitlement in and to the Collateral; and (2) the conditions under which the Collateral Agent shall enforce the rights of the secured parties thereto.

In connection with the incurrence of any Permitted Pari Passu Secured Indebtedness (other than Additional Notes), the holders of such Permitted Pari Passu Secured Indebtedness (or their representative, trustee or agent) will accede to the Intercreditor Agreement to include the holders (or their representatives, trustees or agents) of such Permitted Pari Passu Secured Indebtedness as parties to the Intercreditor Agreement, for so long as any Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees) is outstanding.

By accepting the Notes, each Holder shall be deemed to have consented to the execution of the Intercreditor Agreement and any amendments, supplements, or modifications thereto required under the Indenture.

### ***Enforcement of Security***

Citicorp International Limited will act as the Collateral Agent under the Security Documents. The Collateral Agent, subject to the Intercreditor Agreement, will hold such Liens over the Collateral granted pursuant to the Security Documents and the Intercreditor Agreement with sole authority as directed by the written instruction of the Creditor Representatives (as defined herein) to exercise remedies under the Security Documents, for so long as any 2014 Note or 2017 Note remains outstanding. The Trustee has agreed to act as secured party on behalf of the Holders under the applicable Security Documents, to follow the written instructions provided to it by the Holders under the Indenture and to carry out certain other duties.

The Indenture, the Intercreditor Agreement and/or the Security Documents principally provide that, at any time while the Notes are outstanding, the Collateral Agent has the right to manage, perform and enforce the terms of the Security Documents relating to the Collateral and to exercise and enforce privileges, rights and remedies thereunder according to its direction, including to take or retake control or possession of such Collateral and to hold, prepare for sale, process, lease, dispose of or liquidate such Collateral, including, without limitation, following the occurrence of an Event of Default under the Indenture.

The Intercreditor Agreement will provide that the Collateral Agent will enforce the Collateral in accordance with a written instruction by any Creditor Representative to do so if it does not receive any conflicting instruction, and in the case of conflicting instructions delivered by two or more Creditor Representatives, the Collateral Agent will only enforce the Collateral upon receiving written instructions from the Creditor Representatives representing a majority of the outstanding principal amount of the Indebtedness under the Debt Documents. See “Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral — The Intercreditor Agreement may limit the rights of holders of the Notes to enforce the Collateral” of this offering memorandum.

All payments received and all amounts held by the Collateral Agent in respect of the Collateral under the Security Documents will be, subject to the Intercreditor Agreement, applied as follows:

*first*, to the Collateral Agent to the extent necessary to reimburse the Collateral Agent for any unpaid fees, costs and expenses (including reasonable expenses of its counsel) incurred in connection with the collection or distribution of such amounts held or realized or in connection with expenses incurred in

enforcing all available remedies under the Intercreditor Agreement and the Security Documents and preserving the Collateral and all amounts for which the Collateral Agent are entitled to indemnification under the Intercreditor Agreement and the Security Documents;

*second*, to the extent not reimbursed under the above paragraph, ratably to the Trustee, the trustee for the 2014 Notes, the trustee for the 2017 Notes and other Creditor Representatives, to the extent necessary to reimburse the foregoing persons for any unpaid fees, costs and expenses (including expenses of any paying agents, transfer agents, registrars or other agents in connection therewith appointed in connection with the foregoing and reasonable expenses of counsel) incurred under the Security Documents and the agreements governing any Permitted Pari Passu Secured Indebtedness (or any other document in connection with the foregoing that such paying agents, transfer agents, registrars or other agents are party to) in connection with the collection or distribution of such amounts held or realized or in connection with expenses incurred in enforcing all available remedies under the Debt Documents, the Intercreditor Agreement and the Security Documents and preserving the Collateral and all indemnification payments for which the foregoing persons are entitled to under the Debt Documents, the Intercreditor Agreement and the Security Documents;

*third*, ratably to each of the Trustee for the benefit of the Holders, the trustee for the 2014 Notes for the benefit of the holders of the 2014 Notes, the trustee for the 2017 Notes for the benefit of the holders of the 2017 Notes and, to the extent applicable, to other Creditor Representatives for the benefit of the holders of any Permitted Pari Passu Secured Indebtedness (to the extent not paid pursuant to the paragraphs above), inclusive of any reasonable fees and expenses of the foregoing persons and the principal, interest and premium thereon and for the benefit of the holders each thereof in accordance with the terms of the relevant Debt Documents; and

*fourth*, any surplus remaining after such payments will be paid to the Company, the Subsidiary Guarantor Pledgors or to whomever may be lawfully entitled thereto.

The Collateral Agent may decline to expend its own funds, foreclose on the Collateral or exercise remedies available if it does not receive indemnification and/or security to its satisfaction. In addition, the Collateral Agent's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Collateral Agent's Liens on the Collateral. Neither the Trustee, the Collateral Agent nor any of their respective officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Notes, for the legality, enforceability, effectiveness or sufficiency of the Security Documents or the Intercreditor Agreement, for the creation, perfection, continuation, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so.

The Security Documents provide that the Company and the Subsidiary Guarantor Pledgors will indemnify the Collateral Agent for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind imposed against the Collateral Agent arising out of the Intercreditor Agreement or the Security Documents except to the extent that any of the foregoing are finally judicially determined to have resulted from the gross negligence, fraud or willful misconduct of the Collateral Agent.

This section, “— Enforcement of Security,” shall be subject to any amendments to the Intercreditor Agreement, the Security Documents or the Indenture to permit the creation of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with “— Permitted Pari Passu Secured Indebtedness” above.

### ***Release of Security***

The security created in respect of the Collateral granted under the Security Documents may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon defeasance and discharge of the Notes as provided below under “— Defeasance — Defeasance and Discharge;”
- upon certain dispositions of the Collateral in compliance with the covenants described under “— Certain Covenants — Limitation on sales and issuances of Capital Stock in Restricted Subsidiaries” or “— Certain Covenants — Limitation on Asset Sales” or in accordance with the provision described under “— Certain Covenants — Consolidation, Merger and Sale of Assets;”
- with respect to security granted by a Subsidiary Guarantor Pledgor, upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture;
- with respect to a Subsidiary Guarantor that becomes a New Non-Guarantor Subsidiary, the release of the pledge of Capital Stock made by the Company or any Subsidiary Guarantor over the shares it owns in such New Non-Guarantor Subsidiary;
- with respect to the security over the Collateral pledged to secure the Notes, upon repayment of all Indebtedness secured by the Collateral (other than the Indebtedness represented by the Notes and the Subsidiary Guarantees); and
- when no 2014 Note or 2017 Note remains outstanding.

### **FURTHER ISSUES**

Subject to the covenants described below and in accordance with the terms of the Indenture, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees) in all respects (or in all respects except for the issue date, issue price and the first interest period and, to the extent necessary, certain temporary securities law transfer restrictions) (a “Further Issue”) so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes will then be permitted under the “Limitation on Indebtedness” covenant described below and the other provisions of the Indenture.

## OPTIONAL REDEMPTION

On or after July 25, 2021, the Company may on any one or more occasions redeem all or any part of the Notes, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, on the Notes redeemed, to (but not including) the applicable date of redemption, if redeemed during the twelve-month period beginning on July 25, 2021 and the six-month period beginning on July 25, 2022 as indicated below, subject to the rights of holders of Notes on the relevant Record Date to receive interest on the relevant Interest Payment Date:

<u>Date</u>	<u>Redemption Price</u>
July 25, 2021 . . . . .	102.75%
July 25, 2022 and thereafter . . . . .	101.375%

The Company may at its option redeem the Notes, in whole but not in part, at any time prior to July 25, 2021, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying the Applicable Premium.

At any time and from time to time prior to July 25, 2021, the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 105.5% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

At any time on or after the date when no more than 15% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest, if any, to (but not including) the redemption date.

The Company will give not less than 15 days' nor more than 60 days' notice of any redemption. If less than all of the Notes are to be redeemed at any time, the Notes for redemption will be selected as follows:

- (1) if the Notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the Notes are listed or if the Notes are held through the clearing systems, in compliance with the requirements of the clearing systems; or
- (2) if the Notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such other method as the Trustee in its sole and absolute discretion shall deem to be fair and appropriate unless otherwise required by law or by applicable stock exchange or clearing system requirements.

No Note of US\$200,000 in principal amount or less shall be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. With respect to any Certificated Note, a new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

#### **PURCHASE OF NOTES UPON A CHANGE OF CONTROL TRIGGERING EVENT**

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a “Change of Control Offer”) at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date (as defined in clause (2) of the definition of “Offer to Purchase”).

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit the repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the Company’s failure to purchase tendered Notes would constitute an Event of Default under the Indenture. Notwithstanding the foregoing, the Company will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes the Change of Control Offer in the same manner, at the same time and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The Company’s ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company’s then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See “Risk Factors — Risks Relating to the Notes — We may not be able to repurchase the Notes upon a change of control triggering event” of this offering memorandum.

The definition of Change of Control includes a phrase relating to the sale of “all or substantially all” the assets of the Company. Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder of Notes to require the Company to repurchase such Holder’s Notes as a result of a sale of less than all the assets of the Company to another person or group may be uncertain and will depend upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of “all or substantially all” the assets of the Company has occurred.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control Triggering Event or any event which could lead to the occurrence of a Change of Control Triggering Event has occurred and shall not be liable to any person for any failure to do so.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

#### **NO MANDATORY REDEMPTION OR SINKING FUND**

There will be no mandatory redemption or sinking fund payments for the Notes.

#### **ADDITIONAL AMOUNTS**

All payments of principal of, and premium (if any) and interest on the Notes and under the Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under “— Consolidation, Merger and Sale of Assets”) or an applicable Subsidiary Guarantor is organized or resident for tax purposes or any political subdivision or taxing authority thereof or therein (each, as applicable, a “Relevant Taxing Jurisdiction”) or any jurisdiction through which payment is made by or on behalf of the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, or any political subdivision or taxing authority thereof or therein (together with the Relevant Taxing Jurisdictions, the “Relevant Jurisdictions”), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts (“Additional Amounts”) as will result in receipt by the Holder of each Note, of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

- (1) for or on account of:
  - (a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:
    - (i) the existence of any present or former connection between the Holder or beneficial owner of such Note and the Relevant Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;
    - (ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period; or

- (iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person or any Subsidiary Guarantor, addressed to the Holder, to provide information concerning such Holder's or beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request would have reduced or eliminated any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder;
  - (b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;
  - (c) any tax, duty, assessment or other governmental charge to the extent such tax, duty, assessment or other governmental charge results from the presentation of the Note (where presentation is required) for payment and the payment can be made without such withholding or deduction by the presentation of the Note for payment elsewhere;
  - (d) any tax, assessment, withholding or deduction required by sections 1471 through 1474 of the Internal Revenue Code of 1986, as amended ("FATCA"), any current or future Treasury Regulations or rulings promulgated thereunder, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA, any law, regulation or other official guidance enacted in any jurisdiction implementing such an intergovernmental agreement or FATCA, or any agreement with the U.S. Internal Revenue Service under FATCA; or
  - (e) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b), (c) and (d); or
- (2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

The Company will (i) make such withholding or deduction and (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law. The Company will make reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any taxes so deducted or withheld from the Relevant Jurisdiction imposing such taxes. The Company will furnish to the Holders and the Trustee, within 90 days after the date the payment of any taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment or, if such receipts are not obtainable, other evidence of such payments.

At least 30 days prior to each date on which any payment under or with respect to the Notes is due and payable, if the Company will be obligated to pay Additional Amounts with respect to such payment, the Company will deliver to the Trustee an Officers' Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the Paying Agent to pay such Additional Amounts to the Holders on such payment date.

In addition, the Company will pay any stamp, issue, registration, documentary, value added or other similar taxes and other duties (including interest and penalties) payable in any Relevant Jurisdiction in respect of the creation, issue, offering, execution or enforcement of the Notes, or any documentation with respect thereto.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

## **REDEMPTION FOR TAXATION REASONS**

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders and the Trustee (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

- (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction, excluding any applicable treaty with the Relevant Taxing Jurisdiction, affecting taxation; or
- (2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective or, in the case of an official position, is announced (i) with respect to the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor or Surviving Person, on or after the date such Future Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor or a Surviving Person, with respect to any payment due or to become due under the Notes or the Indenture, the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the giving of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

- (1) an Officers' Certificate stating that such change, amendment or statement of an official position referred to in this section entitled "Redemption for Taxation Reasons" has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, taking reasonable measures; and

- (2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Taxing Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change, amendment or statement of an official position referred to in this section entitled “Redemption for Taxation Reasons.”

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

## **CERTAIN COVENANTS**

Set forth below are summaries of certain covenants contained in the Indenture.

### ***Limitation on Indebtedness***

- (1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness); *provided* that the Company and any Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) and any Non-Guarantor Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness or Permitted Subsidiary Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would not be less than 2.5 to 1.0 with respect to any Incurrence of Indebtedness.

Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).

- (2) Notwithstanding the foregoing, the Company and any Restricted Subsidiary may Incur, to the extent provided below, each and all of the following (“Permitted Indebtedness”):
  - (a) Indebtedness under the Notes (excluding any Additional Notes and any Permitted Pari Passu Secured Indebtedness of the Company) and each Subsidiary Guarantee;
  - (b) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (c) below; *provided* that such Indebtedness of Restricted Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness;
  - (c) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided* that (i) any event which results in (x) any Restricted Subsidiary to which such Indebtedness is owed ceasing to be a Restricted Subsidiary or (y) any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (c) and (ii) if the Company is the obligor on such Indebtedness, such Indebtedness must expressly be subordinated in right of payment to the Notes, and if any Subsidiary Guarantor is the obligor on such Indebtedness (and neither the Company nor any other Subsidiary Guarantor is the obligee), such Indebtedness must be expressly subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor;

- (d) Indebtedness (“Permitted Refinancing Indebtedness”) of the Company or any Restricted Subsidiary issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, redeem, defease, discharge or extend (collectively, “refinance” and “refinances” and “refinanced” shall have a correlative meaning), then outstanding Indebtedness Incurred under the proviso in paragraph (1) above or clause (a), (b), (d), (f), (k), (n), (o), (p), (q) or (r) of paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced (plus premiums, accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to refinance the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or any Subsidiary Guarantee shall only be permitted under this clause (d) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or any Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or any Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee, as the case may be, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced, and (iii) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor;
- (e) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations (i) entered into in the ordinary course of business and designed solely to protect the Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation or (ii) designed to reduce or manage interest expenses;
- (f) any *Pari Passu* Guarantee;
- (g) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently, except in the case of daylight overdrafts, drawn against insufficient funds in the ordinary course of business; *provided* that this Indebtedness is extinguished within five Business Days;
- (h) Indebtedness of the Company or any Restricted Subsidiary in respect of workers’ compensation claims and claims arising under similar legislation, or in connection with self-insurance or similar requirements, in each case in the ordinary course of business;
- (i) Indebtedness arising from agreements of the Company or a Restricted Subsidiary providing for indemnification, adjustment of purchase price, earn-out or other similar obligations, in each case Incurred or assumed in connection with the disposition of any business, assets of the Company or of a Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of any of the Company’s or a Restricted Subsidiary’s

business or assets for the purpose of financing an acquisition; *provided* that the maximum assumable liability in respect of all this Indebtedness shall at no time exceed the gross proceeds actually received by the Company and/or the relevant Restricted Subsidiary in connection with the disposition;

- (j) obligations with respect to trade letters of credit, performance and surety bonds and completion guarantees provided by the Company or any of its Restricted Subsidiaries securing obligations, entered into in the ordinary course of business, to the extent the letters of credit, bonds or guarantees are not drawn upon or, if and to the extent drawn upon is honored in accordance with its terms and, if to be reimbursed, is reimbursed no later than 30 days following receipt of a demand for reimbursement following payment on the letter of credit, bond or guarantee;
- (k) Indebtedness of the Company or any Restricted Subsidiary incurred in the ordinary course of business:
  - (i) representing Capitalized Lease Obligations; or
  - (ii) constituting purchase money Indebtedness incurred to finance all or any part of the purchase price of equipment, property or assets of the Company or any Restricted Subsidiary (including the purchase of Capital Stock of any Person holding such equipment, property or assets that is, or will upon such purchase become, a Restricted Subsidiary) or the cost of development, construction or improvement of equipment, property or assets to be used in the ordinary course of business by the Company or a Restricted Subsidiary;

*provided* that (A) such purchase money Indebtedness shall not exceed the purchase price of such equipment, property or assets so acquired, (B) such purchase money Indebtedness shall be Incurred no later than 180 days after the acquisition of such equipment, property or assets and (C) on the date of the Incurrence of any Indebtedness permitted by this clause, and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (k) (together with any refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clause, to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (n), (p), (q) and (r) below (together, in each case, with any refinancings thereof, but excluding any Guarantee Incurred under such clauses to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30.0% of Total Assets;

- (l) Guarantees by any Non-Guarantor Subsidiary of Indebtedness of any other Non-Guarantor Subsidiary; *provided* that the Indebtedness guaranteed is permitted to be Incurred under the Indenture;
- (m) Guarantees by the Company and any Subsidiary Guarantor of any Indebtedness of the Company or any Restricted Subsidiary; *provided* that the Indebtedness guaranteed is permitted to be Incurred under the Indenture;

- (n) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less for working capital; *provided* that, on the date of the Incurrence of any Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (n) (together with any refinancings thereof, but excluding any Guarantee Incurred under such clause to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clause (k) above and clauses (p), (q) and (r) below (together, in each case, with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (k) and any Guarantee Incurred under clauses (k), (p), (q) and (r) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30.0% of Total Assets;
- (o) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with any refinancings thereof) not to exceed US\$25.0 million (or the Dollar Equivalent thereof);
- (p) Bank Deposit Secured Indebtedness Incurred by the Company or any of its Restricted Subsidiaries; *provided* that, on the date of the Incurrence of any Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (p) (together with any refinancings thereof, but excluding any Guarantee Incurred under such clause to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (k) and (n) above and clause (q) and (r) below (together, in each case, with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (k) and any Guarantee Incurred under clauses (k), (n), (q) and (r) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30.0% of Total Assets;
- (q) Acquired Indebtedness of a Person Incurred by the Company or any Restricted Subsidiary on the date on which such Person becomes a Restricted Subsidiary (other than Indebtedness Incurred (i) to provide all or any portion of the funds utilized to consummate the transaction or series of transactions pursuant to which such Person becomes a Restricted Subsidiary or (ii) otherwise in contemplation of such Person becoming a Restricted Subsidiary or any such acquisition); *provided* that, on the date of the Incurrence of any such Indebtedness and after giving effect thereto, the sum of (1) the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (q) (together with any refinancings thereof, but excluding any Guarantee Incurred under such clause to the extent the amount of such Guarantee is otherwise reflected in such aggregate principal amount) plus (2) the aggregate principal amount outstanding of all Indebtedness Incurred under clauses (k), (n) and (p) above and clause (r) below (together, in each case, with any refinancings thereof, but excluding any Contractor Guarantee Incurred under clause (k) and any Guarantee Incurred under clauses (k), (n), (p) and (r) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount) does not exceed an amount equal to 30.0% of Total Assets; and

- (r) Indebtedness Incurred by the Company or any Restricted Subsidiary under Credit Facilities; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred under this clause (r) (together with refinancings thereof and the aggregate principal amount outstanding of Indebtedness that was Incurred under clauses (k), (n), (p) and (q) above and the refinancings thereof, but excluding any Contractor Guarantee or Guarantee Incurred under such clauses and this clause (r) to the extent the amount of such Contractor Guarantee or Guarantee is otherwise reflected in such aggregate principal amount), does not exceed an amount equal to 30.0% of Total Assets.
- (3) For purposes of determining compliance with this “Limitation on Indebtedness” covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Permitted Indebtedness, or of Indebtedness described in the proviso in paragraph (1) of this covenant and one or more types of Permitted Indebtedness, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness in one or more types of Indebtedness described above.
- (4) Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies, *provided* that such Indebtedness was permitted to be Incurred at the time of such Incurrence.

#### ***Limitation on Restricted Payments***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as “Restricted Payments”):

- (1) declare or pay any dividend or make any distribution on or with respect to the Company’s or any Restricted Subsidiary’s Capital Stock (other than dividends or distributions payable solely in shares of the Company’s or any Restricted Subsidiary’s Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary or any direct or indirect parent of the Company (including options, warrants or other rights to acquire such shares of Capital Stock) held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary;
- (3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Subordinated Indebtedness (excluding any intercompany Indebtedness between or among the Company and any Wholly Owned Restricted Subsidiary); or
- (4) make any Investment, other than a Permitted Investment;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

- (a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;
- (b) the Company could not Incur at least US\$1.00 of Indebtedness under the proviso in paragraph (1) of the covenant described under “— Limitation on Indebtedness;” or
- (c) such Restricted Payment, together with the aggregate amount of all (1) Restricted Payments made by the Company and the Restricted Subsidiaries after the Original Issue Date and (2) payments made by the Company and its Restricted Subsidiaries after the Measurement Date but on or before the Original Issue Date that would have been Restricted Payments had they been made after the Original Issue Date, shall exceed the sum (without duplication) of:
  - (i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on January 1, 2013 and ending on the last day of the Company’s most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner and which may be internal financial statements) are available; plus
  - (ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Measurement Date as a capital contribution to its common equity by, or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to, a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon (A) the conversion by a Person who is not a Subsidiary of the Company of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock), in each case after deducting the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company or any Restricted Subsidiary; plus
  - (iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company’s consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Measurement Date of any Indebtedness of the Company or any of its Restricted Subsidiaries convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); *provided, however*, that the foregoing amount shall not exceed the Net Cash Proceeds received by the Company or any of its Restricted Subsidiaries from the Incurrence of such Indebtedness; plus
  - (iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Measurement Date in any Person resulting from (A) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Company or any Restricted Subsidiary (except, in each

case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income), (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Measurement Date of an obligation of another Person, (C) to the extent that an Investment made after the Measurement Date is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Company or a Restricted Subsidiary after the Measurement Date in any such Person; plus

(v) US\$20.0 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

- (1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;
- (2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;
- (3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that, the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;
- (4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of the Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that, the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;
- (5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a pro rata basis or on a basis more favorable to the Company, to all holders of any class of Capital Stock of such Restricted Subsidiary, at least a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Company;

- (6) cash payments in lieu of the issuance of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Company; *provided* that, any such cash payment shall not be for the purpose of evading the limitation of this “Limitation on Restricted Payments” covenant (as determined in good faith by the Board of Directors of the Company);
- (7) the repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary held by an employee benefit plan of the Company or any Restricted Subsidiary, any current or former officer, director, consultant, or employee of the Company or any Restricted Subsidiary (or permitted transferees, estates or heirs of any of the foregoing), *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Capital Stock may not exceed US\$3.0 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination) in any calendar year;
- (8) the repurchase for value of any Capital Stock of the Company from the market solely for the purposes of its “share award scheme” approved by its Board of Directors, *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Capital Stock may not exceed US\$3.0 million (or the Dollar Equivalent thereof using the Original Issue Date as the date of determination) in any calendar year; or
- (9) the declaration and payment of dividends on, or repurchase of, the Common Stock of the Company in an aggregate principal amount not to exceed 20.0% of the profit for the year of the Company for any fiscal year, with any unused amount for any fiscal year (being the difference between such 20.0% of the profit for the year and the amount of dividends paid and/or Common Stock repurchased) carried over to the subsequent fiscal year,

*provided* that, in the case of clauses (2), (3) and (4) of this paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein. Each Restricted Payment made pursuant to clauses (1) of this paragraph shall be included in calculating whether the conditions of clause (c) of the first paragraph of this “— Limitation on Restricted Payments” covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors’ determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or an appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US\$10 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment (other than those made pursuant to clauses (5) through (9) of the second paragraph of this “— Limitation on Restricted Payments” covenant) in excess of US\$10 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officers’ Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this “— Limitation on Restricted Payments” covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

*Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries*

- (1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
  - (a) pay dividends or make any other distribution on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;
  - (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;
  - (c) make loans or advances to the Company or any other Restricted Subsidiary; or
  - (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.
  
- (2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:
  - (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the Indenture, the Security Documents or under any Permitted Pari Passu Secured Indebtedness of the Company or any Subsidiary Guarantor Pledgor or Pari Passu Guarantee, or any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that, the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
  - (b) existing under or by reason of applicable law, rule, regulation or order;
  - (c) with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, existing at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that, the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;
  - (d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;

- (e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the “— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”, “— Limitation on Indebtedness” and “— Limitation on Asset Sales” covenants;
- (f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness permitted under the “— Limitation on Indebtedness” covenant if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such type of agreement and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company or any Subsidiary Guarantor to make required payment on the Notes or its Subsidiary Guarantee, as the case may be;
- (g) existing in customary provisions in joint venture agreements and other similar agreements permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to such joint venture and if (as determined in good faith by the Board of Directors) (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect (x) the ability of the Company to make the required payments on the Notes, or (y) any Subsidiary Guarantor to make required payments under its Subsidiary Guarantee; or
- (h) existing with respect to any Unrestricted Subsidiary or the property or assets of such Unrestricted Subsidiary that is designated as a Restricted Subsidiary in accordance with the terms of the Indenture at the time of such designation and not incurred in contemplation of such designation, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Unrestricted Subsidiary or its subsidiaries or the property or assets of such Unrestricted Subsidiary or its subsidiaries, and any extensions, refinancing, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced.

***Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries***

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell, any shares of Capital Stock of a Restricted Subsidiary (including in each case options, warrants or other rights to purchase shares of such Capital Stock) except:

- (1) to the Company or a Wholly Owned Restricted Subsidiary, or in the case of a Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary, pro rata to its shareholders or incorporators or on a basis more favorable to the Company;
- (2) to the extent such Capital Stock represents director’s qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;

- (3) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the “— Limitation on Asset Sales” covenant to the extent required thereunder; and
- (4) the issuance or sale of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer be a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made under the “Limitation on Restricted Payments” covenant if made on the date of such issuance or sale and *provided* that, the Company complies with the “— Limitation on Asset Sales” covenant to the extent required thereunder.

#### ***Limitation on Issuances of Guarantees by Restricted Subsidiaries***

The Company will not permit any Restricted Subsidiary that is not a Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness (“Guaranteed Indebtedness”) of the Company or any Subsidiary Guarantor, unless (1) (a) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee until the Notes have been paid in full or (2) such Guarantee and such Guaranteed Indebtedness are permitted by clause 2(b), (c) or (p) (in the case of clause (2)(p), with respect to the Guarantee provided by the Company or any Restricted Subsidiary through the pledge of cash deposits or bank accounts to secure (or the use of any guarantee or letter of credit or similar instrument to Guarantee), directly or indirectly, any Bank Deposit Secured Indebtedness) under the “Limitation on Indebtedness” covenant.

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness will rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or (2) is subordinated in right of payment to the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness will be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Subsidiary Guarantee.

#### ***Limitation on Transactions with Shareholders and Affiliates***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10.0% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an “Affiliate Transaction”), unless:

- (1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary, as the case may be, than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company; and

- (2) the Company delivers to the Trustee:
  - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$5.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and
  - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion as to the fairness to the Company or such Restricted Subsidiary, as the case may be, of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

- (1) the payment of reasonable and customary regular fees to directors of the Company or any Restricted Subsidiary who are not employees of the Company or any Restricted Subsidiary;
- (2) transactions between or among the Company and any Wholly Owned Restricted Subsidiary or between or among Wholly Owned Restricted Subsidiaries;
- (3) any Restricted Payment of the type described in clause (1) or (2) of the first paragraph of the covenant described above under “— Limitation on Restricted Payments” if permitted by that covenant;
- (4) any sale of Capital Stock (other than Disqualified Stock) of the Company; and
- (5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the “Limitation on Restricted Payments” covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date, (iii) any transaction between or among (A) the Company, any Wholly Owned Restricted Subsidiary and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary or (B) the Company or a Restricted Subsidiary on the one hand and any Minority Joint Venture or Unrestricted Subsidiary on the other hand; *provided* that in the case of clause (iii), (a) such transaction is entered into in the ordinary course of business and (b) none of the other shareholders or other partners of or in such Restricted Subsidiary, Minority Joint Venture or Unrestricted Subsidiary, as the case may be, is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such other shareholder or other partner being an officer or director of such Restricted Subsidiary, Minority Joint Venture or

Unrestricted Subsidiary, as the case may be) or (iv) for as long as the Capital Stock of the Company remains listed on The Stock Exchange of Hong Kong Limited, any Affiliate Transaction that is conducted in accordance with the listing rules of The Stock Exchange of Hong Kong Limited.

### ***Limitation on Liens***

For so long as any 2014 Note or 2017 Note remains outstanding, the Company will not, and will not permit any Subsidiary Guarantor to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on the Collateral (other than Permitted Liens).

At any time after the Notes and the Subsidiary Guarantees have ceased to be secured by the Collateral as permitted by the Indenture, the Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are (or, in respect of any Lien on any Subsidiary Guarantor's property or assets, any Subsidiary Guarantee of such Restricted Subsidiary is) secured equally and ratably with (or, if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Notes, prior to) the obligation or liability secured by such Lien, for so long as such obligation or liability is secured by such Lien.

In the event that one or more Liens (and documents relating thereto) are to be established or maintained to effect equal and ratable security arrangements in respect of the Notes (as contemplated under the preceding paragraph) with regards to Indebtedness proposed to be or previously Incurred by Company or any Subsidiary Guarantor in compliance with the terms of the Indenture, the Company may instruct the Trustee to directly, or through its Affiliates (in its capacity as Trustee or that of a collateral agent on such terms as it shall require) and without the consent of any Holders, enter into one or more intercreditor agreements, pledge agreements, collateral and security agreements or other arrangements intended to effect the shared security arrangements contemplated by this paragraph among holders of such Indebtedness.

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur, assume or permit to exist any Lien of Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are (or, in respect of any Lien any nature whatsoever on any of its assets or properties of any kind, whether owned at the Original on any Subsidiary Guarantor's property or assets, any Subsidiary Guarantee of such Restricted Subsidiary is) secured equally and ratably with (or, if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Notes, prior to) the obligation or liability secured by such Lien, for so long as such obligation or liability is secured by such Lien.

### ***Limitation on Sale and Leaseback Transactions***

The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; *provided* that the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

- (1) the Company or such Restricted Subsidiary, as the case may be, could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described under “— Limitation on Indebtedness” and

- (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under “— Limitation on Liens”, in which case, the corresponding Indebtedness will be deemed Incurred and the corresponding Lien will be deemed incurred pursuant to those provisions;
- (2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and
- (3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or such Restricted Subsidiary, as the case may be, applies the proceeds of such transaction in compliance with, the covenant described below under “— Limitation on Asset Sales.”

#### ***Limitation on Asset Sales***

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

- (1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;
- (2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of; and
- (3) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets (as defined below); *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US\$10 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing. For purposes of this provision, each of the following will be deemed to be cash:
  - (a) any liabilities, as shown on the Company’s most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary, as the case may be, from further liability; and
  - (b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary, as the case may be, into cash, to the extent of the cash received in that conversion.
- (4) Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company or any Restricted Subsidiary may apply such Net Cash Proceeds to:
  - (a) permanently repay unsubordinated Indebtedness of the Company or any Restricted Subsidiary (and, if such unsubordinated Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or

- (b) acquire properties and assets (other than current assets), including any shares of Capital Stock in a Person holding such properties or assets that is primarily engaged in the business for which the properties or assets being replaced have been used (“Replacement Assets”);

*provided* that, pending the application of Net Cash Proceeds in accordance with clauses (a) or (b) of this paragraph, such Net Cash Proceeds may be temporarily invested only in cash or Temporary Cash Investments.

- (5) Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clause (5) will constitute “Excess Proceeds.” Excess Proceeds of less than US\$10 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US\$10 million (or the Dollar Equivalent thereof), within ten days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

- (a) accumulated Excess Proceeds, multiplied by
- (b) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest US\$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company or any Restricted Subsidiary may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in (or required to be prepaid or redeemed in connection with) such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes to be purchased on a pro rata basis based on the principal amount of the Notes and such other *pari passu* Indebtedness tendered. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

#### ***Use of Proceeds***

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (1) as specified under “Use of Proceeds” in this offering memorandum (and with respect to any Additional Notes, as contemplated in the offering document in connection with the offering of such Additional Notes) and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in cash or Temporary Cash Investments.

#### ***Designation of Restricted and Unrestricted Subsidiaries***

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) such Restricted Subsidiary does not own any Disqualified Stock of the Company or

any Subsidiary Guarantor or Disqualified or Preferred Stock of a Restricted Subsidiary that is not a Subsidiary Guarantor or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under “— Limitation on Indebtedness” or such Lien would violate the covenant described under “— Limitation on Liens;” (3) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; (4) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company or any other Restricted Subsidiary and none of the Company or any Restricted Subsidiary Guarantees or provides credit support for the Indebtedness of such Restricted Subsidiary; and (5) the Investment deemed to have been made thereby in such newly designated Unrestricted Subsidiary and each other newly designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under “— Limitation on Restricted Payments.”

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under “— Limitation on Indebtedness;” (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under “— Limitation on Liens;” (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); (5) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary will upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary will become a Subsidiary Guarantor; and (6) if such Restricted Subsidiary is not organized under the laws of the PRC or directly owned by a Restricted Subsidiary organized under the laws of the PRC, all Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary will be pledged as required under “— Security.”

#### ***Government Approvals and Licenses; Compliance with Law***

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the business of the Company or any of its Restricted Subsidiaries; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply with would not reasonably be expected to have a material adverse effect on (a) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (b) the ability of the Company or any Subsidiary Guarantor to perform its obligations under the Notes, the Indenture, the relevant Subsidiary Guarantee or the Security Document.

### ***Anti-Layering***

The Company will not Incur, and will not permit any Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company or any Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes and the Subsidiary Guarantees on substantially identical terms; *provided* that this requirement does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

### ***Maintenance of Insurance***

The Company will, and will cause its Restricted Subsidiaries to, maintain insurance with reputable and financially sound carriers against such risks and in such amounts as is customarily carried by similarly situated businesses, including, without limitation, property and casualty insurance.

### **SUSPENSION OF CERTAIN COVENANTS**

If on any date following the date of the Indenture, the Notes have a rating of Investment Grade from both of the Rating Agencies and no Default has occurred and is continuing (a “Suspension Event”), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from either of the Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

- (1) “— Certain Covenants — Limitation on Indebtedness”;
- (2) “— Certain Covenants — Limitation on Restricted Payments”;
- (3) “— Certain Covenants — Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
- (4) “— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries”;
- (5) “— Certain Covenants — Limitation on Issuances of Guarantees by Restricted Subsidiaries”;
- (6) “— Certain Covenants — Limitation on Sale and Leaseback Transactions”; and
- (7) “— Certain Covenants — Limitation on Asset Sales.”

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under “— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries” or the definition of “Unrestricted Subsidiary.”

Such covenants will be reinstated and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement

the calculations under the covenant summarized under “— Certain Covenants — Limitation on Restricted Payments” will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended.

There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

## PROVISION OF FINANCIAL STATEMENTS AND REPORTS

- (1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company’s common shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:
  - (a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of the financial statements (on a consolidated basis and in the English language) of the Company in respect of such financial year (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and audited by a member firm of an internationally recognized firm of independent accountants;
  - (b) as soon as they are available, but in any event within 45 calendar days after the end of the second financial quarter of the Company, copies of the financial statements (on a consolidated basis and in the English language) of the Company in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and reviewed by a member firm of an internationally recognized firm of independent accountants; and
  - (c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarters of the Company, copies of the unaudited financial statements (on a consolidated basis and in the English language) of the Company, including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company, together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.
- (2) In addition, so long as any Note remains outstanding, the Company will provide to the Trustee (a) within 120 days after the close of each fiscal year ending after the Original Issue Date, an Officers’ Certificate stating the Fixed Charge Coverage Ratio with respect to the four most recent fiscal quarters and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company’s external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; *provided* that the Company shall not be required to provide such auditor certification if its external auditors refuse to provide such certification as a result of a

policy of such external auditors not to provide such certification; and (b) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of the Default, and the action which the Company proposes to take with respect thereto.

## EVENTS OF DEFAULT

The following events will be defined as "Events of Default" in the Indenture:

- (1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;
- (2) default in the payment of interest or Additional Amounts on any Note when the same becomes due and payable, and such default continues for a period of 30 consecutive days;
- (3) default in the performance or breach of the provisions of the covenant described under "— Consolidation, Merger and Sale of Assets", the failure by the Company to make or consummate an Offer to Purchase in the manner described under "— Repurchase of Notes upon a Change of Control Triggering Event" or "— Certain Covenants — Limitation on Asset Sales," or any failure by the Company to create, or cause its Restricted Subsidiaries to create, a first-priority Lien on the Collateral or the Supplemental Collateral in accordance with the provisions described under "— Security," for so long as any 2014 Note or 2017 Note remains outstanding;
- (4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture, any Security Document or under the Notes (other than a default specified in clause (1), (2) or (3) above or (10) below) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;
- (5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US\$20.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) a failure to make a principal payment when due;
- (6) one or more final judgments or orders for the payment of money are rendered against the Company or any Restricted Subsidiary and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US\$20.0 million (or the Dollar Equivalent thereof) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;
- (7) an involuntary case or other proceeding is commenced against the Company or any Significant Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary or for any substantial part of the property and assets of the Company or any Significant Subsidiary and such involuntary case or other proceeding remains undismissed and

unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Significant Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;

- (8) the Company or any Significant Subsidiary, (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Significant Subsidiary or for all or substantially all of the property and assets of the Company or any Significant Subsidiary or (c) effects any general assignment for the benefit of creditors;
- (9) any Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee is determined to be unenforceable or invalid or will for any reason cease to be in full force and effect;
- (10) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Intercreditor Agreement and the Security Documents that adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or that adversely affects the condition or value of the Collateral; or
- (11) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms its obligations under the Intercreditor Agreement or any Security Document or, other than in accordance with the Indenture, the Intercreditor Agreement and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Collateral Agent ceases to have a first-priority Lien over the Collateral, for so long as any 2014 Note or 2017 Note remains outstanding.

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written direction of such Holders, subject to being indemnified and/or secured to its satisfaction, shall declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Significant Subsidiary), the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of all the Holders waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

- (1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived; and

- (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes, the Indenture or the Security Documents. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. In addition, if an Event of Default occurs and is continuing, the Trustee may, and shall upon written direction of the Holders of at least 25% in aggregate principal amount of outstanding Notes subject to being indemnified and/or secured to its satisfaction (i) give the Collateral Agent a written notice of the occurrence of such continuing Event of Default and (ii) instruct the Collateral Agent, in accordance with the terms of the Intercreditor Agreement, to foreclose on the Collateral in accordance with the terms of the Security Documents and the Indenture and take such further action on behalf of the Holders with respect to the Collateral as the Trustee deems appropriate. See “— Security.”

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. In addition, the Trustee or the Collateral Agent will not be required to expend its own funds in following such direction if it does not reasonably believe that reimbursement or satisfactory indemnification and/or security is assured to it.

A Holder may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

- (1) the Holder has previously given the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity and/or security satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such written request;
- (4) the Trustee does not comply with the request within (x) 60 days after receipt of the written request pursuant to clause (2) above or (y) 60 days after the receipt of the offer of indemnity and/or security pursuant to clause (3) above, whichever occurs later; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a written direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder of a Note to receive payment of the principal of, premium, if any, or interest on, such Note or any payment under any Subsidiary Guarantee, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year ending after the Original Issue Date, that a review has been conducted of the activities of the Company and the Restricted Subsidiaries and the Company's and the Restricted Subsidiaries' performance under the Indenture and that the Company and each Restricted Subsidiary have fulfilled all of their respective obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture. See "— Provision of Financial Statements and Reports."

None of the Trustee, Collateral Agent or any Agent is obligated to do anything to ascertain whether any Event of Default or Default has occurred or is continuing and will not be responsible to Holders or any other person for any loss arising from any failure by it to do so, and each of the Trustee, the Collateral Agent and the Agents may assume that no such event has occurred (except when there is a default in payment of principal or interest on any Note or failure by the Company to provide its annual compliance certificate to the Trustee) and that the Company and the Subsidiary Guarantors are performing all of their obligations under the Indenture, the Intercreditor Agreement, the Security Documents and the Notes unless the Trustee, the Collateral Agent or the Agent, as the case may be, has received written notice of the occurrence of such event or facts establishing that a Default or an Event of Default has occurred or that the Company and the Subsidiary Guarantors are not performing all of their obligations under the Indenture, the Intercreditor Agreement, the Security Documents and/or the Notes.

## **CONSOLIDATION, MERGER AND SALE OF ASSETS**

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of the properties and assets of the Company and the Restricted Subsidiaries (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) unless each of the following conditions is satisfied:

- (1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Company consolidated or merged, or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of the British Virgin Islands, the Cayman Islands or Hong Kong and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Notes, the Intercreditor Agreement and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or from or through which payment is made, and the Indenture, the Notes, the Intercreditor Agreement and the Security Documents shall remain in full force and effect;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

- (3) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, could Incur at least US\$1.00 of Indebtedness under the proviso of paragraph (1) of the covenant described under “— Certain Covenants — Limitation on Indebtedness;”
- (5) the Company shall deliver to the Trustee (x) an Officers’ Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;
- (6) each Subsidiary Guarantor, unless such Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under “— Consolidation, Merger and Sale of Assets,” shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee shall apply to the obligations of the Company or the Surviving Person, as the case may be, in accordance with the Notes and the Indenture; and
- (7) no Rating Decline shall have occurred.

No Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of the properties and assets of the Subsidiary Guarantor and its Restricted Subsidiaries (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor), unless each of the following conditions is met:

- (1) such Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Subsidiary Guarantor consolidated or merged, or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction in accordance with the Indenture;
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;
- (3) immediately after giving effect to such transaction on a *pro forma* basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;
- (4) immediately after giving effect to such transaction on a *pro forma* basis, the Company could Incur at least US\$1.00 of Indebtedness under the proviso of paragraph (1) of the covenant described under “— Certain Covenants — Limitation on Indebtedness”;

- (5) the Company shall deliver to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and
- (6) no Rating Decline shall have occurred;

*provided* that this paragraph shall not apply to any sale or other disposition that complies with the "Limitation on Asset Sales" covenant or any Subsidiary Guarantor whose Subsidiary Guarantee is unconditionally released in accordance with the provisions described under The Subsidiary Guarantees — Release of the Subsidiary Guarantees."

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor survives such consolidation or merger. The foregoing provisions would not necessarily afford Holders protection in the event of highly leveraged or other transactions involving the Company or the Subsidiary Guarantors that may adversely affect Holders.

### **No Payments for Consents**

The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture, the Notes or any Subsidiary Guarantee unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Notwithstanding the foregoing, in any offer or payment of consideration for, or as an inducement to, any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes in connection with an exchange or tender offer, the Company and any Restricted Subsidiary may exclude (i) Holders or beneficial owners of the Notes that are not institutional "accredited investors" as defined in Rule 501 under the Securities Act, and (ii) Holders or beneficial owners of the Notes in any jurisdiction where the inclusion of such Holders or beneficial owners would require the Company or any Restricted Subsidiary to comply with the registration requirements or other similar requirements under any securities laws of such jurisdiction, or the solicitation of such consent, waiver or amendment from, or the granting of such consent or waiver, or the approval of such amendment by, Holders or beneficial owners in such jurisdiction would be unlawful, in each case as determined by the Company in its sole discretion.

### **DEFEASANCE**

#### *Defeasance and Discharge*

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies, to pay Additional Amounts and to hold monies for payment in trust) if, among other things:

- (1) the Company (a) has deposited with the Trustee, in trust, cash in U.S. dollars, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (b) has delivered to the Trustee an Opinion of Counsel or a certificate of an internationally recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity of such payment in accordance with the terms of the Indenture and an Opinion of Counsel to the effect that the Holders have a valid, perfected, exclusive Lien over such trust;
- (2) the Company has delivered to the Trustee an Opinion of Counsel of recognized standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law;
- (3) the Company shall have delivered to the Trustee an Officers' Certificate stating that the deposit was not made by it with the intent of preferring the Holders over any other of its creditors or with the intent of defeating, hindering, delaying or defrauding any other of its creditors or others; and
- (4) immediately after giving effect to such deposit on a *pro forma* basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of the Restricted Subsidiaries is a party or by which the Company or any of the Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, each of the Subsidiary Guarantees will terminate.

### ***Defeasance of Certain Covenants***

The Indenture will further provide that (i) the provisions of the Indenture will no longer be in effect with respect to clauses (3) and (4) under the first and second paragraphs under “— Consolidation, Merger and Sale of Assets” and all the covenants described herein under “— Certain Covenants”, other than as described under “— Certain Covenants — Government approvals and licenses; Compliance with law” and “— Certain Covenants — Anti-layering”, and (ii) clause (3) under “— Events of Default” with respect to such clauses (3) and (4) under the first and second paragraphs under “— Consolidation, Merger and Sale of Assets” and with respect to such other events set forth in clause (i) above, clause (4) under “— Events of Default” with respect to such other covenants set forth in clause (i) above and clauses (5), (6), (7) and (8) under “— Events of Default” shall be deemed not to be Events of Default, upon, among other things, the deposit with the Trustee, in trust, of cash in U.S. dollars, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance

with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, and the satisfaction of the provisions described in clause (2) of the preceding paragraph.

### ***Defeasance and Certain Other Events of Default***

In the event that the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Notes as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of cash in U.S. dollars and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company and the Subsidiary Guarantors will remain liable for such payments.

## **AMENDMENTS AND WAIVER**

### ***Amendments without Consent of Holders***

The Indenture, the Notes, the Subsidiary Guarantees, the Intercreditor Agreement or any Security Document may be amended, without the consent of any Holder:

- (1) to cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes, the Intercreditor Agreement or any Security Document;
- (2) to comply with the provisions described under “— Consolidation, Merger and Sale of Assets”;
- (3) to evidence and provide for the acceptance of appointment by a successor Trustee;
- (4) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;
- (5) to effect any change to the Indenture in a manner necessary to comply with the procedures of Euroclear or Clearstream;
- (6) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;
- (7) to effect any changes to the Indenture in a manner necessary to comply with the procedures of the relevant clearing system;
- (8) to add any Subsidiary Guarantor or any Subsidiary Guarantee or release any Subsidiary Guarantor from any Subsidiary Guarantee as provided or permitted by the terms of the Indenture;
- (9) to add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor as provided or permitted by the terms of the Indenture;

- (10) to conform the text of the Indenture, the Notes or the Subsidiary Guarantees to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision of the Indenture, the Notes or the Subsidiary Guarantees;
- (11) to permit Permitted Pari Passu Secured Indebtedness (including, without limitation, permitting the Trustee and the Collateral Agent to enter into any amendments to the Intercreditor Agreement, the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness, in accordance with the Indenture);
- (12) to add additional Collateral to secure the Notes or any Subsidiary Guarantee;
- (13) to make any other change that does not materially and adversely affect the rights of any Holder; or
- (14) conform the text of the Indenture, the Notes, the Subsidiary Guarantees and the Intercreditor Agreement to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision of the Indenture, the Notes, the Subsidiary Guarantees or the Intercreditor Agreement, as the case may be.

#### ***Amendments With Consent of Holders***

Amendments of the Indenture, the Notes, the Intercreditor Agreement or any Security Document may be made by the Company, the Subsidiary Guarantors, the Trustee and, only with respect to the Intercreditor Agreement and the Security Documents, the Collateral Agent with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the Holders of a majority in principal amount of the outstanding Notes may waive future compliance by the Company with any provision of the Indenture, the Notes, the Intercreditor Agreement or any Security Document; *provided, however*, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

- (1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (2) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (3) change the place, currency or time of payment of principal of, or premium, if any, or interest on, any Note;
- (4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;
- (5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;
- (6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;

- (7) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;
- (8) release any Subsidiary Guarantor from its Subsidiary Guarantee, except as provided in the Indenture;
- (9) release any Collateral, except as provided in the Intercreditor Agreement, the Indenture and the Security Documents;
- (10) amend, change or modify any Subsidiary Guarantee in a manner that adversely affects the Holders;
- (11) amend, change or modify any provision of the Intercreditor Agreement, any Security Document or the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Intercreditor Agreement or the Indenture;
- (12) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale or change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale, whether through an amendment or waiver of provision in the covenants, definitions or otherwise, unless such amendment, waiver or modification shall be in effect prior to the occurrence of a Change of Control Triggering Event or the event giving rise to the repurchase of the Notes under “Certain Covenants — Limitation on Asset Sales”;
- (13) change the redemption date or the redemption price of the Notes from that stated under “— Optional Redemption” or “— Redemption for Taxation Reasons”;
- (14) amend, change or modify the obligation of the Company or any Subsidiary Guarantor to pay Additional Amounts; or
- (15) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or any Subsidiary Guarantee in a manner which adversely affects the Holders.

#### **UNCLAIMED MONEY**

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

#### **NO PERSONAL LIABILITY OF INCORPORATORS, STOCKHOLDERS, OFFICERS, DIRECTORS OR EMPLOYEES**

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company or any Subsidiary Guarantor in the Indenture, or in any of the

Notes or the Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company or any Subsidiary Guarantor or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

### **CONCERNING THE COLLATERAL AGENT, TRUSTEE AND THE PAYING AGENT**

Citicorp International Limited is to be appointed as Trustee under the Indenture, and Citibank, N.A., London Branch is to be appointed as paying agent (the “Paying Agent”) and transfer agent (the “Transfer Agent”) with regard to the Notes and as registrar (the “Registrar” and together with the Paying Agent and Transfer Agent, the “Agents”) under the Indenture. Except during the continuance of a Default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, the Notes, the Security Documents or the Intercreditor Agreement, as the case may be, and no implied covenant or obligation shall be read into the Indenture, the Notes, the Security Documents or the Intercreditor Agreement (as the case may be) against the Trustee. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture, the Notes or the Intercreditor Agreement, as the case may be, as a prudent person would exercise under the circumstances in the conduct of such person’s own affairs. The Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder, unless such Holder shall have offered to the Trustee security and/or indemnity satisfactory to it against any loss, liability or expense.

Pursuant to the terms of the Indenture, the Notes, the Security Documents or the Intercreditor Agreement, as the case may be, the Company and the Subsidiary Guarantors will reimburse the Trustee, the Agents and the Collateral Agent for all reasonable expenses.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions with the Company and its Affiliates; *provided, however*, that if it becomes aware it has acquired any conflicting interest, it must eliminate such conflict or resign.

Citicorp International Limited will initially act as the Collateral Agent under the Security Documents and, subject to certain conditions, the Intercreditor Agreement in respect of the Security over the Collateral. The Collateral Agent, acting in its capacity as such, shall have such duties with respect to the Collateral pledged pursuant to the Security Documents as are set forth in the Indenture, the Intercreditor Agreement and the Security Documents. Under certain circumstances, the Trustee and the Collateral Agent may have obligations under the Intercreditor Agreement and the Security Documents that are in conflict with the interests of the Holders. Neither the Trustee nor the Collateral Agent will be under any obligation to exercise any rights or powers conferred under the Indenture, the Intercreditor Agreement or any of the Security Documents for the benefit of the Holders unless such Holders have instructed the Trustee in writing and offered to the Trustee indemnity and/or security satisfactory to the Trustee against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Trustee, that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Intercreditor Agreement and the Security Documents and has not relied on and will not at any time rely on the Trustee or the Collateral Agent in respect of such risks.

## **BOOK-ENTRY; DELIVERY AND FORM**

The Notes will be represented by one or more global notes in registered form without interest coupons attached (the “Global Note”). On the Original Issue Date, an initial Global Note will be deposited with a common depository and registered in the name of the common depository or its nominee for the accounts of Euroclear and Clearstream. Any additional Notes will be represented by additional global notes in registered form without interest coupons attached (the “Additional Global Notes” and, together with the Initial Global Note, the “Global Notes”).

## **GLOBAL NOTE**

Ownership of beneficial interests in the Global Note (the “book-entry interests”) will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under “— Individual Definitive Notes,” the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant’s account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depository for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of the Global Note for all purposes under the Indenture and “holders” of book-entry interests will not be considered the owners or “Holders” of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Subsidiary Guarantors, the Trustee or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

## **PAYMENTS ON THE GLOBAL NOTE**

Payments of any amounts owing in respect of the Global Note (including principal, premium, interest and Additional Amounts) will be made to the Paying Agent in U.S. dollars. The Paying Agent will, in turn, make such payments to the common depository for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. Each of the Company and the Subsidiary Guarantors will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under “— Additional Amounts.”

Under the terms of the Indenture, the Company, any Subsidiary Guarantor and the Trustee will treat the registered holder of the Global Note (i.e., the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Subsidiary Guarantors, the Trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or
- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

### **REDEMPTION OF GLOBAL NOTE**

In the event any Global Note, or any portion thereof, is redeemed, the common depositary will distribute the amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depositary, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided, however*, that no book-entry interest of US\$200,000 principal amount, or less, as the case may be, will be redeemed in part.

### **ACTION BY OWNERS OF BOOK-ENTRY INTERESTS**

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in the Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Note for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants.

### **TRANSFERS**

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in

jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Note will be subject to the restrictions on transfer discussed under “Transfer Restrictions” in this Offering Memorandum.

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

## **GLOBAL CLEARANCE AND SETTLEMENT UNDER THE BOOK-ENTRY SYSTEM**

Book-entry interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream participants on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser’s and seller’s accounts are located to ensure that settlement can be made on the desired value date.

## **INFORMATION CONCERNING EUROCLEAR AND CLEARSTREAM**

The Company understands as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Subsidiary Guarantors, the Trustee or any of their respective agents will have any responsibility for the performance by Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

## **INDIVIDUAL DEFINITIVE NOTES**

If (1) the common depositary or any successor to the common depositary is at any time unwilling or unable to continue as a depositary for the reasons described in the Indenture and a successor depositary is not appointed by the Company within 90 days (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with “— Events of Default” and the Company has received a written request from a Holder, the Company will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depositary or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depositary for the exchange of interests in the Global Note for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the Registrar in sufficient quantities and authenticated by the Registrar for delivery to Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the Registrar, through the relevant clearing system, with written instruction and other information required by the Company and the Registrar to complete, execute and deliver such individual definitive notes. In all cases, individual definitive notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

## **NOTICES**

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or first-class mail (if intended for the Company, any Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor or the Trustee, as the case may be, at the corporate trust office of the Trustee and, if intended for any Holder, addressed to such Holder at such Holder’s last address as it appears in the Note register (or otherwise delivered to such Holders in accordance with applicable Euroclear or Clearstream procedures).

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of the relevant clearing system. Any such notice shall be deemed to have been delivered on the day such notice is delivered to the relevant clearing system or if by mail, when so sent or deposited.

## **CONSENT TO JURISDICTION; SERVICE OF PROCESS**

The Company and each Subsidiary Guarantor will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, the Indenture or any transaction contemplated thereby; and (2) designate and appoint Cogency Global Inc. located at 10E. 40th Street, 10th Floor, New York, New York 10016 for receipt of service of process in any such suit, action or proceeding.

## GOVERNING LAW

Each of the Notes, the Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York.

## DEFINITIONS

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this “Description of the Notes” for which no definition is provided.

“2013 Notes” means the 5.25% Senior Notes due 2018 issued by the Company.

“2014 Notes” means the 5.00% Senior Notes due 2020 issued by the Company.

“2017 Notes” means the 4.625% Senior Notes due 2022 issued by the Company.

“Acquired Indebtedness” means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

“Adjusted Treasury Rate” means, with respect to any redemption date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities”, for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after July 25, 2021, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date.

“Affiliate” means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child, parent, brother, sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew or niece of a Person described in clause (1) or (2). For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling”, “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

“Applicable Premium” means, with respect to a Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of the redemption price of such Note at July 25, 2021 (such redemption price being described in the first paragraph in the “Optional Redemption” section exclusive of any accrued interest), plus all required remaining scheduled interest payments due on such Note (but excluding accrued and unpaid interest to the redemption date) through July 25, 2021, computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

“Asset Acquisition” means (1) an investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any Restricted Subsidiary; or (2) an acquisition by the Company or any Restricted Subsidiary of the property and assets of any Person other than the Company or any Restricted Subsidiary that constitute substantially all of a division or line of business of such Person.

“Asset Disposition” means the sale or other disposition by the Company or any Restricted Subsidiary (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any Restricted Subsidiary.

“Asset Sale” means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale of Capital Stock of a Subsidiary or issuance of Capital Stock of a Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any Restricted Subsidiary to any Person; *provided* that “Asset Sale” shall not include:

- (1) sales or other dispositions of inventory, receivables and other current assets in the ordinary course of business;
- (2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made by the covenant described under Certain Covenants — Limitation on Restricted Payments;”
- (3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US\$1 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;
- (4) any sale, transfer, assignment or other disposition of any property or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or the Restricted Subsidiaries;
- (5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;
- (6) a transaction covered by the covenant described under “— Consolidation, Merger and Sale of Assets;” and
- (7) a sale, transfer or other disposition to the Company or a Restricted Subsidiary, including, without limitation, an issuance of Capital Stock by a Restricted Subsidiary to the Company or to another Restricted Subsidiary.

“Attributable Indebtedness” means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

“Average Life” means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

“Bank Deposit Secured Indebtedness” means Indebtedness of the Company or any Restricted Subsidiary that is (i) secured by cash deposits or bank accounts of the Company or a Restricted Subsidiary and/or (ii) Guaranteed by a guarantee or a letter of credit (or similar instruments) form or arranged by the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to in effect exchange currencies or remit money onshore or offshore.

“Board of Directors” means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

“Board Resolution” means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York, London or in Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized or required by law or governmental regulation to close.

“Capitalized Lease” means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

“Capitalized Lease Obligations” means the discounted present value of the rental obligations under a Capitalized Lease.

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock, but excluding debt securities convertible into such equity.

“Change of Control” means the occurrence of one or more of the following events:

- (1) the merger, amalgamation or consolidation of the Company with or into another Person (other than one or more Permitted Holders) or the merger or amalgamation of another Person (other than one or more Permitted Holders) with or into the Company, or the direct or indirect sale of all or substantially all the consolidated assets of the Company to another Person (other than one or more Permitted Holders);

- (2) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as defined above), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;
- (3) individuals who on the Original Issue Date constituted the Board of Directors, together with any new directors whose election or nomination to the Board of Directors was approved by a vote of at least a majority of the directors then still in office who were either directors on the Original Issue Date or whose election or nomination was previously so approved, cease for any reason to constitute a majority of the Board of Directors then in office; or
- (4) the adoption of a plan relating to the liquidation or dissolution of the Company.

“Change of Control Triggering Event” means the occurrence of both a Change of Control and, *provided* that the Notes are rated by at least one Rating Agency, a Rating Decline.

“Clearstream” means Clearstream Banking S.A.

“Collateral” means all collateral securing, or purported to be securing, directly or indirectly, the Notes or any Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of the Capital Stock of the initial Subsidiary Guarantors.

“Collateral Agent” means Citicorp International Limited, initially, acting under the Security Documents and the Intercreditor Agreement, for itself and the benefit of the Holders, the Trustee and any other Secured Parties thereunder.

“Commodity Hedging Agreement” means any commodities swap agreement, commodities cap agreement, commodities floor agreement, commodities futures agreement, commodities option agreement or any other similar agreement or arrangement which may consist of one or more of the foregoing agreements, designed to manage commodities prices and commodities price risk.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and includes, without limitation, all series and classes of such common stock or ordinary shares.

“Comparable Treasury Issue” means the U.S. Treasury security having a maturity comparable to July 25, 2021 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity comparable to July 25, 2021.

“Comparable Treasury Price” means, with respect to any redemption date, if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three (or such lesser number as is obtained by the Company in good faith) Reference Treasury Dealer Quotations for such redemption date.

“Consolidated EBITDA” means, with respect to any Person for any period, Consolidated Net Income of such Person for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense;

- (2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets); and
- (3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income;

all as determined on a consolidated basis for such Person and its Subsidiaries (excluding Unrestricted Subsidiaries) in conformity with GAAP; *provided* that (i) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of the Restricted Subsidiaries; and (ii) in the case of any PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

“Consolidated Assets” means, with respect to any Initial Non-Guarantor Subsidiary at any date of determination, the Company and its Restricted Subsidiaries’ proportionate interest in the total consolidated assets of that Initial Non-Guarantor Subsidiary and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent fiscal quarter for which consolidated financial statements of the Company and its Restricted Subsidiaries (which the Company shall use its reasonable best efforts to compile on a timely basis and which may be internal consolidated financial statements) are available.

“Consolidated Fixed Charges” means, with respect to any Person for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of such Person or any of its Restricted Subsidiaries held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company’s Capital Stock (other than Disqualified Stock) or paid to the Company or to a Wholly-Owned Restricted Subsidiary.

“Consolidated Interest Expense” means, with respect to any Person for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of such Person and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by such Person and its Restricted Subsidiaries, without duplication, (1) interest expense attributable to Capitalized Lease Obligations, (2) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (3) the interest portion of any deferred payment obligation, (4) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (5) the net costs associated with Hedging Obligations (including the amortization of fees), (6) interest accruing on Indebtedness of any other Person that is Guaranteed by, or secured by a Lien on any asset of, such Person or any of its Restricted Subsidiaries, only to the extent such interest is actually paid by the Company or any Restricted Subsidiary and (7) any capitalized interest; *provided* that, interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a *pro forma* basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

“Consolidated Net Income” means, with respect to any Person (the “Subject Person”) for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

- (1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:
  - (a) subject to the exclusion contained in clause (5) below, the Company’s equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and
  - (b) the Company’s equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or Restricted Subsidiaries;
- (2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of the Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of the Restricted Subsidiaries;
- (3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other constitutive document or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;
- (4) the cumulative effect of a change in accounting principles;
- (5) any net after tax gains realized on the sale or other disposition of (a) any property or asset of the Company or any Restricted Subsidiary that is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company or a Restricted Subsidiary realized on sales of Capital Stock of the Company or of any Restricted Subsidiary);
- (6) any translation gains and losses due solely to fluctuations in currency values and related tax effects; and
- (7) any net after-tax extraordinary or non-recurring gains.

“Consolidated Net Worth” means, at any date of determination, stockholders’ equity as set forth on the most recently available quarterly, semiannual or annual consolidated balance sheet of the Company and the Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of the Restricted Subsidiaries, each item to be determined in conformity with GAAP.

“Contractor Guarantees” means any Guarantee by the Company or any Restricted Subsidiary of Indebtedness of any contractor, builder or other similar Person engaged by the Company or such Restricted Subsidiary in connection with the development, construction or improvement of equipment, property or asset to be used by the Company or any Restricted Subsidiary in the ordinary course of business, which Indebtedness was Incurred by such contractor, builder or other similar Person to finance the cost of such development, construction or improvement.

“Credit Facilities” means one or more of the facilities or arrangements with one or more banks or other lenders or institutions providing for revolving credit loans, term loans, receivables or financings (including without limitation through the sale of receivables or assets to such institutions or to special purpose entities formed to borrow from such institutions against such receivables or assets or the creation of any Liens in respect of such receivables or assets in favor of such institutions), letters of credit or other Indebtedness, in each case, including all agreements, instruments and documents executed and delivered pursuant to or in connection with any of the foregoing, including but not limited to any notes and letters of credit issued pursuant thereto and any guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other guarantees, pledge agreements, security agreements and collateral documents, in each case as the same may be amended, supplemented, waived or otherwise modified from time to time, or refunded refinanced, restructured, replaced, renewed, repaid, increased or extended from time to time (whether in whole or in part, whether with the original banks, lenders or institutions or other banks, lenders or institutions or otherwise, and whether provided under any original Credit Facility or one or more other credit agreements, indentures, financing agreements or other Credit Facilities or otherwise). Without limiting the generality of the foregoing, the term “Credit Facility” shall include any agreement (1) changing the maturity of any Indebtedness Incurred thereunder or contemplated thereby, (2) adding Subsidiaries as additional borrowers or guarantors thereunder, (3) increasing the amount of Indebtedness Incurred thereunder or available to be borrowed thereunder (provided that such increase is permitted under the covenant described under “— Certain Covenants — Limitation on Indebtedness”) or (4) otherwise altering the terms and conditions thereof.

“Creditor Representatives” mean, collectively, the Trustee, the trustee for the 2014 Notes, the trustee for the 2017 Notes and the holders (or their trustees, representatives or agents) of any Permitted Pari Passu Secured Indebtedness.

“Currency Hedging Agreement” means any currency swap agreement, currency cap agreement, currency floor agreement, currency futures agreement, commodity option agreement or any other similar agreement or arrangement which may consist of one or more of the foregoing agreements, designed to manage currencies and currency risk.

“Debt Documents” mean, collectively, the Indenture, the indenture for the 2014 Notes, the indenture for the 2017 Notes and the documents evidencing any Permitted Pari Passu Secured Indebtedness.

“Default” means any event that is, or after notice or passage of time or both would be, an Event of Default.

“Disqualified Stock” means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is 183 days after the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the date that is 183 days after the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is 183 days after the Stated Maturity of the Notes; *provided* that any Capital Stock that

would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the date that is 183 days after the Stated Maturity of the Notes shall not constitute Disqualified Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the “— Limitation on Asset Sales” and “— Repurchase of Notes upon a Change of Control Triggering Event” covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company’s repurchase of such Notes as are required to be repurchased pursuant to the covenants described under “— Certain Covenants — Limitation on Asset Sales” and “— Repurchase of Notes upon a Change of Control Triggering Event.”

“Dollar Equivalent” means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the noon buying rate for U.S. dollars in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on the date of determination.

“Entrusted Loans” means borrowings by a Restricted Subsidiary from a bank that are secured by a pledge of deposits made by another Restricted Subsidiary to the lending bank as security for such borrowings; *provided* that such borrowings are not reflected on the consolidated balance sheet of the Company.

“Equity Offering” means (i) any bona fide public or private offering of Capital Stock (other than Disqualified Stock) of the Company other than to Affiliates of the Company after the Original Issue Date or (ii) any bona fide underwritten secondary public offering or secondary private placement of Capital Stock (other than Disqualified Stock) of the Company beneficially owned by the Permitted Holders, after the Original Issue Date, to the extent that the Permitted Holders or a company controlled by such Person concurrently with such public offering or private placement purchases in cash an equal amount of Capital Stock (other than Disqualified Stock) from the Company at the same price as the public offering or private placing price; *provided* that (i) the aggregate gross cash proceeds received by the Company as a result of such offering described in clause (i) or (ii) or a combination thereof (excluding gross cash proceeds received from the Company or any of its Subsidiaries) shall be no less than US\$25.0 million (or the Dollar Equivalent thereof) and (ii) any such offering shall result in such Capital Stock being listed and eligible for dealing on the Stock Exchange of Hong Kong Limited.

“Euroclear” means Euroclear Bank SA/NV.

“Exchange Act” means the U.S. Securities Act of 1934, as amended.

“Exempted Subsidiary” means any Restricted Subsidiary organized in any jurisdiction other than the PRC that is prohibited by applicable law or regulation to provide a Subsidiary Guarantee or create any Lien over its Capital Stock to secure any of the secured obligations subject to the Intercreditor Agreement; *provided* that (x) the Company shall have failed, upon using commercially reasonable efforts, to obtain any required governmental or regulatory approval or registration with respect to such Subsidiary Guarantee or Lien over its Capital Stock, to the extent that such approval or registration is available under any applicable law or regulation and (y) such Restricted Subsidiary shall cease to be an Exempted Subsidiary immediately upon such prohibition ceasing to be in force or apply to such Restricted Subsidiary or upon the Company having obtained such applicable approval or registration.

“Fair Market Value” means the price that would be paid in an arm’s-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution.

“Fitch” means Fitch Inc., a subsidiary of Fimalac, S.A., and its successors.

“Fixed Charge Coverage Ratio” means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarters prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the “Four Quarter Period”) to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation:

- (a) pro forma effect shall be given to any Indebtedness Incurred, repaid or redeemed during the period (the “Reference Period”) commencing on and including the first day of the Four Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Quarter Period), in each case as if such Indebtedness had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay or redeem such Indebtedness;
- (b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a *pro forma* basis and bearing a floating interest rate will be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Hedging Agreement applicable to such Indebtedness if such Interest Rate Hedging Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;
- (c) pro forma effect will be given to the creation, designation or redesignation of Restricted Subsidiaries and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;
- (d) pro forma effect will be given to Asset Dispositions and Asset Acquisitions (including giving *pro forma* effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and
- (e) pro forma effect will be given to asset dispositions and asset acquisitions (including giving *pro forma* effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

*provided* that to the extent that clause (d) or (e) of this sentence requires that *pro forma* effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such *pro forma* calculation will be based upon the four full fiscal quarters immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

“GAAP” means generally accepted accounting principles in Hong Kong as in effect from time to time.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hedging Obligation” of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Hedging Agreement or Interest Rate Hedging Agreement.

“Holder” means the Person in whose name a Note is registered in the Note register.

“Incur” means, with respect to any Indebtedness, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness; *provided* that (1) any Indebtedness and Disqualified Stock of a Person existing at the time such Person becomes a Restricted Subsidiary will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms “Incurrence”, “Incurred” and “Incurring” have meanings correlative with the foregoing.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication):

- (1) all indebtedness of such Person for borrowed money;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all obligations of such Person in respect of letters of credit, bankers’ acceptances or other similar instruments;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;
- (5) all Capitalized Lease Obligations and Attributable Indebtedness;

- (6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;
- (7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;
- (8) to the extent not otherwise included in this definition, Hedging Obligations;
- (9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends; and
- (10) any Preferred Stock issued by (a) such Person, if such Person is a Restricted Subsidiary or (b) any Restricted Subsidiary of such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

Notwithstanding the foregoing, Indebtedness shall not include any capital commitments, deferred payment obligation or similar obligations Incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of personal property (including land use rights) to be used in the business of the Company or any of its Restricted Subsidiaries or Entrusted Loans; *provided* that such Indebtedness is not reflected on the consolidated balance sheet of the Company and the Restricted Subsidiaries (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected on the balance sheet as borrowings or indebtedness will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided*

- (1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP;
- (2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be “Indebtedness” so long as such money is held to secure the payment of such interest; and
- (3) that the amount of Indebtedness with respect to any Hedging Obligation shall be (i) zero if Incurred pursuant to paragraph 2(e) under the “Limitation on Indebtedness” covenant or (ii) equal to the net amount payable by such Person if the Commodity Hedging Agreement, Currency Hedging Agreement or Interest Rate Hedging Agreement giving rise to such Hedging Obligation were terminated at that time due to default by such Person if not Incurred pursuant to such paragraph.

“Intercreditor Agreement” has the meaning set forth under “— Security.”

“Interest Rate Hedging Agreement” means any interest rate swap agreement, interest rate cap agreement, interest rate floor agreement, interest rate future contract, interest rate option agreement or any other similar agreement or arrangement which may consist of one or more of any of the foregoing agreements, designed to manage interest rates and interest rate risk.

“Investment” means:

- (1) any direct or indirect advance, loan or other extension of credit to another Person;
- (2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);
- (3) any purchase or acquisition of Capital Stock (or options, warrants or other rights to acquire such Capital Stock), Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or
- (4) any Guarantee of any obligation of another Person.

For the purposes of the provisions of the covenants described under “— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries” and “— Certain Covenants — Limitation on Restricted Payments:” (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Fair Market Value of the Company’s proportionate interest in the assets (net of the liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary calculated as of the time of such designation, and (2) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

“Investment Grade” means a rating of “AAA”, “AA”, “A” or “BBB”, as modified by a “+” or “-” indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns, or a rating of “Aaa,” “Aa,” “A” or “Baa,” as modified by a “1,” “2” or “3” indication, or an equivalent rating representing one of the four highest rating categories, by Moody’s or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P or Moody’s or both of them, as the case may be.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

“Listed Subsidiary” means any Restricted Subsidiary any class of Voting Stock of which is listed on a Qualifying Exchange and any Restricted Subsidiary of a Listed Subsidiary; *provided* that such Restricted Subsidiary shall cease to be a Listed Subsidiary immediately upon, as applicable, (x) the Voting Stock of such Restricted Subsidiary ceasing to be listed on a Qualifying Exchange, or (y) such Restricted Subsidiary ceasing to be a Restricted Subsidiary of a Listed Subsidiary.

“Measurement Date” means April 25, 2013.

“Minority Joint Venture” means any corporation, association or other business entity that is accounted for by the equity method of accounting in accordance with GAAP by the Company or a Restricted Subsidiary, and such Minority Joint Venture’s Subsidiaries.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Net Cash Proceeds” means:

- (1) with respect to any Asset Sale (other than the issuance or sale of Capital Stock), the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:
  - (a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment banks) related to such Asset Sale;
  - (b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and the Restricted Subsidiaries, taken as a whole;
  - (c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale; and
  - (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP and reflected in an Officers’ Certificate delivered to the Trustee; and
- (2) with respect to any Asset Sale consisting of the issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys’ fees, accountants’ fees, underwriters’ or placement agents’ fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

“Offer to Purchase” means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

- (1) the provision in the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;

- (2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the “Offer to Purchase Payment Date”);
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled “Option of the Holder to Elect Purchase” on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;
- (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or any amount in excess thereof which is an integral multiple of US\$1,000.

One Business Day prior to the Offer to Purchase Payment Date, the Company shall deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof to be accepted by the Company for payment on the Offer to Purchase Payment Date. On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; and (b) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers’ Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and upon receipt of written order of the Company signed by an Officer the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or any amount in excess thereof which is an integral multiple of US\$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

The materials used in connection with an Offer to Purchase are required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to

Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

“Officer” means one of the executive officers of the Company or, in the case of a Restricted Subsidiary, one of the directors or officers of such Restricted Subsidiary.

“Officers’ Certificate” means a certificate signed by two Officers; *provided, however*, that, with respect to the Officers’ Certificate required to be delivered by any Subsidiary Guarantor under the Indenture, Officers’ Certificate means a certificate signed by one Officer if there is only one Officer in such Subsidiary Guarantor at the time such certificate is required to be delivered.

“Opinion of Counsel” means a written opinion from legal counsel who is reasonably acceptable to the Trustee.

“Original Issue Date” means the date on which the Notes are originally issued under the Indenture.

“Pari Passu Guarantee” means a Guarantee by the Company or any Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes) or any Subsidiary Guarantor, as the case may be; *provided* that (1) the Company and such Subsidiary Guarantor were permitted to Incur such Indebtedness by the covenant described under “— Limitation on Indebtedness” and (2) such Guarantee ranks *pari passu* with the Notes or any outstanding Subsidiary Guarantee of such Subsidiary Guarantor, as the case may be.

“Payment Default” means (1) any default in the payment of interest on any Note when the same becomes due and payable, (2) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (3) the failure by the Company to make or consummate a Change of Control Offer in the manner described under “— Repurchase of Notes upon a Change of Control Triggering Event,” or an Offer to Purchase in the manner described under “— Limitation on Asset Sales” or (4) any Event of Default specified in clause (5) of the definition of Events of Default.

“Permitted Holders” means any or all of the following:

- (1) Mr. Xu Tie-liang;
- (2) any Affiliate (other than an Affiliate as defined in clause (2) of the definition of Affiliate) of the Person specified in clause (1); and
- (3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% or more by one or more of the Persons specified in clauses (1) and (2).

“Permitted Investment” means:

- (1) any Investment in the Company or a Restricted Subsidiary or a Person which will, upon the making of such Investment, become a Restricted Subsidiary or will be merged or consolidated with or into, or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary;

- (2) cash or Temporary Cash Investments;
- (3) payroll, travel and similar advances made in the ordinary course of business to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;
- (4) stock, obligations or securities received in satisfaction of judgments;
- (5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;
- (6) any Investment pursuant to a Hedging Obligation designed (i) solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates or (ii) to reduce or manage interest expenses;
- (7) receivables, trade credits or other current assets owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (8) Investments consisting of consideration received in connection with an Asset Sale under clause 4(b) of, and made in compliance with, the covenant described under Certain Covenants — Limitation on Asset Sales;”
- (9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of “Permitted Liens”;
- (10) loans or advances to vendors, contractors, suppliers or distributors, including advance payments for equipment and machinery made to the manufacturer thereof, of the Company or any Restricted Subsidiary in the ordinary course of business and dischargeable in accordance with customary trade terms;
- (11) Investments in existence on the Original Issue Date;
- (12) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers’ compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of business of the Company or any Restricted Subsidiary;
- (13) Investments in securities of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer; and
- (14) any Investment (including any deemed Investment upon the redesignation of a Restricted Subsidiary as an Unrestricted Subsidiary or upon the sale of Capital Stock of a Restricted Subsidiary) by the Company or any Restricted Subsidiary in any Person (other than a Restricted Subsidiary), *provided* that:
  - (i) the aggregate of all Investments made under this clause (14) since the Measurement Date shall not exceed in aggregate an amount equal to 30% of Total Assets, *provided* that this clause (i) does not apply with respect to any Investment made by the Company or any

Restricted Subsidiary in a Person of which not less than 20% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by the Company or its Restricted Subsidiaries as long as the Company or such Restricted Subsidiary is entitled to appoint at least one representative to the board of directors or other governing body of such Person after such Investment. Such aggregate amount of Investments shall be calculated after deducting an amount equal to the net reduction in all Investments made under this clause (14) since the Measurement Date resulting from:

- (A) payments of interest on Indebtedness, dividends or repayments of loans or advances made under this clause, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income),
  - (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Measurement Date under this clause of an obligation of any such Person, or
  - (C) to the extent that an Investment made after the Measurement Date under this clause (14) is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, not to exceed, in each case, the amount of Investments made by the Company or a Restricted Subsidiary after the Measurement Date in any such Person pursuant to this clause (14);
- (ii) none of the other shareholders or partners in such Person in which such Investment was made pursuant to this clause (14) is a Person described in clause (x) or (y) of the first paragraph of the covenant under “— Limitation on Transactions with Shareholders and Affiliates” (other than by reason of such shareholder or partner being an officer or director of the Company, a Restricted Subsidiary, a Minority Joint Venture or an Unrestricted Subsidiary or by reason of being a Restricted Subsidiary, a Minority Joint Venture or an Unrestricted Subsidiary); and
  - (iii) no Default has occurred and is continuing or would occur as a result of such Investment.

For the avoidance of doubt, the value of each Investment made pursuant to this clause (14) shall be valued at the time such Investment is made.

“Permitted Liens” means:

- (1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;
- (2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or

administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

- (3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);
- (4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and the Restricted Subsidiaries, taken as a whole;
- (5) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person (i) becomes a Restricted Subsidiary or (ii) is merged with or into or consolidated with the Company or any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets of such Person (if such Person becomes a Restricted Subsidiary) or the property or assets acquired by the Company or such Restricted Subsidiary (if such Person is merged with or into or consolidated with the Company or such Restricted Subsidiary); *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;
- (6) Liens in favor of the Company or any Restricted Subsidiary;
- (7) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that do not give rise to an Event of Default;
- (8) Liens securing reimbursement obligations with respect to letters of credit, performance and surety bonds and completion guarantees that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;
- (9) Liens existing on the Original Issue Date;
- (10) Liens securing Indebtedness which is Incurred to refinance Secured Indebtedness which is permitted to be Incurred under clause (2)(d) of the covenant described under Certain Covenants — Limitation on Indebtedness," *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;
- (11) Liens securing Hedging Obligations permitted to be Incurred under clause (2)(e) of the covenant described under Certain Covenants — Limitation on Indebtedness," *provided* that (i) Indebtedness relating to any such Hedging Obligation is, and is permitted under the covenant described under "— Certain Covenants — Limitation on Liens" to be, secured by a Lien on the same property securing such Hedging Obligation or (ii) such Liens are encumbering customary initial deposits or margin deposits or are otherwise within the general parameters customary in the industry and incurred in the ordinary course of business or (iii) such Liens secure obligations set forth under Interest Rate Hedging Agreements designed to reduce or manage interest expenses;

- (12) Liens under the Security Documents;
- (13) Liens securing Attributable Indebtedness that is permitted to be Incurred under the Indenture;
- (14) any interest or title of a lessor under any Capitalized Lease Obligation permitted to be Incurred under the Indenture; *provided, however*, that the Liens do not extend to any property or assets which is not leased property subject to such Capitalized Lease Obligation;
- (15) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;
- (16) any interest or title of a lessor in the property subject to any operating lease;
- (17) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers' compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;
- (18) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under “— Security — Permitted Pari Passu Secured Indebtedness;”
- (19) Liens on deposits securing trade letters of credit (and reimbursement obligations relating thereto) incurred in the ordinary course;
- (20) Liens securing Indebtedness of the type described under clause (2)(k) of the covenant described under “— Certain Covenants — Limitation on Indebtedness;” *provided* that such Lien (i) covers only the equipment, property or assets acquired, developed, constructed or improved with such Indebtedness and (ii) is created within 180 days of such acquisition;
- (21) (i) Liens securing Indebtedness Incurred pursuant to clause (2)(n) of the covenant described under “— Certain Covenants — Limitation on Indebtedness” or (ii) Liens on assets owned by a PRC Restricted Subsidiary securing Indebtedness of a PRC Restricted Subsidiary of the type described under clause 2(n) of the covenant described under “— Certain Covenants — Limitation on Indebtedness;” *provided*, in each case, that (a) such Lien is created prior to, at the time of or within 30 days after entering into the agreement underlying such Indebtedness and (b) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company (which may be internal consolidated statements) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (21) does not exceed 130% of the aggregate principal amount or aggregate committed amount of Indebtedness secured by such Liens;
- (22) Liens incurred on cash deposits or bank accounts to secure Bank Deposit Secured Indebtedness Incurred pursuant to clause 2(p) of the covenant described under “— Certain Covenants — Limitation on Indebtedness;”
- (23) Liens securing Indebtedness Incurred pursuant to clause (2)(r) of the covenant described under “— Certain Covenants — Limitation on Indebtedness;”

- (24) Liens incurred or deposits made to secure Entrusted Loans; or
- (25) Liens incurred on property or assets the aggregate book value of which (as reflected in the most recent available consolidated financial statements of the Company (which may be internal consolidated statements), or, if acquired subsequent to the date of such consolidated financial statements as reflected in the Company's accounting system) does not exceed an amount equal to 10% of Total Assets (or the Dollar Equivalent thereof),

*provided* that for purposes of the Collateral, Permitted Liens shall mean Liens described in clauses (1), (5), (12) and (18) above only.

“Permitted Pari Passu Secured Indebtedness” has the meaning set forth under “— Security — Permitted Pari Passu Secured Indebtedness.”

“Permitted Subsidiary Indebtedness” means Indebtedness of any Non-Guarantor Subsidiary; *provided* that, on the date of Incurrence of such Indebtedness, and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (excluding any Indebtedness of any Non-Guarantor Subsidiary permitted under clause (2) (c) or (e) of the covenant described under “— Certain Covenants — Limitation on Indebtedness”) does not exceed an amount equal to 20% of Total Assets (or the Dollar Equivalent thereof).

“Person” means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

“PRC” means the People's Republic of China, excluding Hong Kong Special Administrative Region, Macau and Taiwan.

“PRC CJV” means any future Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 31, 2000) and the Detailed Rules for the Implementation of the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws and regulations may be amended from time to time.

“PRC CJV Partner” means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

“PRC Restricted Subsidiary” means a Restricted Subsidiary organized under the laws of the PRC.

“Preferred Stock” as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“Qualifying Exchange” means either (1) The New York Stock Exchange, the London Stock Exchange, The Stock Exchange of Hong Kong Limited, the Nasdaq Stock market, Singapore Exchange Securities Trading Limited, The Shanghai Stock Exchange or The Shenzhen Stock Exchange or (2) a national securities exchange (as such term is defined in Section 6 of the Exchange Act) or a designated offshore securities market (as such term is defined in Rule 902(b) under the Securities Act).

“Rating Agencies” means (1) S&P and (2) Moody’s; *provided* that if S&P or Moody’s or both of them shall not make a rating of the Notes publicly available, one or more nationally recognized securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for S&P or Moody’s or both of them, as the case may be.

“Rating Category” means (1) with respect to S&P, any of the following categories: “BB,” “B,” “CCC,” “CC,” “C” and “D” (or equivalent successor categories); (2) with respect to Moody’s, any of the following categories: “Ba,” “B,” “Caa,” “Ca,” “C” and “D” (or equivalent successor categories); and (3) the equivalent of any such category of S&P or Moody’s used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories (“+” and “-” for S&P and “1,” “2” and “3” for Moody’s; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from “BB+” to “BB,” as well as from “BB-” to “B+,” will constitute a decrease of one gradation).

“Rating Date” means (1) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control or (2) in connection with actions contemplated under “— Consolidation, Merger and Sale of Assets,” that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

“Rating Decline” means (1) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below, or (2) in connection with actions contemplated under “— Consolidation, Merger and Sale of Assets,” the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

- (a) in the event the Notes are rated by both S&P and Moody’s on the Rating Date as Investment Grade, the rating of the Notes by either Rating Agency shall be below Investment Grade;
- (b) in the event the Notes are rated by either, but not both, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or
- (c) in the event the Notes are rated below Investment Grade by both Rating Agencies on the Rating Date, the rating of the Notes by either Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

“Reference Treasury Dealer” means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Company in good faith, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing by such Reference Treasury Dealer at 5:00 p.m. (New York City Time) on the third Business Day preceding such redemption date.

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

“Sale and Leaseback Transaction” means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

“Secured Indebtedness” means any Indebtedness of the Company or a Restricted Subsidiary secured by a Lien.

“Secured Liabilities” means, collectively, all present and future obligations, contingent or otherwise, of the Company and its Restricted Subsidiaries to the creditors, noteholders, lenders and their agents or trustees under the Debt Documents, including any interest, fees and expenses accruing after the initiation of any insolvency proceeding (irrespective of whether such interest, fees and expenses are allowed as a claim in such proceeding).

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Security Documents” means, collectively, share mortgages, share charges and any other agreements or instruments that may evidence or create, or purport to create, any Lien in favor of the Collateral Agent, the Trustee, and/or any holder (or its trustee, representative or agent) of any Permitted Pari Passu Secured Indebtedness in any or all of the Collateral.

“Significant Subsidiary” means any Restricted Subsidiary or any group of Restricted Subsidiaries that, taken together, would be a “significant subsidiary” using the conditions specified in the definition of significant subsidiary in Article 1, Rule 1-02(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date of the Indenture, if any of the conditions exceeds 5 percent.

“Stated Maturity” means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

“Subordinated Indebtedness” means any Indebtedness of the Company or any Subsidiary Guarantor that is contractually subordinated or junior in right of payment to the Notes or to any Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

“Subsidiary” means, with respect to any Person, any corporation, association or other business entity (i) of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or (ii) of which 50% or less of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person and in each case which is “controlled” and consolidated by such Person in accordance with GAAP; *provided, however*, that with respect to clause (ii), the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be “controlled” by such Person under the GAAP and to constitute a Subsidiary of such Person shall be deemed to be an Investment made by such Person equal to the Fair Market Value of the Capital Stock of such corporation, association or other business entity held by such Person immediately after the occurrence of such event.

“Subsidiary Guarantee” means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

“Subsidiary Guarantor” means the initial Subsidiary Guarantors named herein and any other Restricted Subsidiary that Guarantees the obligations of the Company under the Indenture and the Notes; *provided* that “Subsidiary Guarantor” does not include any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes.

“Subsidiary Guarantor Pledgor” means the initial Subsidiary Guarantor Pledgors and any other Subsidiary Guarantor that pledges Collateral to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor under its Subsidiary Guarantee; *provided* that “Subsidiary Guarantor Pledgor” does not include any person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Notes.

“Temporary Cash Investment” means any of the following:

- (1) direct obligations of the United States of America, Hong Kong, the PRC or any agency of any of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, Hong Kong, the PRC, Canada or any agency of any of the foregoing, in each case maturing within one year;
- (2) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company that is organized under the laws of the United States of America or any state thereof and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US\$100.0 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated “A” (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Section 3(a)(62) of the Exchange Act);
- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;

- (4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P or Fitch;
- (5) securities maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P, Moody’s or Fitch;
- (6) any money market fund that has at least 95.0% of its assets continuously invested in investments of the types described in clauses (1) through (5) above;
- (7) demand or time deposit accounts, certificates of deposit overnight or call deposits and money market deposits with any bank or financial institution organized under the laws of the PRC, Hong Kong, Canada or anywhere the Company or any Restricted Subsidiary conducts business operations; and
- (8) investment products that are principal protected with any bank or financial institution organized under the laws of the PRC, Hong Kong or anywhere the Company or any Restricted Subsidiary conducts business operations if held to maturity (which shall not be more than one year) and can be withdrawn at any time with no more than six months’ notice.

“Total Assets” means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last date of the most recent fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) *provided* that only with respect to clause (2)(k)(ii) of the “Certain Covenants — Limitation on Indebtedness” covenant and the definition of “Permitted Subsidiary Indebtedness,” Total Assets shall be calculated after giving *pro forma* effect to include the cumulative value of all the equipment, property or assets the acquisition, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder in each case as of such date, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness.

“Trade Payables” means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

“Transaction Date” means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

“Unrestricted Subsidiary” means, (1) Alltime City Development Limited, Harbour Wisdom International Limited, Baccalieu Energy Inc., Baccalieu Oil & Gas Limited and Baccalieu Energy Partnership, (2) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture and (3) any Subsidiary of an Unrestricted Subsidiary.

“U.S. Government Obligations” means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

“Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

“Wholly Owned” means, with respect to any Restricted Subsidiary, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director’s qualifying shares or Investments by foreign nationals mandated by applicable law) by the Company or one or more Wholly Owned Subsidiaries of the Company; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Restricted Subsidiaries of such Person are entitled to 95% or more of the economic benefits distributable by such Subsidiary.

## TAXATION

The following summary of certain Bermuda, British Virgin Islands, Hong Kong and PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of Notes.

### **Bermuda**

In Bermuda there are no taxes on profits, income or dividends, nor is there any capital gains tax, estate duty or death duty. Profits can be accumulated and it is not obligatory for a company to pay dividends.

The Bermuda government has enacted legislation under which the Minister of Finance of Bermuda is authorized to give an assurance to an exempted company or a partnership that, in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income or computed on any capital asset, gain or appreciation, then the imposition of any such tax shall not be applicable to such entities or any of their operations. In addition, there may be included an assurance that any such tax or any tax in the nature of estate duty or inheritance tax, shall not be applicable to the shares, debentures or other obligations of such entities.

We received such assurance dated October 5, 2012, which will be effective until March 31, 2035.

Holders of Notes who are not resident in or engaged in trade or business through a permanent establishment in Bermuda will not be subject to any taxes or duties in Bermuda on gains realized on the disposal or redemption of a Note or on income from a Note.

### **British Virgin Islands**

A British Virgin Islands business company is exempt from all provisions of the Income Tax Ordinance of the British Virgin Islands (including with respect to all dividends, interests, rents, royalties, compensations and other amounts payable by the British Virgin Islands company to persons who are not persons resident in the British Virgin Islands). Income and capital gains realized with respect to any shares, debt obligations of a British Virgin Islands company (such as the Notes) by persons who are not persons resident in the British Virgin Islands are also exempt from all provisions of the same Income Tax Ordinance of the British Virgin Islands.

No estate, inheritance, succession or gift tax is payable by persons who are not resident in the British Virgin Islands with respect to any debt obligations of a British Virgin Islands company (such as the Notes).

## **Hong Kong**

### ***Withholding Tax***

No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes.

### ***Profits Tax***

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business. Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “Inland Revenue Ordinance”), as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposition or redemption is or forms part of a trade, profession or business carried on in Hong Kong. Interest payments on the Notes will be subject to Hong Kong profits tax where such payments have a Hong Kong source, and are received by or accrue to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arise through or from the carrying on by the financial institution of its business in Hong Kong; or
- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest payment is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposition of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

### ***Stamp Duty***

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Notes (for so long as the register of holders of the Notes is maintained outside Hong Kong).

## **PRC**

Under the PRC EIT Law, which took effect on January 1, 2008 and was subsequently amended on February 24, 2017 and December 29, 2018, and its implementation rules, which took effect on January 1, 2008, enterprises established outside the PRC whose “de facto management bodies” are located in China are considered to be PRC “resident enterprises” for tax purposes. The implementation rules define the term “de facto management body” as a management body that exercises full and substantial control and management over the business, production, personnel, accounts and properties of an enterprise.

The Company holds its shareholders’ meeting and Board meetings outside China and keeps its shareholders’ list outside China. However, most of the Company’s directors and senior management are currently based in China and the Company keeps its books of account in China. The above elements may be relevant for the tax authorities to determine whether the Company is a PRC resident enterprise for tax purposes.

Although it is unclear under PRC tax law whether the Company has a “de facto management body” located in China for PRC tax purposes, the Company currently intends to take the position that it is not PRC resident enterprise for tax purposes. The Company cannot assure you that tax authorities will respect this position. The Company’s PRC counsel, Tian Yuan Law Firm, has advised the Company that if it is deemed to be a PRC resident enterprise for enterprise income purpose, among other things, the Company would be subject to the PRC enterprise income tax at the rate of 25% on its worldwide income, possibly excluding dividends from PRC subsidiaries. Furthermore, if the Company were treated as a PRC resident enterprise, the Company would be obligated to withhold PRC income tax from payments of interest on the Notes to investors that are non-resident enterprises, generally at the rate of 10%, if the interest is regarded as derived from sources within the PRC. If the Company fails to do so, it may be subject to fines and other penalties. In addition, if the Company were treated as a PRC resident enterprise, any gain realized by such non-resident enterprise investors from the transfer of the Notes may be regarded as derived from sources within the PRC and accordingly may be subject to PRC income tax at a rate of 10%. In the case of income or gain of individuals, the tax (including withholding tax) rate would generally be 20%. Any PRC taxes may be reduced under applicable tax treaties. If the Company is not considered to be a PRC resident enterprise for enterprise income purposes, non-resident investors would not be subject to PRC income tax on any interest received on the Notes or any gains realized from the transfer of the Notes. However, it is unclear whether in practice non-resident investors might be able to obtain the benefit of income tax treaties entered into between PRC and their countries.

## PLAN OF DISTRIBUTION

Deutsche Bank AG, Singapore Branch and Morgan Stanley & Co. International plc are acting as joint global coordinators, joint bookrunners and joint lead managers of the offering of the Notes and as the Initial Purchasers named below. Subject to the terms and conditions stated in the purchase agreement dated July 18, 2019 (the “Purchase Agreement”), each Initial Purchaser named below has severally and not jointly agreed to purchase, and we have agreed to sell to such Initial Purchaser, the principal amount of the Notes set forth opposite the Initial Purchaser’s name.

Initial Purchaser	Principal Amount of Notes
Deutsche Bank AG, Singapore Branch . . . . .	US\$160,000,000
Morgan Stanley & Co. International plc. . . . .	US\$160,000,000
Total . . . . .	US\$320,000,000

The Purchase Agreement provides that the Company will pay the Initial Purchasers a customary commission. In addition, we have agreed with the Initial Purchasers that we will pay a commission to certain private banks in connection with the distribution of the Notes to private banking investors. This commission will be based on the principal amount of the Notes so distributed, and may be deducted from the proceeds of the issue of the Notes upon settlement. The Purchase Agreement provides that the obligations of the Initial Purchasers to purchase the Notes are several and not joint and are subject to approval of legal matters by counsel and to other conditions. The Initial Purchasers must purchase all of the Notes if they purchase any of the Notes.

The Initial Purchasers propose to resell the Notes at the offering price set forth on the cover page of this offering memorandum outside the United States in reliance on Regulation S under the Securities Act. See “Transfer Restrictions.” The price at which the Notes are offered may be changed at any time without notice. The Initial Purchasers may offer and sell the Notes through certain of their affiliates.

We have agreed that, for a period of 30 days from the date of this offering memorandum, we will not offer, sell, contract to sell, pledge, otherwise dispose of, or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by us or any of our affiliates, directly or indirectly, or announce the offering, of any securities issued or guaranteed by us (other than the Notes and the Subsidiary Guarantees) (i) in the case of securities offerings made outside of the PRC, without the prior written consent of the Initial Purchasers and (ii) in the case of securities offerings made within the PRC, without prior consultation with the Initial Purchasers.

The Notes will constitute a new class of securities with no established trading market. We have received approval in-principle from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. However, we cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Initial Purchasers have advised us that they currently intend to make a market in the Notes. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the Notes. If an active public trading market for the Notes does not develop, their market price and liquidity may be adversely affected.

Deutsche Bank AG, Singapore Branch (or its affiliates) may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids to the extent permitted by applicable laws and regulations. Over-allotment involves sales in excess of the offering size, which creates a short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchase of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit Deutsche Bank AG, Singapore Branch (as stabilizing manager) to reclaim a selling concession from a dealer when the Notes originally sold by such dealer are purchased in a stabilizing transaction or a covering transaction to cover short positions. Neither we nor any of the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor any of the Initial Purchasers make any representation that Deutsche Bank AG, Singapore Branch (as stabilizing manager) will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

We expect to deliver the Notes against payment for the Notes on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the fifth business day following the date of the pricing of the Notes (such settlement arrangement being referred to as “T+5”). Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally settle in three business days, so purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next succeeding business day should consult their own adviser.

The Initial Purchasers or their affiliates have performed commercial banking, investment banking or advisory services for us from time to time for which they have received customary fees and reimbursement of expenses. The Initial Purchasers or their affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of business for which they may receive customary fees and reimbursement of expenses. For example, Morgan Stanley Asia International Limited, an affiliate of Morgan Stanley & Co. International plc, one of the Initial Purchasers, is a lender under an existing credit facility of one of our subsidiaries and will receive customary fees and interest payments in connection therewith. We may enter into hedging or other derivative transactions as part of our risk management strategy with the Initial Purchasers and their affiliates, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral. In addition, the Initial Purchasers or any of their affiliates may acquire for their own account a portion of the Notes and be allocated the Notes for asset management and/or proprietary purposes but not with a view to distribution, and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of ours or of our subsidiaries or affiliates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this offering memorandum relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial purchasers may be required to make because of any of those liabilities.

## **SELLING RESTRICTIONS**

### **General**

No action has been taken or will be taken in any jurisdiction by us or the Initial Purchasers that would permit a public offering of the Notes, or the possession, circulation or distribution of this offering memorandum or any other material relating to the Notes or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering memorandum nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

### **Prohibition of Sales to EEA Retail Investors**

The Notes may not be offered, sold or otherwise made available to any retail investor in the EEA. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (b) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

### **United States**

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act.

The Initial Purchaser, through its affiliates, acting as selling agents where applicable, propose to offer the Notes to certain persons in offshore transactions in reliance on Regulation S and in accordance with applicable law. Terms used in this paragraph have the meanings given to them by Regulation S.

### **United Kingdom**

Any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of the Notes may only be communicated or caused to be communicated in circumstances in which Section 21(1) of the FSMA does not apply to the Company or the Subsidiary Guarantors.

All applicable provisions of the FSMA must be complied with in respect to anything done by any person in relation to the Notes in, from or otherwise involving the United Kingdom.

## **Hong Kong**

This offering memorandum has not been and will not be registered with the Registrar of Companies in Hong Kong. Accordingly, except as mentioned below, this offering memorandum may not be issued, circulated or distributed in Hong Kong. A copy of this offering memorandum may, however, be issued to a limited number of prospective applicants for the Notes in Hong Kong in a manner which does not constitute an offer of the Notes to the public in Hong Kong or an issue, circulation or distribution in Hong Kong of a prospectus for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong). No advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571. Laws of Hong Kong) and any rules made thereunder.

## **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948) (as amended) (the “FIEL”), and disclosure under the FIEL has not been made with respect to the Notes. Accordingly, the Notes may not be offered or sold, directly or indirectly in Japan or to, or for the account of, any resident of Japan, or to others for reoffering or re-sale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan, except pursuant to any exemption from the registration requirements of the FIEL and otherwise in compliance with the FIEL and other applicable provisions of Japanese laws and regulations. As used in this paragraph, “resident of Japan” means any person residing in Japan, including any corporation or other entity organized under the laws of Japan.

## **Singapore**

This offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”). Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA and (where applicable) Regulation 3 of the Securities and Futures (Classes of Investors) Regulations 2018, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 of Singapore.

**Notification under Section 309B(1)(c) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA")** — the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## **PRC**

This offering memorandum does not constitute a public offer of the Notes, whether by sale of by subscription, in the PRC. The Notes will not be offered or sold within the PRC by means of this offering memorandum or any other document except pursuant to the applicable laws and regulations of the PRC.

## **Bermuda**

The Initial Purchasers have not made and will not make on behalf of the Company any invitation directly or indirectly to the public in Bermuda to subscribe for any of the Notes.

## **British Virgin Islands**

No invitation will be made directly or indirectly to any person resident in the British Virgin Islands to subscribe for any of the Notes.

## TRANSFER RESTRICTIONS

*Because of the following restrictions, purchasers are advised to consult their legal Counsel prior to making any offer, sale, resale, charge or other transfer of the Notes.*

The Notes are subject to restrictions on transfer as summarized below. By purchasing the Notes, including the Subsidiary Guarantees (together, the “Securities”), you will be deemed to have made the following acknowledgments, representations to, and agreements with, us and the Initial Purchasers:

1. You understand and acknowledge that:
  - the Securities have not been registered under the Securities Act or any other applicable securities laws;
  - the Securities are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws;
  - the Securities are being offered and sold only outside of the United States in offshore transactions in reliance on Rule 903 of Regulation S under the Securities Act; and
  - unless so registered, the Securities may not be sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws.
2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf, and that you are purchasing the Securities in an offshore transaction in accordance with Regulation S.
3. You acknowledge that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers has made any representation to you with respect to us or the offering of the Securities, other than the information contained in this offering memorandum. You represent that you are relying only on this preliminary offering memorandum in making your investment decision with respect to the Securities. You agree that you have had access to such financial and other information concerning us and the Securities as you have deemed necessary in connection with your decision to purchase the Securities including an opportunity to ask questions of and request information from us.
4. You represent that you are purchasing the Securities for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Securities in violation of the Securities Act.
5. You acknowledge that each Note will contain a legend substantially to the following effect:  
**THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A**

TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION.

6. You acknowledge that we, the Initial Purchasers, the Trustee, the Agents and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments representations or agreements you are deemed to have made by your purchase of the Securities is no longer accurate, you will promptly notify us, the Trustee, the Agents and the Initial Purchasers. If you are purchasing any Securities as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

## **RATINGS**

The Notes are expected to be rated “Ba2” by Moody’s and “BB” by S&P. The ratings reflect the rating agencies’ assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Additionally, we have been rated “Ba2” with a stable outlook by Moody’s Investors Service, Inc. and “BB” with a stable outlook by Standard & Poor’s Ratings Services. We cannot assure you that the ratings on the Notes or our corporate credit rating will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant. Each such rating should be evaluated independently of any other rating on the Notes, on other of our securities, or on us.

---

## **LEGAL MATTERS**

Certain legal matters with respect to the Notes will be passed upon for us by Sidley Austin as to matters of United States federal and New York law and Hong Kong Law, Appleby as to matters of Bermuda law and British Virgin Islands law, and Tian Yuan Law Firm as to matters of PRC law. Certain legal matters will be passed upon for the Initial Purchasers by Davis Polk & Wardwell as to matters of United States federal and New York law and Commerce & Finance Law Offices as to matters of PRC law.

---

## **INDEPENDENT AUDITOR**

PricewaterhouseCoopers (Certified Public Accountants), our independent auditor, has audited and rendered unqualified audit reports on, our consolidated financial statements as of and for the years ended December 31, 2016, 2017 and 2018.

## **GENERAL INFORMATION**

### **CONSENTS**

We have obtained all necessary consents, approvals and authorizations in Bermuda, the British Virgin Islands and Hong Kong in connection with the issue and performance of the Notes and the Subsidiary Guarantees. The entering into of the Indenture governing the Notes and the issue of the Notes have been authorized by a resolution of our board of directors dated July 15, 2019.

### **LITIGATION**

Except as disclosed in this offering memorandum, there are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the Notes or the Subsidiary Guarantees.

### **NO MATERIAL ADVERSE CHANGE**

There has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since December 31, 2018 that is material in the context of the issue of the Notes.

### **DOCUMENTS AVAILABLE**

For so long as any of the Notes are outstanding, copies of the Indenture governing the Notes may be inspected free of charge during normal business hours on any weekday (except public holidays) at the corporate trust office of the Trustee.

For so long as any of the Notes are outstanding, copies of our audited financial statements for the past two fiscal years, if any, may be obtained during normal business hours on any weekday (except public holidays) at the corporate trust office of the Trustee.

### **CLEARING SYSTEM AND SETTLEMENT**

The Notes have been accepted for clearance through the facilities of Euroclear and Clearstream with International Securities Identification Number (ISIN) of XS2016070190 and Common Code of 201607019.

### **LISTING OF THE NOTES**

Approval in-principle has been received from the SGX-ST for the listing and quotation of the Notes on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this offering memorandum. Approval in-principle from, admission to the Official List of, and listing and quotation of the Notes on, the SGX-ST are not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors, the JV Subsidiary Guarantors (if any) or any other subsidiary or associated company of the Company, the Notes, the Subsidiary Guarantees or the JV Subsidiary Guarantees. For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of S\$200,000 (or its equivalent in foreign currencies). Accordingly, the Notes, if traded on the SGX-ST, will be traded in a minimum board lot size of US\$200,000.

For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the Global Note is exchanged for individual definitive notes, we shall appoint and maintain a paying agent in Singapore, where the individual definitive notes may be presented or surrendered for payment or redemption. In addition, in the event that the Global Note is exchanged for individual definitive notes, an announcement of such exchange shall be made by or on behalf of us through the SGX-ST. Such announcement will include all material information with respect to the delivery of the definitive notes, including details of the paying agent in Singapore.

## INDEX TO CONSOLIDATED FINANCIAL INFORMATION

### **Audited consolidated financial statements as of and for the year ended December 31, 2018**

	<b>2018 Annual Report<sup>(1)</sup></b>	
Independent Auditor's Report . . . . .	F-2	54
Consolidated Statement of Comprehensive Income . . . . .	F-11	63
Consolidated Statement of Financial Position . . . . .	F-13	65
Consolidated Statement of Changes in Equity . . . . .	F-15	67
Consolidated Statement of Cash Flows . . . . .	F-17	69
Notes to the Consolidated Financial Statements . . . . .	F-20	72

### **Audited consolidated financial statements as of and for the year ended December 31, 2017**

	<b>2017 Annual Report<sup>(1)</sup></b>	
Independent Auditor's Report . . . . .	F-168	55
Consolidated Statement of Comprehensive Income . . . . .	F-177	64
Consolidated Statement of Financial Position . . . . .	F-178	65
Consolidated Statement of Changes in Equity . . . . .	F-180	67
Consolidated Statement of Cash Flows . . . . .	F-182	69
Notes to the Consolidated Financial Statements . . . . .	F-185	72

*Note:*

- (1) The audited consolidated financial statements of the Group set forth herein have been reproduced from the Company's annual reports for the years ended December 31, 2017 and 2018 and page references are references to pages set forth in such annual reports.

## Independent Auditor's Report 獨立核數師報告書



To the Shareholders of China Oil And Gas Group Limited  
(incorporated in Bermuda with limited liability)

### Opinion

#### What we have audited

The consolidated financial statements of China Oil And Gas Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 63 to 219, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

羅兵咸永道

致中油燃氣集團有限公司股東  
(於百慕達註冊成立之有限公司)

### 意見

#### 我們已審計的內容

中油燃氣集團有限公司(以下簡稱「貴公司」)及其附屬公司(以下統稱「貴集團」)列載於第63至219頁的綜合財務報表，包括：

- 於二零一八年十二月三十一日的綜合財務狀況表；
- 截至該日止年度的綜合全面收益表；
- 截至該日止年度的綜合權益變動表；
- 截至該日止年度的綜合現金流量表；及
- 綜合財務報表附註，包括主要會計政策概要。

#### 我們的意見

我們認為，該等綜合財務報表已根據香港會計師公會頒佈的《香港財務報告準則》真實而中肯地反映了貴集團於二零一八年十二月三十一日之綜合財務狀況及其截至該日止年度的綜合財務表現及綜合現金流量，並已遵照香港《公司條例》的披露規定妥為擬備。

# Independent Auditor's Report

## 獨立核數師報告書

(continued) (續)



To the Shareholders of China Oil And Gas Group Limited (continued)  
(incorporated in Bermuda with limited liability)

### Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

### Independence

We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment assessments of loan and interest receivables from and interest in an associate
- Impairment assessment of goodwill

### 羅兵咸永道

致中油燃氣集團有限公司股東(續)  
(於百慕達註冊成立之有限公司)

### 意見的基礎

我們已根據香港會計師公會頒佈的《香港審計準則》(「香港審計準則」)進行審計。我們在該等準則下承擔的責任已在本報告「核數師就審計綜合財務報表承擔的責任」部分中作進一步闡述。

我們相信，我們所獲得的審計憑證能充足及適當地為我們的審計意見提供基礎。

### 獨立性

根據香港會計師公會頒佈的《專業會計師道德守則》(以下簡稱「守則」)，我們獨立於貴集團，並已履行守則中的其他專業道德責任。

### 關鍵審計事項

關鍵審計事項是根據我們的專業判斷，認為對本期綜合財務報表的審計最為重要的事項。這些事項是在我們審計整體綜合財務報表及出具意見時進行處理的。我們不會對這些事項提供單獨的意見。

我們在審計中識別的關鍵審計事項概述如下：

- 應收一間聯營公司貸款及利息以及於該聯營公司的權益減值評估
- 商譽減值評估

## Independent Auditor's Report 獨立核數師報告書

(continued) (續)



To the Shareholders of China Oil And Gas Group Limited (continued)  
(incorporated in Bermuda with limited liability)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Impairment assessments of loan and interest receivables from and interest in an associate</b></p> <p>Refer to note 5 (a) critical accounting estimates and judgements and notes 20 and 23 (d) to the Group's consolidated financial statements.</p> <p>The Group had loan and interest receivables from an associate of approximately HK\$708,486,000 and HK\$256,945,000 respectively and interest in this associate of approximately HK\$257,250,000 as at 31 December 2018.</p> <p>Management assessed the provision of expected credit loss of approximately HK\$17,000,000 against the loan and interest receivables from the associate. Management estimated the level of expected loss, with reference to historical observed default rates, loss given default rates of comparable companies and industry, and forward-looking economic factors.</p>	<p>Our procedures in relation to management's impairment assessment of loan and interest receivables from this associate included the evaluation of the appropriateness of the expected credit loss provisioning methodology.</p> <p>We assessed the reasonableness of key assumptions, including default rate and loss given default rate with assistance of our valuation experts.</p> <p>We challenged the appropriateness of forward-looking economic factors applied by management for the adjustment of the level of expected loss.</p> <p>Our procedures in relation to management's impairment assessment of interest in the associate included the evaluation of the appropriateness of valuation methodology and reasonableness of the key assumptions used with assistance of our internal experts.</p>

羅兵咸永道

致中油燃氣集團有限公司股東(續)  
(於百慕達註冊成立之有限公司)

關鍵會計事項	我們的審計如何處理關鍵會計事項
<p><b>應收一間聯營公司貸款及利息以及於該聯營公司的權益減值評估</b></p> <p>參考 貴集團綜合財務報表附註5(a)重大會計估計及判斷以及附註20及23(d)。</p> <p>於二零一八年十二月三十一日，貴集團應收一間聯營公司貸款及利息分別約為708,486,000港元及256,945,000港元以及於該聯營公司擁有的權益約為257,250,000港元。</p> <p>管理層就應收聯營公司貸款及利息評估預期信貸虧損撥備約17,000,000港元。管理層參考可資比較公司及行業的過往已觀察違約概率及違約損失率以及前瞻性經濟因素對預期虧損水平進行估計。</p>	<p>我們與管理層對於應收該聯營公司貸款及利息的減值評估相關的程序包括對計提預期信貸虧損撥備的方法是否適當進行評估。</p> <p>我們在估值專家的協助下對關鍵假設是否合理性進行評估，包括違約概率及違約損失率。</p> <p>我們對管理層就調整預期虧損水平而應用的前瞻性經濟因素是否適當提出質疑。</p> <p>我們與管理層對於聯營公司權益的減值評估相關的程序包括在內部專家的協助下對所採用的估值方法是否適當及關鍵假設是否合理進行評估。</p>

## Independent Auditor's Report 獨立核數師報告書

(continued) (續)



To the Shareholders of China Oil And Gas Group Limited (continued)  
(incorporated in Bermuda with limited liability)

羅兵咸永道

致中油燃氣集團有限公司股東(續)  
(於百慕達註冊成立之有限公司)

Key Audit Matter	How our audit addressed the Key Audit Matter	關鍵會計事項	我們的審計如何處理關鍵會計事項
<p><b>Impairment assessments of loan and interest receivables from and interest in an associate (continued)</b></p> <p>Management assessed the recoverability of interest in the associate based on the recoverable amount of the associate's business valuation applying the fair value less costs of disposal method. The key underlying assumptions were set out in notes 5 (a) and 20 to the Group's consolidated financial statements.</p> <p>We focused on this area due to the magnitude of the loan and interest receivables from and interest in this associate. Moreover, significant judgements and estimates were involved in estimating the provision of expected credit loss for the loan and interest receivables, and recoverable amount of the interest in the associate.</p>	<p>We evaluated management's estimated commodity price growth rate by challenging management's rationale to support their projections. We researched the most up-to-date commodity price and performed independent market research on the commodity price growth that was in line with management's forecasts.</p> <p>We compared the future production profile against the reserve estimation report conducted by management's expert and evaluated the competence, capacity and objectivity of the expert.</p> <p>We evaluated the reasonableness of the discount rate, applied by benchmarking management's assumptions with those applied by comparable companies and industry forecasts.</p> <p>We physically inspected the site and discussed with local management to understand the current status of operation.</p> <p>We challenged management's sensitivity analysis in consideration of the potential impact of reasonably possible downside changes in these key assumptions.</p> <p>We found the management's judgements and assumptions used in the impairment assessments of loan and interest receivables from and interest in the associate were supported by the available evidence.</p>	<p><b>應收一間聯營公司貸款及利息以及於該聯營公司的權益減值評估(續)</b></p> <p>根據公平值減出售成本法計算的聯營公司業務可收回金額估值，管理層對聯營公司權益的可收回性進行評估。關鍵相關假設載於貴集團綜合財務報表附註5(a)及20。</p> <p>我們因應收該聯營公司貸款及利息以及於該聯營公司的權益金額甚巨而關注此領域。此外，估計應收貸款及利息之預期信譽虧損撥備以及可收回金額時涉及重大判斷及估計。</p>	<p>通過對管理層用以支持其預測的基本原理提出質疑，我們對管理層的估計商品價格增長率進行評估。我們研究最近期的商品價格，並就與管理層預測相一致的商品價格增長進行獨立市場調研。</p> <p>我們將未來生產概況與管理層專家進行的儲量估算報告進行對比，並評估專家的專長、能力及客觀性。</p> <p>通過將管理層的假設與可資比較公司及行業所採用預測進行比較，我們對所採用的貼現率之合理性進行評估。</p> <p>我們進行實地現場視察並與當地管理層討論，以瞭解當前營運狀況。</p> <p>我們就該等主要假設可能合理出現之不利變動之潛在影響，對管理層準備敏感度分析提出質疑。</p> <p>我們發現，管理層在應收聯營公司貸款及利息以及於該聯營公司的權益減值評估中應用的判斷及假設獲現有證據支持。</p>

## Independent Auditor's Report 獨立核數師報告書

(continued) (續)



To the Shareholders of China Oil And Gas Group Limited (continued)  
(incorporated in Bermuda with limited liability)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Impairment assessment of goodwill</b></p> <p>Refer to note 5 (b) critical accounting estimates and judgements and note 19 to the Group's consolidated financial statements.</p> <p>The Group carried goodwill of approximately HK\$938,805,000 as at 31 December 2018, which was allocated to a group of cash generating units ("CGUs") relating to the sales and distribution of natural gas and other related products business ("Natural Gas Business") CGUs.</p> <p>Management estimated the recoverable amount of the Natural Gas Business CGUs based on value-in-use calculations that applied the key assumptions and inputs set out in notes 5 (b) and 19 to the Group's consolidated financial statements. Based on value-in-use calculations, management has concluded there was no impairment of the goodwill as at 31 December 2018.</p> <p>We focused on this area due to the magnitude of the goodwill balance and the significant judgements made by management in estimating the recoverable amount of the goodwill.</p>	<p>Our procedures in relation to testing management's goodwill impairment assessment of the Natural Gas Business CGUs included the evaluation of the appropriateness of valuation methodology and reasonableness of the key assumptions used with assistance of our valuation experts.</p> <p>We challenged management on the estimated growth rate, expected changes to selling prices and direct costs assumptions and compared cash flows generated during the year ended 31 December 2018 with prior years' performance. We evaluated the reasonableness of the discount rate applied by benchmarking management's assumptions with those applied by comparable companies and industry forecasts. Furthermore, we evaluated the terminal growth rate with reference to the long term inflation rate.</p> <p>We found the management's judgements and assumptions used in the impairment assessment of goodwill were supported by the available evidence.</p>

羅兵咸永道

致中油燃氣集團有限公司股東(續)  
(於百慕達註冊成立之有限公司)

關鍵會計事項	我們的審計如何處理關鍵會計事項
<p><b>商譽減值評估</b></p> <p>參考 貴集團綜合財務報表附註5(b)重大會計估計及判斷以及附註19。</p> <p>於二零一八年十二月三十一日，貴集團錄得商譽約938,805,000港元。商譽分配至一組現金產生單位（「現金產生單位」），該組現金產生單位乃與銷售及分銷天然氣及其他相關產品業務（「天然氣業務」）現金產生單位有關。</p> <p>管理層根據使用價值計算法對天然氣業務現金產生單位的可收回金額進行估計。該方法應用 貴集團綜合財務報表附註5(b)及19所載的重大假設及數據。根據使用價值計算，管理層已斷定，於二零一八年十二月三十一日概無任何商譽減值。</p> <p>我們因商譽結餘甚巨且管理層於對商譽的可收回金額進行估計時作出的重大判斷而關注此領域。</p>	<p>我們測試管理層對天然氣業務現金產生單位商譽減值評估相關的程序包括在我們的估值專家協助下對所採用的估值方法是否適當及關鍵假設是否合理進行評估。</p> <p>我們就估計增長率、預期售價變動及直接費用假設對管理層提出質疑，並將截至二零一八年十二月三十一日止年度之現金流量與上年表現進行對比。通過將管理層的假設與可資比較公司及行業所採用的相關假設及預測進行比較，我們對所採用的貼現率之合理性進行評估。另外，根據長期通脹率，我們對最終增長率進行評估。</p> <p>我們發現，管理層在商譽減值評估中應用的判斷及假設獲現有證據支持。</p>

## Independent Auditor's Report 獨立核數師報告書

(continued) (續)



To the Shareholders of China Oil And Gas Group Limited (continued)  
(incorporated in Bermuda with limited liability)

### Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

羅兵咸永道

致中油燃氣集團有限公司股東(續)  
(於百慕達註冊成立之有限公司)

### 其他資料

貴公司董事須對其他信息負責。其他信息包括年報內的所有信息，但不包括綜合財務報表及我們的核數師報告。

我們對綜合財務報表的意見並不涵蓋其他信息，我們亦不對該等其他信息發表任何形式的鑒證結論。

結合我們對綜合財務報表的審計，我們的責任是閱讀其他信息，在此過程中，考慮其他信息是否與綜合財務報表或我們在審計過程中所瞭解的情況存在重大抵觸或者似乎存在重大錯誤陳述的情況。

基於我們已執行的工作，如果我們認為其他信息存在重大錯誤陳述，我們需要報告該事實。在這方面，我們沒有任何報告。

## Independent Auditor's Report 獨立核數師報告書

(continued) (續)



To the Shareholders of China Oil And Gas Group Limited (continued)  
(incorporated in Bermuda with limited liability)

### Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

羅兵咸永道

致中油燃氣集團有限公司股東(續)  
(於百慕達註冊成立之有限公司)

### 董事及審核委員會就 綜合財務報表須承擔的責任

貴公司董事須負責根據香港會計師公會頒佈的《香港財務報告準則》及香港《公司條例》的披露規定擬備真實而中肯的綜合財務報表，並對其認為為使綜合財務報表的擬備不存在由於欺詐或錯誤而導致的重大錯誤陳述所需的內部控制負責。

在擬備綜合財務報表時，董事須負責評估 貴集團持續經營的能力，並在適用情況下披露與持續經營有關的事項，以及使用持續經營為會計基礎，除非董事有意將 貴集團清盤或停止經營，或別無其他實際的替代方案。

審核委員會須負責監督 貴集團的財務報告過程。

### 核數師就審計綜合財務報表 須承擔的責任

我們的目標，是對綜合財務報表整體是否不存在由於欺詐或錯誤而導致的重大錯誤陳述取得合理保證，並出具包括我們意見的核數師報告。我們僅按照百慕達一九八一年《公司法》第90條向 閣下(作為整體)報告我們的意見，除此之外本報告別無其他目的。我們不會就本報告的內容向任何其他人士負責或承擔任何責任。合理保證是高水平的保證，但不能保證按照《香港審計準則》進行的審計，在某一重大錯誤陳述存在時總能發現。錯誤陳述可以由欺詐或錯誤引起，如果合理預期它們單獨或彙總起來可能影響綜合財務報表使用者依賴綜合財務報表所作出的經濟決定，則有關的錯誤陳述可被視作重大。

## Independent Auditor's Report 獨立核數師報告書

(continued) (續)



### To the Shareholders of China Oil And Gas Group Limited (continued) (incorporated in Bermuda with limited liability)

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### 羅兵咸永道

### 致中油燃氣集團有限公司股東(續) (於百慕達註冊成立之有限公司)

在根據《香港審計準則》進行審計的過程中，我們運用了專業判斷，保持了專業懷疑態度。我們亦：

- 識別和評估由於欺詐或錯誤而導致綜合財務報表存在重大錯誤陳述的風險，設計及執行審計程序以應對這些風險，以及獲取充足和適當的審計憑證，作為我們意見的基礎。由於欺詐可能涉及串謀、偽造、蓄意遺漏、虛假陳述，或凌駕於內部控制之上，因此未能發現因欺詐而導致的重大錯誤陳述的風險高於未能發現因錯誤而導致的重大錯誤陳述的風險。
- 瞭解與審計相關的內部控制，以設計適當的審計程序，但目的並非對貴集團內部控制的有效性發表意見。
- 評價董事所採用會計政策的恰當性及作出會計估計和相關披露的合理性。
- 對董事採用持續經營會計基礎的恰當性作出結論。根據所獲取的審計憑證，確定是否存在與事項或情況有關的重大不確定性，從而可能導致對貴集團的持續經營能力產生重大疑慮。如果我們認為存在重大不確定性，則有必要在核數師報告中提請使用者注意綜合財務報表中的相關披露。假若有關的披露不足，則我們應當發表非無保留意見。我們的結論是基於核數師報告日止所取得的審計憑證。然而，未來事項或情況可能導致貴集團不能持續經營。
- 評價綜合財務報表的整體列報方式、結構和內容，包括披露，以及綜合財務報表是否中肯反映交易和事項。

## Independent Auditor's Report 獨立核數師報告書

(continued) (續)



To the Shareholders of China Oil And Gas Group Limited (continued)  
(incorporated in Bermuda with limited liability)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wilson Chan.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 27 March 2019

羅兵咸永道

致中油燃氣集團有限公司股東(續)  
(於百慕達註冊成立之有限公司)

- 就貴集團內實體或業務活動的財務信息獲取充足、適當的審計憑證，以便對綜合財務報表發表意見。我們負責貴集團審計的方向、監督和執行。我們為審計意見承擔全部責任。

除其他事項外，我們與審核委員會溝通了計劃的審計範圍、時間安排及重大審計發現等，包括我們在審計過程中識別出內部控制的任何重大缺陷。

我們還向審核委員會提交聲明，說明我們已符合有關獨立性的相關道德要求，並與他們溝通有可能合理地被認為會影響我們獨立性的所有關係和其他事項，以及在適用的情況下，相關的防範措施。

從與審核委員會溝通的事項中，我們確定哪些事項對本期綜合財務報表的審計最為重要，因而構成關鍵審核事項。我們在核數師報告中描述這些事項，除非法律法規不允許公開披露這些事項，或在極端罕見的情況下，如果合理預期在我們報告中溝通某事項造成的負面後果超過產生的公眾利益，我們決定不應在報告中溝通該事項。

出具本獨立核數師報告的審計項目合夥人是陳偉信。

羅兵咸永道會計師事務所  
執業會計師

香港，二零一九年三月二十七日

## Consolidated Statement of Comprehensive Income

### 綜合全面收益表

For the year ended 31 December 2018  
截至二零一八年十二月三十一日止年度

		Note	2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Revenue	營業額	6	9,410,131	7,651,280
Cost of sales	銷售成本		(8,045,299)	(6,435,083)
Gross profit	毛利		1,364,832	1,216,197
Other income	其他收入	7	30,069	30,262
Other gains, net	其他收益，淨額	8	18,936	22,901
Selling and distribution costs	銷售及分銷費用		(57,270)	(50,507)
Administrative expenses	行政開支		(364,847)	(307,497)
Reversal of impairment losses on oil and gas properties under property, plant and equipment	物業、廠房及設備項下油氣資產減值虧損回撥	16	–	4,402
Operating profit	經營溢利	9	991,720	915,758
Finance income	財務收入	10	146,818	101,741
Finance costs	財務費用	10	(206,712)	(203,677)
Share of losses of investments accounted for using the equity method	分佔使用權益法入賬之投資的虧損	20	(3,300)	(2,356)
Profit before taxation	除稅前溢利		928,526	811,466
Taxation	稅項	13	(250,301)	(188,527)
Profit for the year	年內溢利		678,225	622,939
Other comprehensive (loss)/income: Items that may be reclassified to profit or loss	其他全面(虧損)/收益：可重新分類至損益的項目		(539,424)	482,811
Currency translation differences	貨幣換算差額			482,811
Change in value of available-for-sale financial assets	可供出售財務資產價值變動		–	40,296
Change in value of debt investments at fair value through other comprehensive income	按公平值計入其他全面收益之債務投資價值變動		(51,267)	–
Item that will not be reclassified to profit or loss	不會重新分類至損益的項目			
Change in value of equity investments at fair value through other comprehensive income	按公平值計入其他全面收益之股本投資價值變動		(4,830)	–
Other comprehensive (loss)/income for the year, net of tax	年內其他全面(虧損)/收益，扣除稅項		(595,521)	523,107
Total comprehensive income for the year	年內全面收益總額		82,704	1,146,046

## Consolidated Statement of Comprehensive Income

### 綜合全面收益表

For the year ended 31 December 2018

截至二零一八年十二月三十一日止年度

(continued) (續)

	Note 附註	2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Profit attributable to:			
Owners of the Company		281,904	250,467
Non-controlling interests		396,321	372,472
		<b>678,225</b>	<b>622,939</b>
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		(55,158)	642,756
Non-controlling interests		137,862	503,290
		<b>82,704</b>	<b>1,146,046</b>
Earnings per share for profit attributable to owners of the Company for the year	15		
- Basic (HK cents)		5.664	4.865
- Diluted (HK cents)		5.641	4.858

The notes on pages 72 to 219 are an integral part of these consolidated financial statements.

第72至219頁之附註為本綜合財務報表之組成部分。

## Consolidated Statement of Financial Position

### 綜合財務狀況表

As at 31 December 2018  
於二零一八年十二月三十一日

	Note	2018	2017
	附註	二零一八年	二零一七年
		HK\$'000	HK\$'000
		千港元	千港元
<b>Assets</b>			
<b>Non-current assets</b>			
<b>Property, plant and equipment</b>	16	<b>7,924,722</b>	7,725,219
<b>Exploration and evaluation assets</b>	17	<b>182,981</b>	215,189
<b>Land use rights</b>	18	<b>415,234</b>	456,458
<b>Intangible assets</b>	19	<b>974,526</b>	1,035,324
<b>Investments accounted for using the equity method</b>	20	<b>312,754</b>	321,167
<b>Financial assets at fair value through other comprehensive income</b>	21	<b>439,120</b>	–
<b>Available-for-sale financial assets</b>	21	–	596,360
<b>Other non-current assets</b>	23	<b>1,063,841</b>	956,763
<b>Deferred tax assets</b>	30	<b>7,646</b>	4,796
		<b>11,320,824</b>	11,311,276
<b>Current assets</b>			
<b>Inventories</b>	22	<b>282,777</b>	244,438
<b>Contract assets, deposits, trade and other receivables</b>	23	<b>1,751,116</b>	1,596,734
<b>Financial assets at fair value through profit or loss</b>	24	–	48,842
<b>Current tax recoverable</b>		<b>6,024</b>	6,333
<b>Time deposits with maturity over three months</b>	25	<b>158,679</b>	48,531
<b>Cash and cash equivalents</b>	25	<b>2,508,223</b>	2,290,447
		<b>4,706,819</b>	4,235,325
<b>Total assets</b>		<b>16,027,643</b>	15,546,601
<b>Liabilities</b>			
<b>Current liabilities</b>			
<b>Trade and other payables</b>	26	<b>1,415,917</b>	1,431,733
<b>Contract liabilities/receipt in advance</b>	27	<b>1,470,128</b>	1,584,003
<b>Short-term borrowings</b>	28	<b>1,455,839</b>	689,258
<b>Current tax payable</b>		<b>269,369</b>	215,042
		<b>4,611,253</b>	3,920,036

## Consolidated Statement of Financial Position

### 綜合財務狀況表

As at 31 December 2018

於二零一八年十二月三十一日

(continued) (續)

	Note 附註	2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
<b>Non-current liabilities</b>			
Senior notes	29	5,029,991	4,970,240
Long-term borrowings	28	63,642	60,000
Deferred tax liabilities	30	270,019	260,359
Assets retirement obligation	31	140,678	130,311
		<b>5,504,330</b>	5,420,910
<b>Total liabilities</b>		<b>10,115,583</b>	9,340,946
<b>Equity</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	32	58,391	58,257
Reserves		3,137,516	3,286,289
		<b>3,195,907</b>	3,344,546
Non-controlling interests		2,716,153	2,861,109
<b>Total equity</b>		<b>5,912,060</b>	6,205,655
<b>Total equity and liabilities</b>		<b>16,027,643</b>	15,546,601

The notes on pages 72 to 219 are an integral part of these consolidated financial statements.

The financial statements on pages 63 to 219 were approved by the Board of Directors on 27 March 2019 and were signed on its behalf.

第72至219頁之附註為本綜合財務報表之組成部分。

第63至219頁之財務報表已於二零一九年三月二十七日獲董事局批准並簽署。

Xu Tie-liang  
Director

Guan Yijun  
Director

許鉄良  
董事

關懿君  
董事

## Consolidated Statement of Changes in Equity 綜合權益變動表

For the year ended 31 December 2018  
截至二零一八年十二月三十一日止年度

		Attributable to owners of the Company 公司擁有人應佔									
		Share capital	Share premium	Shares held for share award scheme 為股份獎勵計劃所持股份	(Note) Other reserves (附註) 其他儲備	Exchange fluctuation reserve 匯兌波動儲備	Share-based compensation reserve 以股份為基礎的酬金儲備	Retained profits	Total	Non-controlling interests	Total equity
		HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元
<b>At 1 January 2017</b>	於二零一七年一月一日	58,257	24,578	(305,706)	1,536,561	(604,730)	3,441	2,118,030	2,830,431	2,420,523	5,250,954
<b>Profit for the year</b>	年內溢利	-	-	-	-	-	-	250,467	250,467	372,472	622,939
<b>Other comprehensive income:</b>	其他全面收益:										
Exchange differences on translating foreign operations	換算海外業務的匯兌差額	-	-	-	-	351,993	-	-	351,993	130,818	482,811
Changes in value of available-for-sale financial assets	可供出售財務資產價值變動	-	-	-	40,296	-	-	-	40,296	-	40,296
<b>Total comprehensive income for the year</b>	年內全面收益總額	-	-	-	40,296	351,993	-	250,467	642,756	503,290	1,146,046
Vesting of shares under share award scheme	根據股份獎勵計劃歸屬股份	-	-	991	-	-	(991)	-	-	-	-
Shares purchased for share award scheme	為股份獎勵計劃購買股份	-	-	(104,257)	-	-	-	(104,257)	-	-	(104,257)
Value of employee services	僱員服務價值	-	-	-	-	-	4,744	-	4,744	-	4,744
Capital Injection by non-controlling interests	非控股權益注資	-	-	-	-	-	-	-	-	14,400	14,400
Dividend paid to non-controlling interests	派付股息予非控股權益	-	-	-	-	-	-	-	-	(77,104)	(77,104)
Final dividend for the year ended 31 December 2016 (Note 14)	截至二零一六年十二月三十一日止年度末期股息(附註14)	-	-	-	(29,128)	-	-	-	(29,128)	-	(29,128)
<b>At 31 December 2017</b>	於二零一七年十二月三十一日	58,257	24,578	(408,972)	1,547,729	(252,737)	7,194	2,368,497	3,344,546	2,861,109	6,205,655

## Consolidated Statement of Changes in Equity

### 綜合權益變動表

For the year ended 31 December 2018

截至二零一八年十二月三十一日止年度

(continued) (續)

		Attributable to owners of the Company 公司擁有人應佔									
		Share capital	Share premium	Shares held for share award scheme	(Note) Other reserves	Exchange fluctuation reserve	Share-based compensation reserve	Retained profits	Total	Non-controlling interests	Total equity
		股本	股份溢價	為股份獎勵計劃所持股份	其他儲備	匯兌波動儲備	以股份為基礎的酬金儲備	保留溢利	總額	非控股權益	權益總額
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		千港元	千港元	千港元	千港元	千港元	千港元	千港元	千港元	千港元	千港元
At 1 January 2018 as originally presented	於二零一八年一月一日原呈列	58,257	24,578	(408,972)	1,547,729	(252,737)	7,194	2,368,497	3,344,546	2,861,109	6,205,655
Change in accounting policy (note 2(a))	會計政策變動(附註2(a))	-	-	-	4,790	-	-	(76,302)	(71,512)	-	(71,512)
Restated total equity as at 1 January 2018	於二零一八年一月一日經重列權益總額	58,257	24,578	(408,972)	1,552,519	(252,737)	7,194	2,292,195	3,273,034	2,861,109	6,134,143
Profit for the year	年內溢利	-	-	-	-	-	-	281,904	281,904	396,321	678,225
Other comprehensive loss:	其他全面虧損:										
Exchange differences on translating foreign operations	換算海外業務的匯兌差額	-	-	-	-	(280,965)	-	-	(280,965)	(258,459)	(539,424)
Changes in value of debt investments at fair value through other comprehensive income	按公平值計入其他全面收益之債務投資價值變動	-	-	-	(51,267)	-	-	-	(51,267)	-	(51,267)
Changes in value of equity investments at fair value through other comprehensive income	按公平值計入其他全面收益之股本投資價值變動	-	-	-	(4,830)	-	-	-	(4,830)	-	(4,830)
Total comprehensive (loss)/income for the year	年內全面(虧損)/收益總額	-	-	-	(56,097)	(280,965)	-	281,904	(55,158)	137,862	82,704
Transfer of fair value gain on equity investments at fair value through other comprehensive income to retained profits upon disposal	於出售後轉撥按公平值計入其他全面收益之股本投資公平值收益至保留溢利	-	-	-	(2,873)	-	-	2,873	-	-	-
Vesting of shares under share award scheme	根據股份獎勵計劃歸屬股份	-	-	17,316	-	-	(17,316)	-	-	-	-
Shares purchased for share award scheme	為股份獎勵計劃購買股份	-	-	(29,030)	-	-	-	-	(29,030)	-	(29,030)
Value of employee services	僱員服務價值	-	-	-	-	-	21,269	-	21,269	-	21,269
Proceeds from shares issued upon exercise of share options	於購股權獲行使後發行股份所得款項	134	7,755	-	-	-	(1,707)	-	6,182	-	6,182
Capital injection by non-controlling interests	非控股權益注資	-	-	-	-	-	-	-	-	1,528	1,528
Dividend paid to non-controlling interests	派付股息予非控股權益	-	-	-	-	-	-	-	-	(284,346)	(284,346)
Final dividend for the year ended 31 December 2017 (Note 14)	截至二零一七年十二月三十一日止年度末期股息(附註14)	-	-	-	(20,390)	-	-	-	(20,390)	-	(20,390)
At 31 December 2018	於二零一八年十二月三十一日	58,391	32,333	(420,686)	1,473,159	(533,702)	9,440	2,576,972	3,195,907	2,716,153	5,912,060

Note:

As at 31 December 2018, other reserves mainly comprise capital and other reserve amounting to HK\$52,102,000 (2017: HK\$106,279,000) and contribution surplus amounting to HK\$1,421,057,000 (2017: HK\$1,441,450,000).

The notes on pages 72 to 219 are an integral part of these consolidated financial statements.

附註:

於二零一八年十二月三十一日，其他儲備主要包括資本及其他儲備52,102,000港元(二零一七年: 106,279,000港元)及繳入盈餘1,421,057,000港元(二零一七年: 1,441,450,000港元)。

第72至219頁之附註為本綜合財務報表之組成部分。

## Consolidated Statement of Cash Flows

### 綜合現金流量表

For the year ended 31 December 2018  
截至二零一八年十二月三十一日止年度

			2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
	Note 附註			
Cash flows from operating activities		經營活動現金流量		
Profit for the year		年內溢利	678,225	622,939
Adjustments for:		就以下各項作出調整：		
Taxation		稅項	250,301	188,527
Finance costs		財務費用	206,712	203,677
Finance income		財務收入	(146,818)	(101,741)
Share of losses of investments accounted for using the equity method		分佔使用權益法入賬之投資的虧損	3,300	2,356
Equity-settled share-based payments		以權益結算以股份為基礎的付款	21,269	4,744
Amortisation of intangible assets	19	無形資產攤銷	3,192	2,521
Depreciation and depletion of property, plant and equipment	16	物業、廠房及設備折舊及損耗	470,165	428,491
Amortisation of land use rights	18	土地使用權攤銷	8,769	8,503
Reversal of impairment on oil and gas properties under property, plant and equipment	16	物業、廠房及設備項下油氣資產減值虧損回撥	-	(4,402)
Losses on disposals of property, plant and equipment		出售物業、廠房及設備的虧損	872	1,652
Fair value gains on financial assets at fair value through profit or loss	8	按公平值經損益入賬的財務資產公平值收益	-	(1,394)
Gain on disposal of a land use right	8	出售一項土地使用權收益	(4,618)	-
Gains on disposals of available-for-sale financial assets	8	出售可供出售財務資產的收益	-	(17,748)
Gains on disposals of debt investments at fair value through other comprehensive income	8	出售按公平值計入其他全面收益之債務投資的收益	(2,097)	-
Gains on disposal of an associate	8	出售一間聯營公司的收益	-	(3,759)
Gain on bargain purchase	8	議價收購收益	(12,221)	-
Written off of exploration and evaluation assets	17	勘探及評估資產沖銷	5,651	2,357
Provision for assets retirement obligation	31	資產報廢承擔撥備	13,333	7,781
			<b>1,496,035</b>	1,344,504
Changes in working capital:		營運資金變動：		
Inventories		存貨	(52,598)	(40,252)
Contract assets, deposits, trade and other receivables		合約資產、按金、貿易及其他應收款項	(173,729)	65,760
Trade and other payables		貿易及其他應付款項	186,040	(184,259)
Contract liabilities/receipt in advance		合約負債／預收款項	(21,475)	304,271

## Consolidated Statement of Cash Flows

### 綜合現金流量表

For the year ended 31 December 2018

截至二零一八年十二月三十一日止年度

(continued) (續)

		Note 附註	2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Cash generated from operations	經營產生現金		<b>1,434,273</b>	1,490,024
Taxation paid	已付稅項		<b>(161,856)</b>	(104,190)
Net cash generated from operating activities	經營活動產生的現金淨額		<b>1,272,417</b>	1,385,834
Cash flows from investing activities	投資活動現金流量			
Interest received	已收利息		<b>103,698</b>	69,492
Purchases of property, plant and equipment, land use rights and prepaid construction costs	購買物業、廠房及設備、土地使用權以及預付建設成本		<b>(1,009,417)</b>	(944,982)
Proceeds from disposals of property, plant and equipment	出售物業、廠房及設備所得款項		<b>6,718</b>	13,035
Proceed from disposal of a land use right	出售一項土地使用權所得款項		<b>15,533</b>	–
Net cash inflow as a result of disposal of an associate	因出售一間聯營公司現金流入淨額	34	–	6,960
Purchases of other intangible assets	購置其他無形資產	19	<b>(3,080)</b>	(7,696)
Purchases of financial assets at fair value through other comprehensive income	購買按公平值計入其他全面收益之財務資產		<b>(164,966)</b>	–
Purchases of available-for-sale financial assets	購買可供出售財務資產		–	(112,329)
Proceeds from disposals of financial assets at fair value through other comprehensive income	出售按公平值計入其他全面收益之財務資產所得款項		<b>317,048</b>	–
Proceeds from disposals of available-for-sale financial assets	出售可供出售財務資產所得款項		–	212,275
Acquisition of business, net of cash	收購業務，扣除現金	33	<b>(52,193)</b>	–
Investments in associates	投資聯營公司		–	(19,124)
Repayments from third parties	第三方還款		–	31,452
Loan to an associate	貸款予一間聯營公司		<b>(108,408)</b>	(119,837)
Increase in time deposits with maturity over three months	存款期超過三個月的定期存款增加		<b>(112,979)</b>	(23,361)
Site restoration expenditure	工地恢復支出		<b>(4,698)</b>	(7,507)
Net cash used in investing activities	投資活動所用現金淨額		<b>(1,012,744)</b>	(901,622)

## Consolidated Statement of Cash Flows

### 綜合現金流量表

For the year ended 31 December 2018  
截至二零一八年十二月三十一日止年度  
(continued) (續)

			2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Cash flows from financing activities	融資活動現金流量			
Interest paid	已付利息		(303,935)	(262,431)
New borrowings raised	新造借貸		1,404,438	413,862
Redemption of senior notes	贖回優先票據	29	-	(2,748,104)
Repayments of borrowings	償還借貸		(547,048)	(59,046)
Capital injection by non-controlling interests	非控股權益注資		1,528	14,400
Dividend paid to non-controlling interests	派付股息予非控股權益		(410,174)	(65,663)
Proceeds from issuance of senior notes net of transaction costs	發行優先票據所得款項 (扣除交易成本)	29	-	2,685,809
Proceeds from shares issued upon exercise of share options	於購股權獲行使後 發行股份的所得款項		6,182	-
Dividend paid	已付股息		(20,390)	(29,128)
Purchases of own shares for share award scheme	為股份獎勵計劃購買 本身股份		(29,030)	(104,257)
<b>Net cash generated from/(used in) financing activities</b>	<b>融資活動所得/(所用) 現金淨額</b>		<b>101,571</b>	<b>(154,558)</b>
Net increase in cash and cash equivalents	現金及現金等值項目增加淨額		361,244	329,654
Cash and cash equivalents at 1 January	於一月一日之現金 及現金等值項目		2,290,447	1,833,483
Effect of foreign exchange rate changes	匯率變動影響		(143,468)	127,310
<b>Cash and cash equivalents at 31 December</b>	<b>於十二月三十一日之現金 及現金等值項目</b>	25	<b>2,508,223</b>	<b>2,290,447</b>

The notes on pages 72 to 219 are an integral part of these consolidated financial statements.

第72至219頁之附註為本綜合財務報表之組成部分。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

#### 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 is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business 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 energy related business in various regions in the People’s Republic of China (“PRC”) and West Central Alberta, Canada, including but not limited to 1) piped city gas business, pipeline design and construction; 2) transportation, distribution and sales of compressed natural gas (“CNG”) and liquefied natural gas (“LNG”); and 3) development, production and sale of oil and gas and other upstream energy resources. The Company and its subsidiaries are collectively referred to the “Group”.

These financial statements are presented in Hong Kong dollars, unless otherwise stated.

#### 2 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”) and requirements of the Hong Kong Companies ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets at fair value through other comprehensive income, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

#### 1 一般資料

中油燃氣集團有限公司(「公司」)為於百慕達註冊成立之獲豁免有限公司，而其股份在香港聯合交易所有限公司(「聯交所」)上市。註冊辦事處位於Clarendon House, 2 Church Street, Hamilton HM11, Bermuda。主要營業地點之地址為香港銅鑼灣告士打道255–257號信和廣場28樓2805室。公司為一間投資控股公司。其附屬公司主要於中華人民共和國(「中國」)及加拿大阿爾伯塔省中西部多個地區從事能源相關業務之投資，包括但不限於1)進行城市管道燃氣營運、管道設計及建造；2)壓縮天然氣(「CNG」)及液化天然氣(「LNG」)之運輸、分銷及銷售；及3)原油及天然氣等其他上游能源資源開發、生產及銷售。公司及其附屬公司統稱為「集團」。

除非另有說明，否則該等財務報表以港元呈列。

#### 2 編製基準

公司之綜合財務報表乃依據所有適用香港財務報告準則(「香港財務報告準則」)及香港法例第622章香港公司條例的規定而編製。綜合財務報表乃依據歷史成本慣例而編製，並經重估以公平值列賬之若干按公平值計入其他全面收益之財務資產後作出修訂。

編製符合香港財務報告準則之財務報表要求使用若干關鍵會計估計。其亦要求管理層於應用集團之會計政策時行使其判斷。涉及較高程度判斷或較為複雜之範疇，或對綜合財務報表而言屬重大之假設及估計已於附註5披露。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

#### (a) Changes in accounting policy and disclosures

The Group has adopted the following new standards, interpretation and amendments to standards which are relevant to the Group's operations and are mandatory for the financial year beginning on or after 1 January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
HKAS 28 (Amendment)	Investments in Associates and Joint Ventures
HKAS 40 (Amendments)	Investment Properties
HKFRS 1 (Amendment)	First Time Adoption of HKFRS
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 15 (Amendments)	Clarifications to HKFRS 15 Revenue from Contracts with Customers

Other than the impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" as disclosed below, the adoption of above interpretation and amendments to standards did not have material impacts on the preparation of the consolidated financial statements.

### 2 編製基準(續)

#### (a) 會計政策及披露的變動

集團已採納下列與集團的經營有關及於二零一八年一月一日或之後的財政年度強制執行的新訂準則、詮釋及修訂本：

香港財務報告準則第9號	金融工具
香港財務報告準則第15號	來自客戶合約的收入
香港(國際財務報告詮釋委員會)－詮釋第22號	外幣交易及預付代價
香港會計準則第28號(修訂本)	投資聯營公司及合營企業
香港會計準則第40號(修訂本)	投資物業
香港財務報告準則第1號(修訂本)	首次採納香港財務報告準則
香港財務報告準則第2號(修訂本)	分類及計量以股份為基礎之付款交易
香港財務報告準則第4號(修訂本)	採用香港財務報告準則第4號保險合約時一併應用香港財務報告準則第9號財務工具
香港財務報告準則第15號(修訂本)	闡明香港財務報告準則第15號來自客戶合約的收入

除於下文披露的採納香港財務報告準則第9號「金融工具」及香港財務報告準則第15號「來自客戶合約的收入」的影響外，採納上述對準則的詮釋及修訂對編製綜合財務報表並無重大影響。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

#### (a) Changes in accounting policy and disclosures (Continued)

##### HKFRS 15 “Revenue from Contract with Customers”

HKFRS 15 supersedes HKAS 11 “Construction Contracts”, HKAS 18 “Revenue” and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method of adoption. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, the Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus certain comparative figures may not be comparable as comparative information was prepared under HKAS 18 “Revenue” and HKAS 11 “Construction Contracts” and the related interpretations.

The Group recognises revenue from the following major sources:

- Sales and distribution of natural gas and other related products
- Gas pipeline construction and connection
- Exploitation and production of crude oil and natural gas

### 2 編製基準(續)

#### (a) 會計政策及披露的變動(續)

##### 香港財務報告準則第15號「來自客戶合約的收入」

香港財務報告準則第15號取代香港會計準則第11號「建築合約」、香港會計準則第18號「收入」及相關詮釋，且其應用於所有來自客戶合約的收入，除非該等合約屬於其他準則範圍。新訂準則確立一個五步模式，用於核算和計量來自客戶合約收入。根據香港財務報告準則第15號，收入按能反映實體預期就向客戶轉讓貨物或服務而有權在交換中獲取的代價金額進行確認。

該準則要求實體作出判斷，並計及於將該模式的各步應用於其客戶合約時的所有相關事實及情況。該準則亦訂明將獲得合約的額外成本及與履行合約直接相關的成本入賬。

集團採用經修改的追溯調整法採納香港財務報告準則第15號。於首次應用日期之任何差額已於期初保留溢利中體現而比較內容未予重列。另外，集團選擇採用於已完成合約的簡化處理辦法，並無對於二零一八年一月一日前已完成的合約進行重列，由於比較資料乃根據香港會計準則第18號「收入」及香港會計準則第11號「建築合約」以及相關詮釋編製，因此，若干比較數據可能無法用作比較。

集團經下列主要來源確認收入：

- 銷售及輸送天然氣及其他相關產品
- 天然氣管道建造及接駁
- 開採及生產原油及天然氣

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

#### (a) Changes in accounting policy and disclosures (Continued)

##### HKFRS 15 “Revenue from Contract with Customers” (Continued)

The effects of the adoption of HKFRS 15 are further explained as follows:

#### (i) Accounting for sales and distribution of natural gas and other related products, and exploitation and production of crude oil and natural gas

The Group’s contracts with customers for the sales and distribution of natural gas and other related products, and exploitation and production of crude oil and natural gas generally include one performance obligation. The Group has concluded that revenue from the above activities should be recognised at the point in time when control of the asset is transferred to the customer, generally when customers consume the gas or upon delivery of the equipment, crude oil, CNG and LNG gas. See Note 3(t) for further details. Therefore, the adoption of HKFRS 15 did not have a material impact on the timing of revenue recognition.

#### (ii) Accounting for gas pipeline construction and connection

In prior years, the Group accounted for gas pipeline construction and connection when the outcome of the construction contract for connection can be estimated reliably and the stage of completion at the end of reporting period can be measured reliably. Revenue from and expenses on construction contracts for gas pipeline connection are recognised using the percentage of completion method, measured by using the output method. When the outcome of a construction contract for gas pipeline connection cannot be estimated reliably, revenue recognised only to the extent of contract cost incurred that is probable to be recoverable.

### 2 編製基準(續)

#### (a) 會計政策及披露的變動(續)

##### 香港財務報告準則第15號「來自客戶合約的收入」(續)

採納香港財務報告準則第15號的影響進一步闡述如下：

#### (i) 銷售及輸送天然氣及其他相關產品，開採及生產原油及天然氣的會計處理

集團就銷售及輸送天然氣及其他相關產品，以及開採及生產原油及天然氣與客戶訂立的合約一般包括一項履約責任。集團認為上述業務的收益應於資產控制權轉移至客戶時（一般為客戶消耗燃氣或交付設備、原油、壓縮天然氣及液化天然氣時）獲確認。詳情請參見附註3(t)。因此，採納香港財務報告準則第15號對確認收益的時間並無重大影響。

#### (ii) 天然氣管道建造及接駁的會計處理

於過往年度，當可以可靠地估計接駁建築合約的結果並且能夠可靠地計量報告期末的完工階段時，集團確認燃氣管道建造及接駁的收入。有關燃氣管道接駁的建築合約收入及開支按完成百分比的方法確認並使用輸出法計量。當燃氣管道接駁建築合約的結果不能可靠地估計時，僅對可能收回的已產生合約成本確認收入。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

#### (a) Changes in accounting policy and disclosures (Continued)

*HKFRS 15 "Revenue from Contract with Customers"*  
(Continued)

#### (ii) Accounting for gas pipeline construction and connection (Continued)

Under HKFRS 15, the Group's performance creates or enhances an asset that the customer controls. The Group recognises revenue as the performance obligation is satisfied over time in accordance with the output method for measuring progress. Upon the adoption of HKFRS 15, the cost incurred to fulfil the gas pipeline construction and connection contracts is recognised as incurred.

The excess of cumulative revenue recognised in profit or loss over the cumulative billings to customers is recognised as contract assets. The contract assets will be reclassified as receivables when the progress billings are issued or services are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The excess of cumulative billings to customers over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

For the year ended 31 December, 2018, the Group has concluded that the adoption of HKFRS 15 did not have a material impact on the timing of revenue recognition.

### 2 編製基準(續)

#### (a) 會計政策及披露的變動(續)

香港財務報告準則第15號「來自客戶合約的收入」(續)

#### (ii) 天然氣管道建造及接駁的會計處理(續)

根據香港財務報告準則第15號，集團之履約表現創造或改良了客戶在資產被創造或改良時控制的資產。集團根據滿足在一段時間內履行義務的條件，按輸出法計量的履約進度確認收入。採納香港財務報告準則第15號後，為履行燃氣管道建造及接駁合約產生之成本於合約產生時確認。

確認計入損益的累計確認收入超過向客戶累計收取的款項的差額部分為合約資產。當出具進度賬單或進行服務時，合約資產將被重新分類為應收款項，因為該時點正是付款到期日開始計算而收取代價變為無條件之時。

向客戶累計收取的款項超過計入損益的累計確認收入的差額，被確認為合約負債。

截至二零一八年十二月三十一日止年度，集團認為採納香港財務報告準則第15號並無對收入確認的時間產生重大影響。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

#### (a) Changes in accounting policy and disclosures (Continued)

*HKFRS 15 “Revenue from Contract with Customers” (Continued)*

#### (iii) Presentation of assets and liabilities related to contracts with customers

The Group has also changed the terminology and classification of certain amounts in the consolidated statement of financial position upon adoption of the terminology and classification of HKFRS 15:

Contract assets recognised in relation to the gas pipeline construction and connection which were previously presented as part of trade and other receivables amounting to HK\$21,208,000 were classified as contract assets as of 1 January 2018;

Receipt in advance in relation to the sales and distribution of natural gas and other related products, as well as the gas pipeline construction and connection, is renamed as contract liabilities.

*HKFRS 9 “Financial Instruments”*

HKFRS 9 “Financial Instruments” replaces the provision of HKAS 39 Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 “Financial Instruments” from 1 January 2018 resulted in the changes in the accounting policies and adjustments to the amounts recognised in the consolidated financial statements. The new accounting policies are set out in Note 3(l) below. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

### 2 編製基準(續)

#### (a) 會計政策及披露的變動(續)

香港財務報告準則第15號「來自客戶合約的收入」(續)

#### (iii) 與客戶合約有關之資產及負債之呈列

集團亦已更改綜合財務狀況表內若干金額之術語及分類，以採用香港財務報告準則第15號的術語及分類：

截至二零一八年一月一日，就燃氣管道建造及接駁確認之合約資產（之前列入貿易及其他應收款項）21,208,000港元已分類為合約資產；

就天然氣及其他相關產品的銷售及分銷，以及燃氣管道建造及接駁而確認的預收賬款，已被更名為合約負債。

香港財務報告準則第9號「金融工具」

香港財務報告準則第9號「金融工具」取代香港會計準則第39號金融工具的規定：與確認、分類及計量財務資產及財務負債、終止確認金融工具、財務資產之減值及對沖會計處理相關的確認及計量。

自二零一八年一月一日起採用香港財務報告準則第9號「金融工具」導致會計政策變動及於綜合財務報表確認之金額調整。新會計政策載於下文附註3(l)。根據香港財務報告準則第9號之過渡條例，並未重列比較數據。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

#### (a) Changes in accounting policy and disclosures (Continued)

##### HKFRS 9 “Financial Instruments” (Continued)

The following table summarised the impact, net of tax, of transition of HKFRS 9 on the opening balance of retained profits as of 1 January 2018 as follows:

		Other reserves 其他儲備 HK\$'000 千港元	Retained profits 保留溢利 HK\$'000 千港元
At 1 January 2018	於二零一八年一月一日	1,547,729	2,368,497
Reclassification of debt investments from financial assets at fair value through profit or loss (“FVPL”) to financial assets at fair value through other comprehensive income (“FVOCI”) (Note (i))	將債務投資由按公平值經損益入賬(「按公平值經損益入賬」)之財務資產重新分類為按公平值計入其他全面收益(「按公平值計入其他全面收益」)之財務資產(附註(i))	4,790	(4,790)
Provision of expected credit losses in loan and interest receivables from an associate (Note (ii))	應收一間聯營公司貸款及利息之預期信貸虧損撥備(附註(ii))	-	(17,000)
Loss on modification of senior notes in prior year (Note (iii))	過往年度經修訂優先票據產生之虧損(附註(iii))	-	(54,512)
		<b>1,552,519</b>	<b>2,292,195</b>

#### (i) Classification and measurement

On 1 January 2018, the management has assessed which business models apply the financial assets held by the Group and has classified its financial instruments into appropriate HKFRS 9 categories.

Under HKFRS 9, debt financial instruments are subsequently measured at FVPL, amortised cost, or FVOCI. The classification is based on two criteria: the Group’s business model for managing the assets; and whether the instruments’ contractual cash flows represent “solely payments of principal and interest” on the principal amount outstanding (the “SPPI criterion”).

### 2 編製基準(續)

#### (a) 會計政策及披露的變動(續)

##### 香港財務報告準則第9號「金融工具」(續)

下表概列過渡至香港財務報告準則第9號對二零一八年一月一日之保留溢利的期初結餘之稅後影響：

		Other reserves 其他儲備 HK\$'000 千港元	Retained profits 保留溢利 HK\$'000 千港元
At 1 January 2018	於二零一八年一月一日	1,547,729	2,368,497
Reclassification of debt investments from financial assets at fair value through profit or loss (“FVPL”) to financial assets at fair value through other comprehensive income (“FVOCI”) (Note (i))	將債務投資由按公平值經損益入賬(「按公平值經損益入賬」)之財務資產重新分類為按公平值計入其他全面收益(「按公平值計入其他全面收益」)之財務資產(附註(i))	4,790	(4,790)
Provision of expected credit losses in loan and interest receivables from an associate (Note (ii))	應收一間聯營公司貸款及利息之預期信貸虧損撥備(附註(ii))	-	(17,000)
Loss on modification of senior notes in prior year (Note (iii))	過往年度經修訂優先票據產生之虧損(附註(iii))	-	(54,512)
		<b>1,552,519</b>	<b>2,292,195</b>

#### (i) 分類及計量

於二零一八年一月一日，管理層已評估適用於集團所持財務資產的業務模式，並已將其金融工具分類至香港財務報告準則第9號的適當類別。

根據香港財務報告準則第9號，債務金融工具隨後按公平值經損益入賬、按攤銷成本或按公平值計入其他全面收益計量。該分類乃根據兩個準則：集團管理資產的業務模式；及該等工具的合約現金流量是否就尚未償還本金「僅為支付本金及利息」(「SPPI準則」)。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

#### (a) Changes in accounting policy and disclosures (Continued)

HKFRS 9 "Financial Instruments" (Continued)

##### (i) Classification and measurement (Continued)

The new classification and measurement of the Group's financial assets are as follows:

- Debt investments previously classified as financial assets at FVPL was held for trading purpose. On 1 January 2018, management has reassessed the business model for the debt investments, and the Group elected to present in other comprehensive income for the fair value changes of all debt investments previously classified as available-for-sale financial assets and financial assets at FVPL under HKAS 39, as management considered that all debt investments are held within a portfolio with the objective by both collecting contractual cash flows that meet the SPPI criterion and selling financial assets. At the date of initial application of HKFRS 9, HK\$48,842,000 and HK\$459,627,000 were reclassified from financial assets at FVPL and available-for-sale financial assets to debt investments at FVOCI respectively; HK\$4,790,000, represented the accumulated fair value gains of debt investments previously classified as financial assets at FVPL under HKAS 39, was reclassified from retained profits to other reserves.
- The Group has irrevocably elected to classify all its equity investments previously classified as available-for-sale at financial assets at FVOCI, since these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. The Equity investments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition, As a result, equity investments previously classified as available-for-sales financial assets under HKAS 39 amounted to HK\$136,733,000 were reclassified to equity investments at FVOCI at 1 January 2018.

### 2 編製基準(續)

#### (a) 會計政策及披露的變動(續)

香港財務報告準則第9號「金融工具」(續)

##### (i) 分類及計量(續)

集團財務資產的新分類及計量如下：

- 先前分類為按公平值經損益入賬的財務資產之債務投資乃持作買賣目的。於二零一八年一月一日，由於管理層認為，所有債務投資均在以收取合約現金流量(符合SPPI標準)與出售財務資產為目的之組合內持有，管理層已重新評估債務投資之業務模式，且集團選擇於其他全面收益內列報所有債務投資的公平值變動(先前根據香港會計準則第39號分類為可供出售財務資產及按公平值經損益入賬的財務資產)。於首次應用香港財務報告準則第9號之日期，48,842,000港元及459,627,000港元分別自按公平值經損益入賬的財務資產及可供出售財務資產重新分類為按公平值計入其他全面收益之債務投資；債務投資的累計公平值收益4,790,000港元(先前根據香港會計準則第39號分類為按公平值經損益入賬的財務資產)重新自保留溢利分類至其他儲備。
- 集團已不可撤回地選擇將其過往分類為可供出售之所有股本投資分類為按公平值計入其他全面收益之財務資產，原因為該等投資乃持作長期策略性投資，預期不會於中短期內出售。按公平值計入其他全面收益之股本投資，於終止確認時概無盈虧結轉至損益，因此，過往根據香港會計準則第39號分類為可供出售財務資產之股本投資136,733,000港元已於二零一八年一月一日重新分類為按公平值計入其他全面收益之股本投資。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

#### (a) Changes in accounting policy and disclosures (Continued)

##### HKFRS 9 “Financial Instruments” (Continued)

#### (i) Classification and measurement (Continued)

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, with any reclassifications noted:

	Measurement category 計量類別		Carrying amount 賬面值		
	Original (HKAS 39) 原有 (香港會計準則 第39號)	New (HKFRS 9) 新訂 (香港財務報告 準則第9號)	Original 原有 HK\$'000 千港元	New 新訂 HK\$'000 千港元	Difference 差額 HK\$'000 千港元
<b>Non-current financial assets</b>					
<b>非流動財務資產</b>					
Debt investments 債務投資	Available-for-sale 可供出售	FVOCI 按公平值計入 其他全面收益	459,627	459,627	-
Equity investments 股本投資	Available-for-sale 可供出售	FVOCI 按公平值計入 其他全面收益	136,733	136,733	-
Other non-current assets (excluding prepayment) 其他非流動資產(不包括預付款項)	Amortised cost 攤銷成本	Amortised cost 攤銷成本	688,289	675,289	(13,000) (Note a) (附註a)
<b>Current financial assets</b>					
<b>流動財務資產</b>					
Deposits, trade and other receivables (excluding prepayment and other tax recoverables) 按金、貿易及其他應收款項 (不包括預付款項及 其他可回收稅項)	Amortised cost 攤銷成本	Amortised cost 攤銷成本	1,149,873	1,145,873	(4,000) (Note a) (附註a)
Debt investments 債務投資	FVPL 按公平值經 損益入賬	FVOCI 按公平值計入 其他全面收益	48,842	48,842	-
Time deposits with maturity over three months 存款期超過三個月之定期存款	Amortised cost 攤銷成本	Amortised cost 攤銷成本	48,531	48,531	-

### 2 編製基準(續)

#### (a) 會計政策及披露的變動(續)

香港財務報告準則第9號「金融工具」(續)

#### (i) 分類及計量(續)

於首次應用日期(二零一八年一月一日)，集團之金融工具(連同任何已知之重新分類)如下：

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

#### (a) Changes in accounting policy and disclosures (Continued)

HKFRS 9 “Financial Instruments” (Continued)

#### (i) Classification and measurement (Continued)

	Measurement category 計量類別		Carrying amount 賬面值		
	Original (HKAS 39) 原有 (香港會計準則 第39號)	New (HKFRS 9) 新訂 (香港財務報告 準則第9號)	Original  原有 HK\$'000 千港元	New  新訂 HK\$'000 千港元	Difference  差額 HK\$'000 千港元
Cash and cash equivalents 現金及現金等值項目	Amortised cost 攤銷成本	Amortised cost 攤銷成本	2,290,447	2,290,447	-
<b>Non-current financial liabilities</b> 非流動財務負債					
Senior notes	Amortised cost	Amortised cost	4,970,240	5,024,752	54,512 (Note b) (附註b)
優先票據	攤銷成本	攤銷成本			
Long-term borrowings 長期借貸	Amortised cost 攤銷成本	Amortised cost 攤銷成本	60,000	60,000	-
<b>Current financial liabilities</b> 流動財務負債					
Trade and other payables (excluding other tax payables and salaries payables)	Amortised cost	Amortised cost	1,404,899	1,404,899	-
貿易及其他應付款項 (不包括其他應付稅款及應付薪金)	攤銷成本	攤銷成本			
Short-term borrowings 短期借貸	Amortised cost 攤銷成本	Amortised cost 攤銷成本	689,258	689,258	-

(a) The difference is the result of applying the new expected credit loss model. Please refer to Note(ii) for details.

(b) The difference is arising from the adjustment for the loss on modification of senior notes. Please refer to Note (iii) for details.

### 2 編製基準(續)

#### (a) 會計政策及披露的變動(續)

香港財務報告準則第9號「金融工具」(續)

#### (i) 分類及計量(續)

(a) 差額乃應用新預期信貸虧損模型所致(詳情見附註(ii))。

(b) 差額乃產生自調整經修訂優先票據所產生之虧損(詳情見附註(iii))。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

#### (a) Changes in accounting policy and disclosures (Continued)

##### HKFRS 9 “Financial Instruments” (Continued)

#### (ii) Impairment

The Group has the following types of assets that are subject to HKFRS 9’s new expected credit loss model:

- Contract assets and trade receivables
- Loan and interest receivables from an associate
- Deposits and other receivables
- Debt investments carried at FVOCI
- Cash and cash equivalents
- Time deposits with maturity over three months

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group’s retained profits and equity is disclosed in the consolidated statement of changes in equity.

##### Contract assets and trade receivables

The Group has applied the simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The identified impairment loss was immaterial.

### 2 編製基準(續)

#### (a) 會計政策及披露的變動(續)

##### 香港財務報告準則第9號「金融工具」(續)

#### (ii) 減值

集團有下列資產須採用香港財務報告準則第9號的新預期信貸虧損模式：

- 合約資產及貿易應收款項
- 應收一間聯營公司貸款及利息
- 按金及其他應收款項
- 列為按公平值計入其他全面收益之債務投資
- 現金及現金等值項目
- 存款期超過三個月的定期存款

集團須根據香港財務報告準則第9號修訂有關上述各類資產的減值方法。變更減值方法對集團保留溢利及權益之影響披露於綜合權益變動表。

##### 合約資產及貿易應收款項

集團已應用簡化計算法及已根據年限內預期信貸虧損計量預期信貸虧損。集團已設立根據集團過往信貸虧損經驗計算的撥備矩陣，並按與債務人相關的前瞻性因素及經濟環境調整。已識別減值虧損甚微。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

#### (a) Changes in accounting policy and disclosures (Continued)

HKFRS 9 “Financial Instruments” (Continued)

#### (ii) Impairment (Continued)

Loan and interest receivables from an associate

The loan and interest receivables from an associate are considered to be low risk of default, and therefore the impairment provision is determined at 12 month expected credit losses. Applying the expected credit risk model resulted in the recognition of a loss allowance of approximately HK\$17,000,000 on 1 January 2018 (2017: nil).

The loss allowance for the loan and interest receivables from an associate have not increased during the current reporting period.

Deposits and other receivables

Deposits and other receivables at amortised cost are considered to be low risk, and therefore the loss allowance is determined as 12 months expected credit losses. The resulted increase of loss allowance for deposits and other receivables on 1 January 2018 was immaterial. The Group assessed for their impairment based on 12-month expected credit losses: 12-month ECLs are the portion of lifetime ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the asset is less than 12 months). However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

While debt investments carried at FVOCI, time deposits with maturity over three months and cash and cash equivalents are also subject to impairment requirements of HKFRS 9, the identified impairment loss was immaterial as the counterparties are of high credit quality with no history of default.

### 2 編製基準(續)

#### (a) 會計政策及披露的變動(續)

香港財務報告準則第9號「金融工具」(續)

#### (ii) 減值(續)

應收一間聯營公司貸款及利息

應收一間聯營公司貸款及利息被視為違約風險較低，因此減值撥備按12個月預期信貸虧損釐定。採用預期信貸風險模式導致於二零一八年一月一日確認虧損撥備約17,000,000港元(二零一七年：無)。

於本報告期間，應收一間聯營公司貸款及利息之虧損撥備並無增加。

按金及其他應收款項

按攤銷成本計算的按金及其他應收款項被視為風險較低，因此虧損撥備按12個月預期信貸虧損釐定。所導致於二零一八年一月一日之按金及其他應收款項虧損撥備之增加幅度甚微。集團按12個月預期信貸虧損評估其減值：12個月預期信貸虧損為報告日期後十二個月內(或較短期間，如有關資產的預期年限少於12個月)可能發生違約事項而導致的預期信貸虧損，是全期預期信貸虧損的一部份。然而，倘信貸風險自產生以來大幅上升，則有關撥備將根據全期預期信貸虧損計算。

儘管債務投資乃按公平值計入其他全面收益列賬，存款期超過三個月的定期存款及現金及現金等值項目亦須受限於香港財務報告準則第9號的減值規定，由於對手方信貸素質高且並無違約記錄，因此可識別減值虧損並不重大。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

#### (a) Changes in accounting policy and disclosures (Continued)

##### HKFRS 9 “Financial Instruments” (Continued)

#### (iii) Modification of financial liabilities

In prior years, the Group did not recognise a gain or loss immediately in profit or loss at the date of modification of a financial liability in accordance with HKAS 39 “Financial Instruments: Recognition and Measurement”. Instead, the difference between the original and modified cash flows was amortised over the remaining term of the modified liability by re-calculating the effective interest rate.

Upon adoption of HKFRS 9, when a financial liability measured at amortised cost is modified without resulting in derecognition, a gain or loss should be recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

HKFRS 9 is required to be applied retrospectively, and therefore modification gains and losses arising from financial liabilities that are still recognised at the date of initial application would need to be calculated and approximately HK\$54,512,000 is adjusted in retained profits on 1 January 2018 in relation to modification of senior notes.

### 2 編製基準(續)

#### (a) 會計政策及披露的變動(續)

##### 香港財務報告準則第9號「金融工具」(續)

#### (iii) 經修訂財務負債

於過往年度，集團並無根據香港會計準則第39號「金融工具：確認及計量」於修訂財務負債之日即時於損益確認收益或虧損。相反，通過重新計算實際利率，將原現金流量及經修訂現金流量之差額攤銷至經修訂負債剩餘期間。

採納香港財務報告準則第9號後，倘按攤銷成本計量之財務負債未經此修訂致使終止確認，收益或虧損將於損益確認。收益或虧損乃計算為原合約現金流量與按原實際利率法貼現之經修訂現金流量之差額。

香港財務報告準則第9號規定應用追溯法，因此，財務負債之經修訂收益及虧損仍於首次應用之日確認，於二零一八年一月一日有關經修訂優先票據所產生之虧損約54,512,000港元於保留溢利調整。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

(b) New standards, amendments to standards and interpretation not yet adopted

The following are new standards, amendments to standards and interpretation that have been issued but are not effective for the financial year beginning 1 January 2018 and have not been early adopted.

### 2 編製基準(續)

(b) 尚未採納的新訂準則、經修訂準則及詮釋

以下新訂準則、經修訂準則及詮釋已頒佈但尚未於二零一八年一月一日開始之財政年度生效且集團並無提早採納。

		Effective for accounting periods beginning on or after 於自以下日期或其後開始 的會計期間生效
Annual Improvements Project (Amendments)	Annual Improvements 2015–2017 Cycle	1 January 2019
年度改進項目(修訂本)	二零一五年至二零一七年週期之年度改進	二零一九年一月一日
HKAS 1 (Amendments)	Amendments to Definition of Material	1 January 2020
香港會計準則第1號(修訂本)	重大的定義之修訂	二零二零年一月一日
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
香港會計準則第19號(修訂本)	計劃修訂、縮減或支付	二零一九年一月一日
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
香港會計準則第28號(修訂本)	於聯營公司及合營企業之長期權益	二零一九年一月一日
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
香港財務報告準則第3號 (修訂本)	業務的定義	二零二零年一月一日
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
香港財務報告準則第9號 (修訂本)	具有負補償之預付款項特性	二零一九年一月一日
HKFRS 16	Leases	1 January 2019
香港財務報告準則第16號	租賃	二零一九年一月一日
HKFRS 17	Insurance Contracts	1 January 2021
香港財務報告準則第17號	保險合約	二零二一年一月一日
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020
二零一八年財務報告概念框架	財務報告概念框架修訂	二零二零年一月一日
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
香港財務報告準則第10號及 香港會計準則第28號 (修訂本)	投資者與其聯營公司或合營企業間之資產出售或注資	待釐定
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
香港(國際財務報告詮釋 委員會)—詮釋第23號	所得稅處理的不確定性	二零一九年一月一日

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

#### (b) New standards, amendments to standards and interpretation not yet adopted (Continued)

The Group will apply the above new standards, amendments to standards and interpretation when they become effective. The Group has commenced the assessment of the expected impact of HKFRS 16 as set out below. The directors of the Company assess that the adoption of the other new standard, amendments to standards and interpretation is not expected to have any significant impact on the results and the financial position of the Group.

#### HKFRS 16, "Leases"

##### Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

##### Impact

The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$87,313,000, see note 36(a). For lease commitments relate to short-term leases which will be recognised on a straight-line basis as expense in the consolidated financial statement.

For the remaining lease commitments, the Group expects that the balances of right-of-use assets and lease liabilities to be recognised in the consolidated statement of financial position are below 1% of the Group's assets and liabilities respectively on 1 January 2019.

The Group does not foresee any material impact on the net profit of the Group as a result of adoption of HKFRS 16.

### 2 編製基準(續)

#### (b) 尚未採納的新訂準則、經修訂準則及詮釋(續)

集團將於上述新準則、準則修訂本及詮釋生效時應用。集團已開始評估香港財務報告準則第16號的預期影響並載於下文。公司董事評定，預期採納其他新準則、準則修訂本及詮釋不會對集團的業績及財務狀況產生任何重大影響。

#### 香港財務報告準則第16號「租賃」

##### 變動的性質

香港財務報告準則第16號於二零一六年一月頒佈。其將致使絕大部分租賃於綜合財務狀況表確認，此乃由於經營租賃與融資租賃之間的區別被移除。根據新訂準則，一項資產(使用租賃項目的權利)及支付租金的財務負債須予確認。唯一的例外情況為短期及低價值租賃。

##### 影響

該準則將主要影響集團經營租賃的會計處理。

於報告日期，集團不可撤銷經營租賃承擔為87,313,000港元(見附註36(a))。就與短期租賃相關的租賃承擔而言，其將於綜合財務狀況表內以直線法於損益確認為開支。

就剩餘租賃承擔而言，集團預期將於綜合財務狀況表確認的使用權資產及租賃負債結餘分別低於集團於二零一九年一月一日的資產及負債的1%。

集團並無預見因採納香港財務報告準則第16號而對集團的淨利潤產生任何重大影響。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

- (b) New standards, amendments to standards and interpretation not yet adopted (Continued)

HKFRS 16, "Leases" (Continued)

#### Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for all leases will be measured on transition as if the new rules had always been applied.

### 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 presented, unless otherwise stated.

- (a) Subsidiaries

- (i) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

### 2 編製基準(續)

- (b) 尚未採納的新訂準則、經修訂準則及詮釋(續)

香港財務報告準則第16號「租賃」(續)

#### 集團採納的日期

集團將自強制採納日期二零一九年一月一日應用該準則。集團擬應用簡化過渡法且將不會重列首次採納前年度的比較金額。所有租賃的使用權資產將按過渡方法計量，猶如該新規則一直應用。

### 3 主要會計政策概要

於編製此等綜合財務報表時應用之主要會計政策載於下文。除另有說明外，該等政策乃貫徹應用於所有年度。

- (a) 附屬公司

- (i) 綜合賬目

附屬公司指集團對其具有控制權的實體(包括結構性實體)。當集團因參與該實體而對可變回報承擔風險或享有權利，並有能力透過其對該實體的權力影響此等回報時，集團即控制該實體。附屬公司在控制權轉移至集團之日起綜合入賬。附屬公司在控制權終止之日起停止綜合入賬。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (a) Subsidiaries (Continued)

##### (i) Consolidation (Continued)

#### (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. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

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.

### 3 主要會計政策概要(續)

#### (a) 附屬公司(續)

##### (i) 綜合賬目(續)

#### (1) 業務合併

集團採用購買法將業務合併入賬。購買一間附屬公司轉讓的對價為被購買方的前擁有人所轉讓資產、所產生的負債及集團發行的股本權益的公平值。所轉讓的代價包括或然代價安排所產生的任何資產和負債的公平值。在業務合併中所購買可識別的資產以及所承擔的負債及或有負債，首先以彼等於購買日期的公平值計量。

集團按逐項收購基準，確認在被收購方的任何非控股權益，而被收購方的非控股權益若屬現時擁有權權益且賦予持有人在清盤時按比例應佔實體的淨資產，則可按公平值或按現時擁有權權益應佔被收購方可識別淨資產的確認金額比例而計量。非控股權益的所有其他組成部分按收購日期的公平值計量，除非香港財務報告準則規定必須以其他計量基準計算。

收購相關成本於產生時支銷。

倘業務合併分階段進行，收購方先前持有的被收購方股本權益於收購當日的賬面值重新計量為於收購當日的公平值；因相關重新計量而產生的任何盈虧於損益內確認。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (a) Subsidiaries (Continued)

##### (i) Consolidation (Continued)

##### (1) Business combinations (Continued)

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

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount 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 主要會計政策概要(續)

#### (a) 附屬公司(續)

##### (i) 綜合賬目(續)

##### (1) 業務合併(續)

所轉讓代價、於被收購方的任何非控股權益金額及任何先前於被收購方的權益於收購日期的公平值高於所收購可辨認資產淨值的公平值時，其差額以商譽列賬。就議價購買而言，如轉讓代價、已確認非控股權益及先前持有的權益總額低於所收購附屬公司資產淨值的公平值，其差額將直接在損益內確認。

集團內公司之間的交易、結餘及交易的未變現收益予以對銷。未變現虧損亦予以對銷。如有必要，附屬公司報告的金額已按需要作出調整，以確保與集團採用的會計政策一致。

##### (2) 不會導致失去控制權之附屬公司所有權權益變動

不會導致失去控制權之非控股權益交易入賬列作權益交易 – 即以彼等為附屬公司擁有人之身份與擁有人進行交易。任何已付代價公平值與所收購相關應佔附屬公司資產淨值賬面值之差額列作權益。向非控股權益出售所得盈虧亦列作權益。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (a) Subsidiaries (Continued)

##### (i) Consolidation (Continued)

##### (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, a joint venture or a 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.

### 3 主要會計政策概要(續)

#### (a) 附屬公司(續)

##### (i) 綜合賬目(續)

##### (3) 出售附屬公司

若集團不再擁有控制權，其於該實體之任何保留權益按其於失去控制權當日之公平值重新計算，而賬面值變動則於損益中確認。其後此保留權益將入賬列作聯營公司、合營企業或財務資產，並以公平值為初始之賬面值。此外，過往於其他全面收益內確認與該實體有關之任何金額按猶如集團直接出售有關資產或負債之方式入賬。即先前在其他全面收益內確認之金額重新分類至損益。

##### (ii) 獨立財務報表

於附屬公司投資按成本扣除減值入賬。成本亦包括直接應佔投資成本。公司按已收及應收股息基準入賬附屬公司之業績。

倘於附屬公司投資所收取之股息超過附屬公司於股息宣派期間之全面收益總額或於獨立財務報表中有關投資之賬面值超過投資對象之淨資產(包括商譽)於綜合財務報表中之賬面值，則於收取該等投資之股息時，須對附屬公司之投資進行減值測試。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 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. The Group's investment in associates includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

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 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 of investments accounted for using equity method in the profit or loss.

### 3 主要會計政策概要(續)

#### (b) 聯營公司

聯營公司指集團對其有重大影響力但並無控制權之所有實體，通常同時持有其20%至50%有表決權股份。於聯營公司投資以權益法核算。投資以權益法初步按成本確認。集團於聯營公司投資包括收購時確定之商譽。收購於一間聯營公司的擁有權權益後，聯營公司成本與集團分佔聯營公司的可識別資產及負債之公平淨值之間的差額入賬列作商譽。

倘於聯營公司所有權權益減少但重大影響力獲保留，則先前於其他全面收益已確認之金額中僅有一定份額重新分類至損益(如適用)。

集團應佔收購後溢利或虧損之份額於損益中確認，其應佔收購後其他全面收益變動則於其他全面收益中確認，並對投資賬面值作出相應調整。當集團應佔聯營公司虧損等於或超過其於該聯營公司所擁有權益(包括任何其他無抵押應收款項)時，集團不再進一步確認虧損，除非其招致法定或推定義務或代表該聯營公司付款。

集團於各報告日確定是否有任何客觀證據顯示於聯營公司投資出現減值。倘若確實如此，集團根據聯營公司可收回金額與其賬面值差額計算減值金額並於損益中將有關金額確認為分佔以權益法入賬之投資溢利。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (b) Associates (Continued)

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.

Gain or losses on dilution of equity interest in associates are recognised in the profit or loss.

#### (c) Joint arrangement

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangement and determined it to be joint venture. Joint venture is accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investment in joint venture include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in joint venture equals or exceeds its interest in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

### 3 主要會計政策概要(續)

#### (b) 聯營公司(續)

集團與其聯營公司之間上下游交易產生之溢利及虧損僅以非相關投資者於聯營公司之權益為限於集團財務報表內確認。未變現虧損予以抵銷，表明所轉讓資產已發生減值之交易除外。聯營公司會計政策已按需要變更，以確保與集團所採納政策貫徹一致。

有關聯營公司股權攤薄的損益於損益確認。

#### (c) 共同安排

集團已就所有共同安排應用香港財務報告準則第11號。根據香港財務報告準則第11號，於共同安排之投資視乎各投資者之合約權利及責任而分類為合營業務或合營企業。集團已評估其共同安排之性質，並將其共同安排界定為合營企業。合營企業採用權益法入賬。

根據權益會計法，於合營企業的權益乃按成本初步確認，其後予以調整以確認集團應佔收購後的損益及於其他全面收益的變動。集團於合營企業的投資包括就收購識別的商譽。收購於一間合營企業的擁有權權益後，合營企業成本與集團分佔合營企業的可識別資產及負債之公平淨值之間的差額入賬列作商譽。當集團分佔合營企業虧損等於或超過其佔合營企業之權益時(包括任何長期權益，而該長期權益實質上構成集團於該合營企業的投資淨額之一部分)，集團不再確認進一步虧損，除非集團代合營企業承擔負債或支付款項。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (c) Joint arrangement (Continued)

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

The Group determines at each reporting date whether there is any objective evidence that the interest in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount adjacent to share of profit of investment accounted for using equity method in the profit or loss.

#### (d) 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.

#### (e) 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 HK\$, which is the Company's functional and the Group's presentation currency.

### 3 主要會計政策概要(續)

#### (c) 共同安排(續)

集團與其合營企業交易的未變現收益與集團於合營企業的權益對銷。未變現虧損亦予以對銷，除非交易時有證據表明所轉讓資產出現減值。合營企業會計政策於需要時作出改變，以確保與集團所採納政策貫徹一致。

集團於各報告日期確定是否有任何客觀證據顯示於合營企業投資出現減值。倘確實如此，則集團以該合營企業可收回金額及其賬面值之差額計算減值金額，並將金額確認於損益表上列於分佔以權益法入賬的投資溢利。

#### (d) 分部報告

經營分部的報告方式與提供予主要經營決策制定者之內部報告所使用報告方式一致。負責分配資源及評估經營分部業績的主要經營決策制定者，被認為制定戰略決策的執行董事。

#### (e) 外幣換算

##### (i) 功能及呈報貨幣

集團各實體之財務報表所包括項目，乃按該實體經營所在之主要經濟環境之貨幣(「功能貨幣」)計量。綜合財務報表以公司之功能及集團之呈報貨幣港元呈列。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (e) Foreign currency translation (Continued)

##### (ii) Transactions and balances

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

All other foreign exchange gains and losses are presented in the profit or loss within 'administrative expenses'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Transaction differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equity held at FVPL are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equity classified as FVOCI are recognised in other comprehensive income.

### 3 主要會計政策概要(續)

#### (e) 外幣換算(續)

##### (ii) 交易及結餘

外幣交易均按交易或項目重新計量日期當時之匯率換算為功能貨幣。因該等交易結算及按年結日之匯率換算以外幣計值之貨幣資產及負債而產生之外幣匯兌損益，均於損益確認。

所有其他匯兌損益在損益內的「行政開支」中列報。

外幣中按公平值計量之非貨幣項目使用公平值釐定當日之匯率換算。按公平值列賬之資產及負債之交易差額呈報為公平值收益或虧損之一部分。舉例而言，非貨幣資產及負債(如按公平值經損益入賬之權益)之換算差額於損益確認為公平值收益或虧損之一部分，而非貨幣資產(如分類為按公平值計入其他全面收益之權益)則於其他全面收益確認。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (e) Foreign currency translation (Continued)

##### (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 position 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.

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. Currency translation differences arising are recognised in other comprehensive income.

### 3 主要會計政策概要(續)

#### (e) 外幣換算(續)

##### (iii) 集團公司

集團旗下所有實體(全部均非採用高通脹經濟體系之貨幣)如持有與呈報貨幣不一致之功能貨幣,其業績及財務狀況均按以下方法換算為呈報貨幣:

- 各財務狀況表呈列之資產及負債均按照該財務狀況表日期之收市匯率換算;
- 各損益之收入及開支按照平均匯率換算(除非平均匯率並非交易日期現行匯率的累計影響的合理約數,在此情況下,收支項目按交易日期的匯率換算);及
- 所有產生之匯兌差額均於其他全面收益確認並單獨於權益中的匯兌波動儲備內累計。

因收購海外實體而產生之商譽及公平值調整,均視作為該海外實體之資產及負債處理,並於年末結算日的匯率折算。所產生的匯兌差額在其他全面收益中確認。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (e) Foreign currency translation (Continued)

##### (iv) Disposal of foreign operation

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

#### (f) Property, plant and equipment

Property, plant and equipment comprise mainly buildings, plant and machinery, oil and gas properties, pipelines and construction in progress. Accounting policies for oil and gas properties are set out in Note 3(g). All other property, plant and equipment is stated at historical cost less depreciation and impairment, if any. 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 profit or loss during the year in which they are incurred. Except for oil and gas properties and construction in progress, 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:

### 3 主要會計政策概要(續)

#### (e) 外幣換算(續)

##### (iv) 出售海外業務

於出售海外業務(即出售集團於一項海外業務之全部權益,或涉及失去包含海外業務的附屬公司控制權之出售,或涉及失去包含海外業務之合營公司共同控制權之出售,或涉及失去對包含海外業務之聯營公司重大影響力之出售)時,公司擁有人應佔就有關業務於權益累計之所有匯兌差額重新分類至損益。

#### (f) 物業、廠房及設備

物業、廠房及設備,主要包括樓宇、廠房及機器、油氣資產、管道及在建工程。油氣資產之會計政策載於附註3(g)。所有其他物業、廠房及設備按歷史成本扣除折舊及減值(如有)後入賬。歷史成本包括收購項目直接應佔之開支。

僅當與項目有關之未來經濟利益有可能流入集團及項目成本能可靠計量時,其後成本方會計入資產賬面值或確認為一項獨立資產(如適用)。已更換零件的賬面值已被剔除入賬。所有其他維修及保養費用在產生的財政年度內於損益內支銷。除油氣資產及在建工程外,物業、廠房及設備之折舊乃採用直線法於其估計可使用年限內按成本分配至剩餘價值,年率如下:

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (f) Property, plant and equipment (Continued)

Buildings	12.5 to 40 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 date of the statement of financial position. 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 (Note 3(j)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "administrative expenses" in profit or loss.

Construction in progress represents buildings under development for future owner-occupied purpose and pipelines under construction, which 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.

#### (g) Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells, is capitalised within construction in progress under property, plant and equipment. When development is completed on a specific field, it is transferred to oil and gas properties under property, plant and equipment. No depreciation and depletion is charged during the development phase.

Oil and gas properties are aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves.

### 3 主要會計政策概要(續)

#### (f) 物業、廠房及設備(續)

樓宇	12.5至40年或按該土地之租約餘期(倘適用)
廠房及機器	3至20年
管道	20年
其他	3至20年

資產剩餘價值及可使用年限於各財務狀況表日期檢討，並作出調整(如適用)。倘資產之賬面值超過估計可收回金額，則資產之賬面值即時撇減至可收回金額(附註3(j))。

出售收益及虧損乃透過比較所得款項與賬面值釐定，並於損益內確認為「行政開支」。

在建工程指未來自用在建樓宇及在建管道並以成本減任何累計減值虧損列賬，且不予折舊。成本包括收購或建造之直接及間接增加成本。已完成項目當其可用作既定用途時，由在建工程轉撥至物業、廠房及設備之適當類別。

#### (g) 油氣資產

興建、安裝或完成平台、管道等基礎設施及鑽探商業開發井之開支乃撥充作物業、廠房及設備項下之在建工程。當對特定油田完成開發時，其會轉撥至物業、廠房及設備項下之油氣資產。於開發階段概無扣除折舊及損耗。

油氣資產合共為勘探及評估資產以及與探明儲量生產有關的開發開支。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (g) Oil and gas properties (Continued)

Oil and gas properties are depreciated and depleted using the unit-of-production method. Unit-of-production rates are based on total proved plus probable reserves, which are oil, gas and other mineral reserves estimated to be recovered using current operating methods and taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserve.

Proven oil and gas properties 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 of disposal and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

#### (h) Exploration and evaluation assets

Oil and gas exploration and evaluation expenditures are accounted for using the successful efforts method of accounting. Costs are accumulated on a field-by-field basis. Geological, geophysical costs and pre-licence costs are expensed as incurred. Costs directly associated with an exploration well, and exploration and property leasehold acquisition costs, are capitalised within exploration and evaluation assets until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are charged to expense.

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to construction in progress under property, plant and equipment. No depreciation and depletion is charged during the exploration and evaluation phase.

### 3 主要會計政策概要(續)

#### (g) 油氣資產(續)

油氣資產按單位生產法折舊及損耗。單位生產率按探明加概算總儲量計算，即從現有設施以現有營運方法去估計可採收之石油及天然氣以及其他礦產儲量及考慮生產該等儲量所需的估計未來開發成本。未來開發成本經考慮儲量產出所需的開發水平而估計。

倘出現事件或情況變動顯示可能無法收回其賬面值，則探明油氣資產作減值檢討。減值虧損按資產之賬面值超出其可收回金額之金額予以確認。可收回金額為資產之公平值減出售成本與使用價值之較高者。就評估減值而言，資產乃按可個別識別現金流量之最低級別分組。

#### (h) 勘探及評估資產

石油及天然氣勘探及評估開支使用成果會計法入賬。成本按逐段累計。地質、地理成本及取得牌照前成本於產生時支銷。與探井直接有關的成本，及勘探及物業租賃收購成本於勘探及評估資產內資本化直至儲量釐定得到評估。倘釐定尚未達致商業發現，該等成本自成本扣除。

一旦發現商業儲量時，勘探及評估資產會作減值測試，並轉撥至物業、廠房及設備下的在建工程。於勘探及評估階段概無扣除折舊及損耗。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (h) Exploration and evaluation assets (Continued)

Exploration and evaluation assets are tested for impairment when reclassified to construction in progress, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs of disposal and their value in use.

#### (i) Intangible assets

##### (i) Goodwill

Goodwill arises on the acquisition of businesses represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

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 the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less cost of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

### 3 主要會計政策概要(續)

#### (h) 勘探及評估資產(續)

重新分類至在建工程時，或任何時候有事實及情況表示減值，則勘探及評估資產進行減值測試。減值虧損按勘探及評估資產的賬面值超出其可收回金額時的金額予以確認。可收回金額為勘探及評估資產的公平值減出售成本及其使用價值的較高者。

#### (i) 無形資產

##### (i) 商譽

商譽於收購附屬公司時產生，即所轉讓的代價、於被收購方的非控股權益及先前於被收購方的股權於收購日期的公平值，超過所收購可識別資產淨值公平值的差額。

就減值測試而言，業務合併所獲得之商譽會分配至預期將受益於合併協同效應之各個現金產生單位（「現金產生單位」）或現金產生單位組別。商譽所分配的各個單位或單位組別為實體內就內部管理目的而監察商譽之最低層次。商譽乃於經營分部層次進行監察。

商譽每年進行減值檢討，或當有事件出現或情況改變顯示可能出現減值時，作出更頻密檢討。含有商譽之現金產生單位賬面值與可收回金額作比較，可收回金額為使用價值與公平值減出售成本兩者中之較高者。任何減值即時確認為開支，且其後不會撥回。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (i) 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 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 2 to 10 years.

#### (j) 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.

### 3 主要會計政策概要(續)

#### (i) 無形資產(續)

##### (ii) 其他無形資產

其他無形資產主要包括獨家購買權、會所會籍及電腦操作系統。

獨家購買權以歷史成本列賬。獨家購買權為有限使用年期及按成本減累計攤銷列賬。攤銷乃使用直線法按天然氣供應服務之估計使用年期由30年至48年不等分配獨家購買權成本。

於會所會籍之投資乃按歷史成本列賬。於會所會籍之投資具有不確定使用年期及每年進行減值測試，並按成本減任何累計減值虧損列賬且不予攤銷。

電腦操作系統以歷史成本列賬。電腦操作系統為有限使用年期及按成本減累計攤銷列賬。攤銷乃使用直線法按其估計使用年期由2至10年分配電腦操作系統成本。

#### (j) 非財務資產之減值

無限定使用年限之資產(例如商譽或未供使用之無形資產)毋需攤銷，惟須每年進行減值測試。需攤銷之資產則當有事件出現或情況變動顯示賬面值可能無法收回時，將檢討須攤銷資產是否減值。減值虧損按資產之賬面值超出其可收回金額之差額確認。可收回金額為資產之公平值扣除銷售成本及使用價值兩者間之較高者。於評估減值時，資產計入可分開識辨現金流量(現金產生單位)的最低層次組別。商譽以外出現減值之非財務資產會於各報告日期獲檢討減值撥回的可能性。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

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

#### (l) Investments and other financial assets

##### (i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity investments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

### 3 主要會計政策概要(續)

#### (k) 土地使用權

土地使用權指於購入由承租人佔用之物業的長期權益時須一次過先付的數額。經營租賃安排下與集團樓宇有關之土地使用權均以成本列賬及於租賃期內按直線法攤銷並列入損益。

#### (l) 投資及其他財務資產

##### (i) 分類

自二零一八年一月一日起，集團按以下計量類別對財務資產進行分類：

- 後續以公平值計量(且其變動計入其他綜合收益或損益)的財務資產，及
- 以攤餘成本計量的財務資產。

該分類取決於集團管理財務資產的業務模式以及現金流量合約條款。

對於以公平值計量的財務資產，其收益及損失計入損益或其他全面收益。對於非持作交易股本投資之投資，其收益及損失將取決於集團在初始確認時是否作出不可撤銷的選擇而將其指定為以按公平值計入其他全面收益之股本投資入賬。

集團於且僅於管理該等資產之業務模式改變時方重新分類債務投資。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (i) Investments and other financial assets (Continued)

##### (ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

##### (iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

##### Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

### 3 主要會計政策概要(續)

#### (i) 投資及其他財務資產(續)

##### (ii) 確認及終止確認

正常途徑買賣之財務資產於交易日期確認，交易日期為集團須購買或出售資產之日期。投資初步按公平值加所有並非按公平值經損益入賬之財務資產之交易成本確認。按公平值經損益入賬之財務資產初步按公平值確認，交易成本則於綜合損益內支銷。財務資產於收取投資現金流之權利屆滿或已轉讓，且擁有權之所有風險及回報已大致轉讓時剔除確認。

##### (iii) 計量

對於不被分類為按公平值經損益入賬之財務資產，集團按其公平值加上可直接歸屬於購入該項財務資產的交易成本進行初始確認。按公平值經損益入賬之財務資產的交易成本於損益支出。

對於包含嵌入式衍生工具的財務資產，於釐定其現金流量是否僅為支付本金和利息時，從財務資產之整體進行考慮。

##### 債務工具

債務工具之後續計量取決於集團管理資產之業務模式及該項資產之現金流量特徵。集團將其債務工具分類為兩種計量類別：

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (i) Investments and other financial assets (Continued)

##### (iii) Measurement (Continued)

##### Debt instruments (Continued)

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in “other gains, net” together with foreign exchange gains and losses. Impairment losses are presented as separate line item in profit or loss.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in “other gains, net”. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in “other gains, net” and impairment expenses are presented as separate line item in profit or loss.

### 3 主要會計政策概要(續)

#### (i) 投資及其他財務資產(續)

##### (iii) 計量(續)

##### 債務工具(續)

- 攤銷成本：為收取合約現金流量而持有且現金流量僅為支付本金及利息之資產按攤銷成本計量。該等財務資產之利息收入按實際利率法計入財務收入。終止確認產生的任何收益或虧損直接於損益確認，並於其他收益淨額中與外匯收益及虧損一併列示。減值虧損於損益表中作為獨立項目列示。
- 按公平值計入其他全面收益：持作收取合約現金流量及出售財務資產之資產，倘該等資產現金流量僅指支付本金及利息，則按公平值計入其他全面收益計量。賬面值變動計入其他全面收益，惟於損益中確認之減值收益或虧損、利息收益及外匯收益及虧損之確認除外。財務資產終止確認時，先前於其他全面收益確認之累計收益或虧損由權益重新分類至損益並於其他收益淨額中確認。該等財務資產之利息收入按實際利率法計入其他收入。外匯收益及虧損呈列於其他收益淨額中，而減值虧損則於損益表中作為獨立項目列示。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (i) Investments and other financial assets (Continued)

##### (iii) Measurement (Continued)

###### Equity investments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

##### (iv) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 23 for further details.

##### (v) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

### 3 主要會計政策概要(續)

#### (i) 投資及其他財務資產(續)

##### (iii) 計量(續)

###### 股本投資

集團所有股本投資隨後按公平值計量。倘集團管理層已選擇將股本投資之公平值收益及虧損於其他全面收益呈列，則終止確認投資後，概無後續重新分類公平值收益及虧損至損益。集團收取付款之權利確立時，有關投資之股息繼續於損益中確認為其他收入。

##### (iv) 減值

自二零一八年一月一日起，集團按前瞻性基準評估按攤銷成本及按公平值計入其他全面收益列賬之債務工具相關之預期信貸虧損。所採用減值方法視乎信貸風險是否大幅增加而定。

就貿易應收款項及合約資產而言，集團應用香港財務報告準則第9號允許之簡化法，其要求於應收款項初始確認時確認預期全期虧損，詳情見附註23。

##### (v) 於二零一七年十二月三十一日前應用的會計政策

集團追溯採納香港財務報告準則第9號，惟選擇不重列比較資料。因此，所提供比較資料將繼續根據集團先前會計政策入賬。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (l) Investments and other financial assets (Continued)

##### (v) Accounting policies applied until 31 December 2017 (Continued)

Until 31 December 2017 the Group classifies its financial assets in the following categories:

- financial assets at FVPL,
- loans and receivables, and
- available-for-sale financial assets.

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition. See Note 4.1 for details about each type of financial asset.

##### (1) Subsequent measurement

The measurement at initial recognition did not change upon adoption of HKFRS 9, see description above.

Subsequent to the initial, recognition loans and receivables were subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for "financial assets at FVPL" — in profit or loss within "other gains, net"

### 3 主要會計政策概要(續)

#### (l) 投資及其他財務資產(續)

##### (v) 於二零一七年十二月三十一日前 應用的會計政策(續)

於二零一七年十二月三十一日前，集團之財務資產分類如下：

- 按公平值經損益入賬之之財務資產，
- 貸款及應收款項；及
- 可供出售財務資產。

分類乃根據購入資產之目的釐定。管理層於初始確認時釐定其投資分類。有關各類財務資產之詳情見附註4.1。

##### (1) 後續計量

如上文所述，採納香港財務報告準則第9號並無改變初始確認時之計量。

初始確認後，貸款及應收款項其後使用實際利率法按攤銷成本計量。

按公平值經損益入賬之之可供出售財務資產及財務負債。公平值變動產生之收益或虧損確認如下：

- 就「按公平值經損益入賬之之財務資產」而言 — 於損益「其他收益，淨額」確認；

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (l) Investments and other financial assets (Continued)

(v) Accounting policies applied until 31 December 2017  
(Continued)

#### (1) Subsequent measurement (Continued)

- for available-for-sale financial assets that are monetary securities denominated in a foreign currency — translation differences related to changes in the amortised cost of the security were recognised in profit or loss and other changes in the carrying amount were recognised in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale — in other comprehensive income.

Details on how the fair value of financial instruments is determined are disclosed in Note 4.4.

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognised in other comprehensive income were reclassified to profit or loss as “other gains, net”.

#### (2) Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. 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 was considered an indicator that the assets are impaired.

### 3 主要會計政策概要(續)

#### (l) 投資及其他財務資產(續)

(v) 於二零一七年十二月三十一日前  
應用的會計政策(續)

#### (1) 後續計量(續)

- 就可供出售財務資產為按外幣計值之貨幣證券而言 – 證券攤銷成本變動相關的換算差額於損益確認及其他賬面值變動於其他全面收益確認；
- 就分類為其他可供出售貨幣及非貨幣證券而言 – 於其他全面收益確認。

有關財務工具之公平值釐定詳情於附註4.4披露。

倘出售分類為可供出售之證券，於其他全面收益確認之累計公平值調整重新分類至損益「其他收益，淨額」項下。

#### (2) 減值

集團於各報告期末評估是否有客觀證據顯示財務資產或一組財務資產出現減值。僅當首次確認資產後發生一宗或以上事件(「損失事件」)而導致出現客觀減值證據，而該損失事件(或多宗事件)對財務資產或一組財務資產的估計未來現金流產生影響，且有關影響能可靠地估計時，該財務資產或該組財務資產才出現減值及產生減值虧損。對於分類為可供出售股本投資，證券公平值大幅或長期低於其成本則被視為資產減值之指示。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

- (l) Investments and other financial assets (Continued)
- (v) Accounting policies applied until 31 December 2017 (Continued)
- (2) Impairment (Continued)

#### Assets carried at amortised cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group could 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 decreased and the decrease could 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 was recognised in profit or loss.

Impairment testing of trade receivables is described in Note 4.2(b).

### 3 主要會計政策概要(續)

- (l) 投資及其他財務資產(續)
- (v) 於二零一七年十二月三十一日前應用的會計政策(續)
- (2) 減值(續)

#### 以攤銷成本列賬之資產

就貸款及應收款項類別而言，虧損金額乃按資產賬面值與按財務資產的原先實際利率折現的估計未來現金流(不包括尚未產生的未來信貸虧損)的現值兩者的差額計量。資產賬面值予以遞減，而虧損金額在損益內確認。倘貸款按浮動利率計息，則計量任何減值虧損所使用的折現率為根據合約所釐定的現行實際利率。作為實際可行權宜之計，集團使用可觀察市場價基於工具之公平值計量減值。

若在較後期間，減值虧損的金額減少，而該減少是可客觀地與確認減值後發生的事件有關連(例如債務人信貸評級改善)，則之前確認的減值虧損的撥回會於損益中確認。

貿易應收款項之減值測試於附註4.2(b)闡述。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (l) Investments and other financial assets (Continued)

(v) Accounting policies applied until 31 December 2017  
(Continued)

#### (2) Impairment (Continued)

##### Assets classified as available-for-sale

If there was objective evidence of impairment 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 profit or loss — was removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss were not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss.

#### (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 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 necessary make the sale.

### 3 主要會計政策概要(續)

#### (l) 投資及其他財務資產(續)

(v) 於二零一七年十二月三十一日前  
應用的會計政策(續)

#### (2) 減值(續)

##### 分類為可供出售之資產

倘可供出售財務資產存在客觀減值證據，累計虧損(按收購成本及即期公平值之差額減先前就該財務資產於損益確認的任何減值計量)自權益移除並於損益確認。

於損益確認的權益工具之減值虧損於其後期間不於損益撥回。

倘分類為可供出售的債務工具的公平值於其後期間增加且該增加與於損益確認減值虧損後發生的事件有客觀聯繫，則減值虧損於損益撥回。

#### (m) 存貨

存貨按成本或可變現淨值兩者之較低者入賬。成本按先入先出基準釐定。製成品及在建工程成本包括原料、直接人工、其他直接成本及有關之生產經常費用(按正常經營能力)，以及不包括借貸成本。可變現淨值為日常業務過程中的估計售價減完成的所有開支及出售所需的所有直接開支。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (n) Trade and other receivables

Trade receivables are amounts due from customers for sales and distribution of oil and 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 the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

#### (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, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

#### (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.

### 3 主要會計政策概要(續)

#### (n) 貿易及其他應收款項

貿易應收款項為對客戶銷售及輸送石油及天然氣及其他相關產品之款項或於正常業務過程中提供天然氣管道建造及接駁服務之款項。倘貿易及其他應收款項預計於一年或以內(或若更長則在業務正常經營週期內)收回,則歸類為流動資產。否則,於非流動資產中呈列。

貿易及其他應收款項初步按無條件代價金額確認,但當其包含重大融資成分時,按公平值進行確認。集團持有貿易及其他應收款項的目的是收取合約現金流量,因此後續使用實際利率法按攤銷成本計量應收賬款。

#### (o) 現金及現金等值項目

於綜合現金流量表中,現金及現金等值項目包括手頭現金、非定期銀行存款,以及其他原到期日為三個月或更短可隨時轉換為已知金額現金且毋須承受重大價值變動的短期高流動性投資。

#### (p) 貿易應付賬款

貿易應付賬款為在日常經營活動中從供應商購買商品或服務而應支付款項之責任。如貿易應付賬款之支付日期在一年或以內(如仍在正常經營週期中,則可較長時間),貿易應付賬款被分類為流動負債;否則呈列為非流動負債。

貿易應付賬款初始以公平值確認,其後利用實際利率法按攤銷成本計量。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (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 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.

#### (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 profit or loss in the period in which they are incurred.

### 3 主要會計政策概要(續)

#### (q) 借貸

借貸初始以公平值確認(扣除所產生的交易成本)。借貸其後以攤銷成本列賬：所得款項(扣除交易成本)及贖回價值之任何差額，以實際利率法於借貸期間在損益內予以確認。

在借貸將很有可能部分或全部提取的情況下，就設立借貸融資支付的費用乃確認為貸款交易成本。在此情況下，該費用將遞延至提取借貸發生時。在並無跡象顯示該借貸將很有可能部分或全部提取的情況下，該費用撥充資本作為流動資金服務的預付款項，並於其相關融資期間內予以攤銷。

借貸分類為流動負債，惟集團具有無條件權利可將償還負債的日期遞延至各報告期末後至少十二個月者除外。

#### (r) 借貸成本

收購、建造或生產合資格資產(即需要長時間才可以達到擬定用途或出售狀態之資產)直接應佔之一般及特定借貸成本計入該等資產的成本，直至資產大致可達到擬定用途或出售狀態時為止。

等待作為合資格資產開支之特別借貸之暫時投資所賺取之投資收入在符合資格可資本化之借貸成本中扣除。

所有其他借貸成本於產生期間在損益內確認。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (s) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### (t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for the sales and distribution of natural gas and other related products, provision of gas pipeline construction and connection services, and the exploitation and production of crude oil and natural gas, stated net of value added taxes.

The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customers and the payment by the customers exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

When either party to a contract has performed, the Group presents the contract in the consolidated statement of financial position as a contract asset or a contract liability, depending on the relationship between the Group's performance and the customer's payment.

A contract asset is the Group's right to consideration in exchange for goods that the Group has transferred to a customer. Incremental costs incurred to obtain a contract, if recoverable, are capitalised and presented as assets and subsequently amortised when the related revenue is recognised.

If a customer pays consideration or the Group has a right to an amount of consideration that is unconditional, before the Group transfers the promised goods to the customer, the Group presents the contract as a contract liability when the payment is received or a receivable is recorded (whichever is earlier). A contract liability is the Group's obligation to transfer the promised goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

### 3 主要會計政策概要(續)

#### (s) 股本

普通股分類為權益。與發行新股或購股權直接有關的增量成本，於權益列為所得款項的減項(扣除稅項)。

#### (t) 收入確認

收入按已收或應收代價之公平值計量，及表示就銷售及分銷天然氣及其他有關產品、提供天然氣管道接駁及建設服務以及開採及生產原油及天然氣應收之金額，按扣除增值稅呈列。

集團預計並無自所承諾貨品轉讓予客戶至客戶付款期限超過一年的合約。因此，集團並無就貨幣時間價值調整任何交易價格。

當合約的任一訂約方已履約，集團根據集團履約責任及客戶付款之間的關係將其合約於綜合財務狀況表呈列為合約資產或合約負債。

合約資產為集團對其已向客戶轉移的貨品收取代價的權利。獲得合約所產生之增量成本如可收回，會資本化及呈列為資產，並於其後確認有關收入時予以攤銷。

倘於集團向客戶轉讓所承諾貨品前，客戶支付代價或集團擁有無條件收取代價的權利，則集團於收取款項或應收款項入賬時(以較早者為準)將合約呈列為合約負債。合約負債是集團因其已向客戶收取代價(或到期應收客戶的代價金額)而向客戶轉讓所承諾貨品的責任。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (t) Revenue recognition (Continued)

A receivable is recorded when the Group has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Revenue is recognised when, or as, the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws applicable, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

- Direct measurements of the value transferred by the Group to the customer; or
- The Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

### 3 主要會計政策概要(續)

#### (t) 收入確認(續)

應收款項於集團擁有無條件收取代價的權利時入賬。倘代價僅隨時間推移即會成為到期應付，則收取代價的權利為無條件。

收入於貨品或服務的控制權轉移至客戶時確認。視乎合約條款及適用法律，貨品或服務的控制權乃在一段時間內或某一時間點轉移。倘集團在履約過程中符合下列條件，則貨品或服務的控制權乃在一段時間內轉移：

- 提供所有由客戶同時收到且消耗的利益；
- 集團於履約時創建或提升由客戶控制的資產；或
- 並無產生對集團具有替代用途的資產，且集團擁有強制執行權以收取迄今已完成履約部分的款項。

倘貨品及服務的控制權在一段時間內轉移，則收入乃經參考完成履約責任的進度於整個合約期間確認。否則，收入於客戶獲得貨品及服務控制權的時間點確認。

計量完成履約責任的進度乃基於下列最能描述集團完成履約責任表現的其中一種方法：

- 直接計量集團已向客戶轉移的價值；或
- 集團為完成履約責任所作的努力或投入(相對於預期努力或投入總額)。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (t) Revenue recognition (Continued)

Revenue is recognised when specific criteria have been met for the Group's activity described below:

##### (i) Sales and distribution of natural gas

Sales and distribution of natural gas are recognised at a point in time when control is transferred to customers, which generally coincides with the time when gas is transmitted and used by the customers, and is based on the gas consumption derived from meter readings. Payment of the transaction price is due immediately at the point the customer consume the gas. Payments received in advance on pre-paid I/C cards that are related to sales of natural gas not yet delivered are recognised as contract liabilities and deferred in the consolidated statements of financial position.

##### (ii) Gas pipeline construction and connection

The Group provides gas pipeline construction and connection services to its end-customers under fixed-price contracts. Revenue from the provision of gas pipeline construction and connection services is recognised over time as the Group's performance creates or enhances an asset that the customer controls.

The Group satisfies a performance obligation over time, by measuring the progress using output method on the basis of direct measurements of the value the customer of the promised goods or services transferred to date certified by internal engineers, relative to the value of total goods or services promised under the contract with customer. The Group recognises revenue over time only if it can reasonably measure its progress toward complete satisfaction of the performance obligation. However, if the Group cannot reasonably measure the outcome but expects to recover the costs incurred in satisfying the performance obligation, then it recognises revenue to the extent of the costs incurred.

### 3 主要會計政策概要(續)

#### (t) 收入確認(續)

收入於就集團活動滿足特定條件時確認，詳情概述如下：

##### (i) 銷售及輸送天然氣

銷售及輸送天然氣於控制權轉讓予客戶的時間點(一般為天然氣輸送至客戶同時由客戶使用時)確認，並基於氣錶讀數得出天然氣消耗量。交易價格於客戶使用天然氣時即時到期應付。以預付I/C卡支付銷售未輸送天然氣之已收預付款項於綜合財務狀況表中確認為合約負債並遞延。

##### (ii) 天然氣管道建造及接駁

集團根據固定價格合約向其終端客戶提供天然氣管道建設及接駁服務。提供天然氣管道建設及接駁服務的收入於一段時間內確認，原因為集團於履約時創建或提升由客戶控制的資產。

集團於一段時間內達成履約責任，當中透過使用產量法計量進度，即透過直接計量迄今已轉讓予客戶的所承諾貨品或服務價值(經內部工程師核證)，相對客戶合約下所承諾提供的貨品或服務價值確認收入。集團僅於其可合理計量達成履約責任的進度時方確認收入。然而，倘集團未能合理計量後果，惟預期可收回於達成履約責任產生的成本，其將按已產生的成本為限確認收入。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (t) Revenue recognition (Continued)

##### (ii) Gas pipeline construction and connection (Continued)

Estimates of costs or extent of progress toward completion are revised if circumstances change. Any change in estimation of progress are reflected in profit or loss in the period which the circumstances that give rise to the revision become known by management.

The customers are required to pay in advance for full or certain contract amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payment exceed the services rendered, a contract liability is recognised.

##### (iii) Revenue from exploitation and production of crude oil and natural gas

The revenue from the sales of crude oil, natural gas and natural gas liquids is measured based on consideration specified in contracts with customers. Revenue is recognised at a point in time when customers obtain legal title to the oil and gas which is when it is physically transferred to pipeline or other transportation method agreed upon.

##### (iv) Sales of equipment

Revenue from sales of equipment are recognised when control of the equipment has transferred, being when the equipment are delivered to the customers, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery occurs when the equipment have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customers, and either the customers has accepted the equipment in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

### 3 主要會計政策概要(續)

#### (t) 收入確認(續)

##### (ii) 天然氣管道建造及接駁(續)

倘情況有變，成本或已完成進度比例之估計值會予以修訂。進度估計之任何變動於管理層知悉需要作出修訂之期間之損益中反映。

客戶須根據付款時間表預付全部或部分合約金額。倘集團提供的服務超出款項，則確認合約資產。而倘付款超出所提供服務，則確認合約負債。

##### (iii) 開採及生產原油及天然氣所得收入

銷售原油、天然氣及液化天然氣的收入按客戶合約中規定之代價計量。收入於客戶獲得原油及天然氣合法所有權(即實際輸送至管道或協定之其他輸送方法)的時間點確認。

##### (iv) 銷售設備

銷售設備收入於轉交設備控制權時(即設備交付予客戶且概無未履行責任可影響客戶接收設備時)確認。當設備已付運至特定地點，報廢及虧損風險已轉移客戶，且客戶已根據銷售合約(接受條文已失效)接收設備或集團有客觀證據證明已符合所有接收的準則，則視作交付。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (t) Revenue recognition (Continued)

##### (iv) Sales of equipment (Continued)

Revenue from these sales is recognised based on the price specified in the contract. No element of financing is deemed present as the sales are made with a credit term of 60 to 90 days, which is consistent with market practice.

No refund liability and right to the returned equipment are recognised as insignificant amount of returns are expected based on previous experience.

A receivable is recognised when the equipment are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

#### (u) Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated profit or loss as part of finance income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

### 3 主要會計政策概要(續)

#### (t) 收入確認(續)

##### (iv) 銷售設備(續)

該等銷售的收入按合約指定價格確認。由於銷售按60至90日的信貸期(符合市場慣例)進行，故並不存在融資因素。

由於根據過往經驗，預期退貨金額並不重大，故不會確認任何遭退回設備還款責任及權利。

應收款項於設備交付時確認，即代價僅隨時間推移即會到期應付而成為無條件的時間點。

#### (u) 利息收入

按攤銷成本計量的財務資產之利息收入使用實際利息法計算，於綜合損益表中融資收入內確認。

利息收入乃按財務資產賬面總值乘以實際利率來計算，惟後續發生信用減值的財務資產除外。就發生信用減值的財務資產而言，實際利率已乘以財務資產的賬面淨值(扣除虧損撥備後)。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (v) 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 administered 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\$30,000. The retirement benefit scheme costs charged to 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.

### 3 主要會計政策概要(續)

#### (v) 僱員福利

##### (i) 退休福利成本

根據中國規則和法規，集團之中國僱員參與由中國有關省市政府營辦之若干界定供款退休福利計劃。據此，集團和中國僱員須每月按僱員薪金某個百分比向這些計劃作出供款。

省市政府承諾承擔上述計劃應付所有現有及日後退休中國僱員之退休福利責任。集團除該等每月供款外，並無其他涉及支付僱員退休及其他退休後福利之責任。該等計劃之資產由省級政府管理之獨立管理基金持有，並與集團之資產分開。

集團亦根據強制性公積金計劃條例在香港為所有符合資格參與強制性公積金計劃(「強積金計劃」)之受香港僱用條例管轄之合資格僱員設有界定供款之強積金計劃。根據強積金計劃之規則，集團及僱員向計劃之供款乃按僱員有關收入之百分比計算，惟每月有關收入的最高上限為30,000港元。於損益內扣除的退休福利計劃成本指集團根據強積金計劃規則之應付供款。集團作出之僱主供款，於向強積金計劃供款時全部歸屬於僱員。強積金計劃資產與集團的資產分開持有，由獨立管理基金管理。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (v) Employee benefits (Continued)

##### (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 or holding shares for a specified period of time).

### 3 主要會計政策概要(續)

#### (v) 僱員福利(續)

##### (ii) 僱員應獲權利

僱員應得之年假及長期服務金於應計予僱員時確認。就截至財務狀況表日期因僱員提供服務而應得之年假及長期服務金，將估計有關負債而作出撥備。

僱員應得之病假及產假和父方陪產假直至取假時方予確認。

##### (iii) 以股份為基礎之付款

集團設有多項以權益結算以股份為基礎的報酬計劃，根據該等計劃，實體收取僱員的服務以作為集團權益工具的代價。僱員為換取獲授購股權或限制性股份而提供服務的公平值確認為費用。將予支銷的總金額乃經參考授出購股權或限制性股份的公平值後釐定：

- 包括任何市場表現條件(例如，實體之股價)；
- 不包括任何服務及非市場表現歸屬條件(如盈利能力、銷售增長目標以及於特定期間內仍為實體僱員)之影響；及
- 包括任何非歸屬條件之影響(例如，對僱員之要求或在某特定時期持有股份)。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (v) 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 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.

### 3 主要會計政策概要(續)

#### (v) 僱員福利(續)

##### (iii) 以股份為基礎之付款(續)

非市場歸屬條件包括在有關預期可予歸屬之購股權或限制性股份數目之假設內。總支銷金額於歸屬期內確認，即符合所有列明之歸屬條件的期間。於各報告期末，實體根據非市場歸屬條件修訂其估計預期將予歸屬之購股權或限制性股份數目。實體在損益內確認修訂原估算之影響(如有)，並對權益作出相應調整。

##### 購股權計劃

於購股權獲行使時，公司發行新股份。於購股權獲行使時之已收所得款項於減去所有直接應佔交易成本後撥入股本(面值)及股份溢價。

公司向集團附屬公司的僱員授予權益工具的購股權被視為資本投入。所獲得僱員服務之公平值乃參考授出日期之公平值計量，於歸屬期內確認為增加對附屬公司之投資，並相應計入權益。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (v) Employee benefits (Continued)

##### (iii) Share-based payments (Continued)

###### Share award scheme

When restricted shares are granted, the fair value of restricted shares are recognised 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 share award scheme" and deducted from total equity.

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

#### (w) Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one 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.

### 3 主要會計政策概要(續)

#### (v) 僱員福利(續)

##### (iii) 以股份為基礎之付款(續)

###### 股份獎勵計劃

倘授出限制性股份，限制性股份的公平值會確認為開支，並於歸屬期內對權益作出相應調整。

倘集團在市場內購入公司股份，已付代價(包括任何直接應佔增加成本)作為「為股份獎勵計劃所持股股份」呈列，並從權益總額內扣除。

就有關授出購股權及限制性股份而應付的社會保障供款被視為授出本身的一個組成部分，而其費用被視為以現金結算的交易。

#### (w) 撥備

對環境復原、重組成本及法律索償之撥備於下列情況下予以確認：集團須就過往事件承擔現有的法定或推定責任，而履行該責任很有可能導致資源外流，並能對有關金額作出可靠的估計。重組撥備包括終止租約罰款及終止僱員合約所支付之款項。未來經營虧損毋須作出撥備確認。

倘有多項類似責任時，解除該等責任導致資源流出的可能性按責任的類別作整體考慮。即使在同一類別責任內任何一個項目導致資源流出的可能性很低，亦須就此確認撥備。撥備採用稅前利率按照預期需解除責任的支出現值計量，該利率反映當時市場對貨幣時間價值和有關責任固有風險的評估。隨著時間過去而增加的撥備確認為利息費用。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (x) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the 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.

##### (i) Current income tax

The current income tax 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, its associates and joint ventures 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.

##### (ii) Deferred income tax

###### Inside basis differences

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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, 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 date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

### 3 主要會計政策概要(續)

#### (x) 當期及遞延所得稅

期內稅項開支包括當期及遞延稅項。稅項於損益確認，惟與其他全面收益或於權益直接確認之項目有關者除外。在此情況下，稅項亦分別於其他全面收益或於權益直接確認。

##### (i) 當期所得稅

當期所得稅支出根據集團、其聯營公司及合營企業營運及產生應課稅收入所在之國家於財務狀況表日期已通過或實質上通過之稅務法例計算。管理層就適用稅務法例詮釋所規限之情況定期評估報稅表之狀況，並在適用情況下根據預期須向稅務機關支付之稅款設定撥備。

##### (ii) 遞延所得稅

###### 內在基準差異

遞延所得稅以負債法按資產及負債之稅基與彼等賬面值產生之暫時差額，於綜合財務報表內確認。然而，倘稅項負債源自商譽的首次確認，則不會確認遞延稅項負債，倘屬業務合併以外且交易當時並不影響會計或稅務盈虧之交易，則首次確認資產或負債所產生遞延所得稅不予入賬。遞延所得稅以財務狀況表日期已通過或實質上通過之稅率(及稅法)釐定，預計將於有關遞延所得稅資產變現或遞延所得稅負債清償時應用。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (x) Current and deferred income tax (Continued)

##### (ii) Deferred income tax (Continued)

###### Inside basis differences (Continued)

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.

###### Outside basis differences

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

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and a joint venture only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

##### (iii) Offsetting

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.

### 3 主要會計政策概要(續)

#### (x) 當期及遞延所得稅(續)

##### (ii) 遞延所得稅(續)

###### 內在基準差異(續)

遞延所得稅資產僅於日後將有應課稅溢利抵銷暫時差異時確認。

###### 外在基準差異

遞延所得稅負債乃按於附屬公司、一間合營企業及聯營公司之投資所產生之暫時差額作出撥備，但如集團能控制暫時差額之撥回時間，且暫時差額可能不會於可見將來撥回之遞延所得稅負債則除外。

對與附屬公司、聯營公司及一間合營企業投資相關的可抵扣暫時性差異，確認遞延所得稅資產，僅以在未來很可能撥回暫時性差異為限，且有足夠應課稅溢利可用來抵銷暫時差異。

##### (iii) 抵銷

當有法定可執行權利可將當期稅項資產與當期稅務負債抵銷，而遞延所得稅資產及負債涉及同一稅務機關向應課稅實體或不同應課稅實體徵收之所得稅，並有意按淨額結算餘款，則可將遞延所得稅資產與負債抵銷。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (y) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payment made under operating leases, net of any incentives received from the lessor are charged to profit or loss on a straight-line basis over the period of the lease.

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

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

#### (z) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the profit or loss on a straight-line basis over the expected lives of the related assets.

### 3 主要會計政策概要(續)

#### (y) 租賃

凡所有權的絕大部分風險和回報由出租人保留的租賃，均列作經營租賃。根據經營租賃(扣除從出租人獲取的任何優惠)作出的付款按租期以直線法於損益內扣除。

集團擁有所有權絕大部分風險及回報的物業、廠房及設備租賃分類為融資租賃。融資租賃於租期開始時按租賃物業公平值與最低租賃付款現值兩者中之較低者資本化。

租金收入於租期內按直線基準確認。

#### (z) 政府補助

當能合理確定將收到政府的補助，而集團將遵守所有附帶條件時，政府補助按其公平值確認。

與成本有關的政府補助將被遞延，並於與其擬定補償的成本配對在所需期間內於損益中確認。

與物業、廠房及設備有關的政府補助列入非流動負債作為遞延政府補助，並按直線法於相關資產預計年限計入損益。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management

### 4 財務風險管理

#### 4.1 Financial instruments by categories

#### 4.1 按類別劃分之金融工具

		Note	Financial assets at fair value through other comprehensive income 按公平值計入 其他全面收益之 財務資產 HK\$'000 千港元	Financial assets at amortised cost 按攤銷成本計量 之財務資產 HK\$'000 千港元	Financial liabilities at amortised cost 按攤銷成本計量 之財務負債 HK\$'000 千港元
		附註	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元
As at 31 December 2018	於二零一八年 十二月三十一日				
Debt investments	債務投資	21	330,174	-	-
Equity investments	股本投資	21	108,946	-	-
Deposits, trade and other receivables (excluding prepayment and other tax recoverables)	按金、貿易及其他應收款 項(不包括預付款項及 其他可收回稅項)		-	1,846,840	-
Time deposits, bank balances and cash	定期存款、銀行結餘 及現金	25	-	2,666,902	-
Trade and other payables (excluding other tax payables and salaries payables)	貿易及其他應付款項 (不包括其他應付稅款及 應付薪金)		-	-	1,382,522
Borrowings	借貸	28	-	-	1,519,481
Senior notes	優先票據	29	-	-	5,029,991
			<b>439,120</b>	<b>4,513,742</b>	<b>7,931,994</b>

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 4.1 Financial instruments by categories (Continued)

		Note	Available-for-sale financial assets 可供出售財務資產 HK\$'000 千港元	Financial assets at fair value through profit or loss 按公平值經損益入賬之財務資產 HK\$'000 千港元	Loans and receivables 貸款及應收款項 HK\$'000 千港元	Financial liabilities at amortised cost 按攤銷成本計量之財務負債 HK\$'000 千港元
As at 31 December 2017	於二零一七年十二月三十一日					
Debt investments	債務投資	21, 24	459,627	48,842	-	-
Equity investments	股本投資	21	136,733	-	-	-
Deposits, trade and other receivables (excluding prepayment and other tax recoverables)	按金、貿易及其他應收款項(不包括預付款項及其他可收回稅項)		-	-	1,838,162	-
Time deposits, bank balances and cash	定期存款、銀行結餘及現金	25	-	-	2,338,978	-
Trade and other payables (excluding other tax payables and salaries payables)	貿易及其他應付款項(不包括其他應付稅款及應付薪金)		-	-	-	1,404,899
Borrowings	借貸	28	-	-	-	749,258
Senior notes	優先票據	29	-	-	-	4,970,240
			596,360	48,842	4,177,140	7,124,397

#### 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 財務風險管理(續)

#### 4.1 按類別劃分之金融工具(續)

#### 4.2 財務風險因素

集團活動面臨多種財務風險：市場風險(包括貨幣風險、價格風險及利率風險)、信貸風險及日常業務過程及金融工具產生之流動資金風險。管理層管理及監控該等風險，以保證及時有效地實施適當措施。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 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 United States dollars (“US\$”), Canadian dollars (“CAD”) and 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 supplies denominated in the same currency.

Management has set up a policy to require group companies to manage their foreign exchange risk against functional currency. It mainly includes managing the exposures arise from sales and purchases made by the relevant group companies in currencies other than their own functional currencies. The Group also manages its foreign exchange risk by performing regular reviews of the Group’s net foreign exchange exposures. The Group has not used any forward foreign exchange contracts to hedge its exposure.

Prices for oil and natural gas in Canada are determined in global markets and generally denominated in US\$. Oil and natural gas prices obtained by the Group are influenced by both United States and Canadian demand and the corresponding North American supply, and recently, by imports of liquefied natural gas. The exchange rate effect cannot be quantified but generally an increase in the value of CAD as compared to US\$ will reduce the prices received by the Group for its petroleum and natural gas sales. At 31 December 2018 and 2017, there has no financial instrument denominated in US\$ in the books of subsidiaries with functional currency denominated in CAD.

### 4 財務風險管理(續)

#### 4.2 財務風險因素(續)

##### (a) 市場風險

##### (i) 貨幣風險

集團面臨因持有不同貨幣(以美元(「美元」)、加拿大元(「加元」)及人民幣為主)產生的貨幣風險。貨幣風險由未來商業交易、確認資產及負債及國外業務淨投資而產生。此外，人民幣兌換為外幣須受中國政府頒佈之外匯管制規則及法規所規限。此貨幣風險主要透過採購以相同貨幣計值的供應而進行管理。

管理層已制訂政策，要求集團公司管理各自功能貨幣的外匯風險。其主要包括管理相關集團公司以其自身功能貨幣以外之貨幣買賣產生的風險。集團亦通過定期審閱集團匯兌淨額管理其外匯風險。集團概無使用任何遠期外匯合約對沖其風險。

加拿大石油及天然氣價格於全球市場中釐定且一般以美元列值。集團獲得的石油及天然氣價格受美國及加拿大需求以及相應北美供應的影響，以及近期受液化天然氣進口影響。匯率影響不可被量化，但一般加元兌美元升值將降低集團就其石油及天然氣銷售所取得的價格。於二零一八年及二零一七年十二月三十一日，概無以加元為功能貨幣計值的附屬公司於賬目中有以美元計值的金融工具。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 4.2 Financial risk factors (Continued)

##### (a) Market risk (Continued)

###### (i) Currency risk (Continued)

As US\$ is pegged with HK\$ under the Linked Exchange Rate System, the Group has minimal exposure to currency risk arising from US\$. Accordingly, no sensitivity analysis is performed. As at 31 December 2018, if Renminbi had weakened/strengthened by 5% against HK\$, with all other variables held constant, pre-tax profit for the year would have been HK\$91,970,000 (2017: HK\$113,263,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of Renminbi denominated cash and cash equivalents.

###### (ii) Price risk

The Group is exposed to price changes arising from debt and equity investments classified as financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss amounted to HK\$439,120,000 (2017: HK\$596,360,000) and Nil (2017: HK\$48,842,000) respectively. Most of these investments are listed either on the stock exchanges of Hong Kong or other countries.

Equity investments are held as long-term strategic investments and 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.

Debt investments are placed with counterparties with sound credit quality. The Group closely monitors the credit quality and financial positions of counterparties and consider appropriate action if the market value of those securities decline by a pre-determined threshold.

### 4 財務風險管理(續)

#### 4.2 財務風險因素(續)

##### (a) 市場風險(續)

###### (i) 貨幣風險(續)

因根據聯繫匯率制度美元與港元掛鈎，故集團承受由美元產生之貨幣風險較少。因此，並無作敏感性分析。於二零一八年十二月三十一日，在其他因素保持不變的情況下，倘人民幣兌港元貶值／升值5%，年內除稅前溢利將減少／增加91,970,000港元(二零一七年：113,263,000港元)，主要由於換算以人民幣計值之現金及現金等值項目的匯兌虧損／收益所致。

###### (ii) 價格風險

集團就分別分類為按公平值計入其他全面收益之財務資產的債務及股本投資及按公平值經損益入賬之財務資產為439,120,000港元(二零一七年：596,360,000港元)及無(二零一七年：48,842,000港元)面臨價格變動風險。該等投資之絕大多數於香港或其他國家之證券交易所上市。

股本投資持作長期策略投資，乃按長期增長潛力挑選並定期監察其表現是否達致預期。該投資組合已按照集團制定的限制在行業分佈方面符合分散原則。

債務投資存放於信譽良好之對手方。集團密切監控對手方之信貸質素及財務狀況並於該等證券市值下降預定限度時採取適當行動。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 4.2 Financial risk factors (Continued)

##### (a) Market risk (Continued)

##### (ii) Price risk (Continued)

Commodity price risk is the risk that fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas in Canada are impacted by the relationship between CAD and US\$ as well as world economic events that dictate the levels of supply and demand.

##### (iii) Interest rate risk

As the Group has no significant interest-bearing assets, except for short-term bank deposits, loan to an associate and loans to third parties, 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 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 and senior notes. 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 borrowings and senior notes are set out in Notes 28 and 29 respectively.

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

### 4 財務風險管理(續)

#### 4.2 財務風險因素(續)

##### (a) 市場風險(續)

##### (ii) 價格風險(續)

商品價格風險指公平值或未來現金流會因商品價格變動而波動的風險。加拿大石油及天然氣商品價格受加元及美元關係以及決定供求情況的全球經濟事件的影響。

##### (iii) 利率風險

由於集團除短期銀行存款、貸款予一間聯營公司及貸款予第三方外，並無重大計息資產，集團收入及經營現金流量大部分不受市場利率變動影響。由於預期銀行存款利息並無重大變動，管理層預期利率變動對計息資產並無重大影響。

集團利率風險由借貸及優先票據產生。按浮息取得之借貸使集團面臨現金流量利率風險。定息借貸則使集團面臨公平值利率風險。

集團借貸及優先票據之詳情分別載於附註28及29。

由於利率風險並不重大，集團並無使用任何利率掉期對沖其利率風險承擔。為管控現金流量利率風險，集團在有盈餘資金時會償還有關借貸。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 4.2 Financial risk factors (Continued)

##### (a) Market risk (Continued)

##### (iii) Interest rate risk (Continued)

At 31 December 2018, 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 post tax profit for the year by approximately HK\$3,491,000 (2017: HK\$2,913,000). The above sensitivity analysis has been determined assuming that the change in interest rates had occurred at the date of the statement of financial position 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 2017.

##### (b) Credit risk

The Group's credit risk is primarily attributable to contract assets, deposits, trade and other receivables, debt investments at FVOCI, debt investments under available-for-sale financial assets and financial assets at FVPL, time deposits with maturity over three months, and cash at banks with a maximum exposure equal to the carrying amounts of these financial instruments which are stated as follows:

### 4 財務風險管理(續)

#### 4.2 財務風險因素(續)

##### (a) 市場風險(續)

##### (iii) 利率風險(續)

於二零一八年十二月三十一日，估計浮息借貸之利率普遍上升或下跌100個基點，而所有其他變數保持不變，則集團年內除稅後溢利將分別減少／增加約3,491,000港元(二零一七年：2,913,000港元)。上述敏感度分析乃假設利率變動於財務狀況表日期發生及一直應用於該日存在的金融工具的利率風險。上升或下跌100個基點指管理層評估利率於年內直至下一全年財務狀況表日期期間的可能合理變動。二零一七年的分析按同一基準進行。

##### (b) 信貸風險

集團之信貸風險主要歸因於合約資產、按金、貿易及其他應收款項、按公平值計入其他全面收益之債務投資、歸類為可供出售財務資產及按公平值經損益入賬之財務資產的債務投資、到期日為三個月以上的定期存款以及銀行現金，所面對之最高風險相等於該等金融工具之賬面值，如下所述：

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

### 4 財務風險管理(續)

#### 4.2 Financial risk factors (Continued)

#### 4.2 財務風險因素(續)

##### (b) Credit risk (Continued)

##### (b) 信貸風險(續)

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Contract assets, deposits, trade and other receivables (excluding prepayment and other tax recoverables)	合約資產、按金、貿易及其他應收款項(不包括預付款項及其他可收回稅項)	1,956,050	1,859,370
Debt investments at FVOCI	按公平值計入其他全面收益之債務投資	330,174	-
Debt investments under available-for-sale financial assets	歸類為可供出售財務資產之債務投資	-	459,627
Debt investments under financial assets at FVPL	歸類為按公平值經損益入賬之財務資產之債務投資	-	48,842
Time deposits with maturity over three months	到期日為三個月以上的定期存款	158,679	48,531
Cash at banks	銀行現金	2,504,490	2,288,381
Maximum exposure to credit risk	最高信貸風險	<b>4,949,393</b>	4,704,751

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

管理層已制定現成之信貸政策，並對該等信貸風險持續監控。

##### (i) Credit risk of cash at banks and time deposits with maturity over three months

##### (i) 超過三個月到期的銀行現金及定期存款之信貸風險

As at 31 December 2018 and 2017, 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. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

於二零一八年及二零一七年十二月三十一日，集團所有銀行存款均存放於管理層認為沒有重大信貸風險的高信貸質素之中國及香港主要金融機構。該等金融機構近期並無違約歷史。預期信貸虧損接近於零。

The Group's bank deposits as at 31 December 2018 and 2017 were as follows:

於二零一八年及二零一七年十二月三十一日，集團之銀行存款如下：

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 4.2 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### (i) Credit risk of cash at banks and time deposits with maturity over three months (Continued)

State-owned or listed banks	國有或上市銀行
Other banks	其他銀行

### 4 財務風險管理(續)

#### 4.2 財務風險因素(續)

##### (b) 信貸風險(續)

##### (i) 超過三個月到期的銀行現金及定期存款之信貸風險(續)

2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
1,814,897	1,801,522
848,272	535,390
<b>2,663,169</b>	<b>2,336,912</b>

##### (ii) Credit risk of loan and interest receivables from an associate

The directors of the Company consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the year ended 31 December 2018. To assess whether there is a significant increase in credit risk, the Group compares risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- Actual or expected significant adverse change in business, financial economic conditions that are expected to cause a significant change to the associate's ability to meet its obligations;
- Actual or expected significant changes in the operating results of the associate;
- Significant changes in the expected performance and behaviour of the associate, including changes in the payment status of the associate.

##### (ii) 來自一間聯營公司貸款及應收利息之信貸風險

公司董事考慮資產自初始確認時違約的可能性，以及於截至二零一八年十二月三十一日止年度信貸風險是否持續顯著增加。為評估信貸風險是否顯著增加，集團將於報告日期資產產生違約的風險與於初步確認日期的違約風險進行比較。特別納入下列指標：

- 業務、財務經濟狀況的實際或預期重大不利變動預計將導致聯營公司履行其義務的能力發生重大變化；
- 聯營公司經營業績的實際或預期重大變化；
- 聯營公司預期表現及行為的重大變化，包括聯營公司付款狀態的變化。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 4.2 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### (ii) Credit risk of loan and interest receivables from an associate (Continued)

Regardless of the analysis above, a significant increase in credit risk is presumed if the associate is more than 30 days past due in making a contractual payment/repayable demanded.

A default on a financial asset is when the counterparty fails to make contractual payments/repayable demanded within 90 days of when they fail due.

The management considers the credit risk on loan and interest receivables from an associate after considering the financial conditions of the associate and the balances are considered to have low credit risk, and the expected credit losses was limited to 12 months expected credit losses. Management has applied the expected credit risk model and estimated the default rate of 2.8% and loss given default rate of 60.2% after considering the current economic environment and the forward-looking economic factors. Loss allowance of HK\$17,000,000 is recognised on 1 January 2018. The loss allowance for the loan and interest receivables from an associate have not increased during the current reporting period.

### 4 財務風險管理(續)

#### 4.2 財務風險因素(續)

##### (b) 信貸風險(續)

##### (ii) 來自一間聯營公司貸款及應收利息之信貸風險(續)

儘管上文分析，倘聯營公司逾期超過30天未按合約支付／按要求償還，則信貸風險顯著增加。

財務資產違約指交易對方未能在到期後90天內按合約支付／按要求償還。

管理層於考慮聯營公司的財務狀況後，來自聯營公司之貸款及應收利息及結餘的信貸風險被視為低信貸風險，預期信貸虧損受限於12個月預期信貸虧損。經考慮當前經濟環境及前瞻性經濟因素，管理層應用預期信貸虧損模式及估計違約率為2.8%及違約損失率為60.2%。於二零一八年一月一日確認虧損撥備17,000,000港元。於本報告期間，來自聯營公司之貸款及應收利息之虧損撥備並未增加。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 4.2 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### (iii) Credit risk of deposits and other receivables

Deposits and other receivables were mainly rental deposits, refundable deposits placed to suppliers, note receivables and miscellaneous receivables from customers. The credit quality of deposits and other receivables has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. Given the track record of repayment in full, the directors of the Company are of the opinion that the risk of default by these counterparties is not significant and does not expect any losses from non-performance by the counterparties. Therefore, expected credit loss rate of the deposits and other receivables is assessed to be close to zero and no provision was made as at 31 December 2018 and 2017 and 1 January 2018.

##### (iv) Credit risk of contract assets and trade receivables

For sales and distribution of natural gas and other related products, and the provision of pipeline construction and connection services in the PRC, the Group generally requests advances from these customers. For exploitation and production of crude oil and natural gas in Canada, receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. In circumstances of credit sales, to manage the credit risk in respect of contract assets and trade 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.

### 4 財務風險管理(續)

#### 4.2 財務風險因素(續)

##### (b) 信貸風險(續)

##### (iii) 按金及其他應收款項之信貸風險

按金及其他應收款項主要為租賃押金、存入供應商的可退換按金、應收票據及客戶雜項應收款項。按金及其他應收款之信貸質素經參考交易對方違約率及交易對方財務狀況之歷史資料進行評估。根據悉數還款的往績記錄，公司董事認為該等交易對方的違約風險並不重大及預計不會因交易對方不履約而蒙受任何損失。因此，按金及其他應收款項之預期信貸虧損率被評估為接近於零及於二零一八年及二零一七年十二月三十一日及二零一八年一月一日並無計提撥備。

##### (iv) 合約資產及貿易應收款項之信貸虧損

就天然氣及其他相關產品的銷售及分銷，以及在中國提供管道建設及接駁服務，集團通常須向該等客戶收取墊款。就於加拿大開採及生產原油及天然氣，石油及天然氣銷售商的應收款項通常於生產後一個月的第25天收取。在除銷的情況下，為管理合約資產及貿易應收款項的信貸風險，集團已訂有政策，以保證銷售乃向具有適當信用記錄的客戶作出及集團對客戶進行信用評估，一般毋須客戶就未清償結餘提供抵押。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 4.2 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### (iv) Credit risk of contract assets and trade receivables (Continued)

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected credit loss provision for all contract assets and trade receivables.

To measure the expected credit losses, contract assets and trade receivables have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 1 January 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. For customers relating to the sales and distribution of natural gas and other related products as well as the provision of pipeline construction and connection services in the PRC, the Group has identified the GDP growth rate of the PRC to be the most relevant factor. For oil and natural gas marketers relating to the exploitation and production of crude oil and natural gas in Canada, the Group has identified that commodity price fluctuation to be the most relevant factor. The Group adjusts the historical loss rates based on expected changes in these factors accordingly.

### 4 財務風險管理(續)

#### 4.2 財務風險因素(續)

##### (b) 信貸風險(續)

##### (iv) 合約資產及貿易應收款項之信貸虧損(續)

集團應用香港財務報告準則第9號所訂明的簡化方法就預期信貸虧損作出撥備，該規定允許對所有合約資產及貿易應收款項採用全期預期信貸虧損撥備。

為計量預期信貸虧損，合約資產及貿易應收款項已按共通信貸風險特徵及逾期天數分類。合約資產涉及未結算在建工程，且與相同類型合約的貿易應收款項具有大致相同的風險特徵。因此，集團合理認為貿易應收款項的預期損失率與合約資產的虧損率相若。

預期虧損率根據於二零一八年一月一日前36個月期間的銷售付款組合及該期間的相應歷史信貸虧損計算。調整歷史虧損率，以反映影響客戶結算應收款項能力的當前及前瞻性宏觀經濟因素。就在中國銷售及分銷天然氣及其他相關產品以及提供管道建設及接駁服務的客戶，集團認為中國國內生產總值增長率是最相關的因素。就於加拿大開採及生產原油及天然氣的石油及天然氣銷售商而言，集團認為，大宗商品價格波動是最相關的因素。集團根據該等因素的預期變化調整歷史虧損率。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 4.2 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### (iv) Credit risk of contract assets and trade receivables (Continued)

Contract assets and trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 1 year past due.

Impairment losses on contract assets and trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Given the track record of regular repayment of receivables from the customers, the directors of the Company are of the opinion that the risk of default by these customers is not significant. Therefore, expected credit loss rate of contract assets and trade receivables is assessed to be close to zero.

### 4 財務風險管理(續)

#### 4.2 財務風險因素(續)

##### (b) 信貸風險(續)

##### (iv) 合約資產及貿易應收款項之信貸虧損(續)

當不存在可收回的合理預期時，集團會撇銷合約資產及貿易應收款項。不存在可收回的合理預期的指標包括(其中包括)債務人無法與集團達成還款計劃，及未能於預期超過一年的期間內作出合約付款。

合約資產及貿易應收款項於經營溢利內呈列為減值虧損淨額。先前撇銷之後續收回金額均計入相同項目。

根據應收客戶款項之定期還款之往績記錄，公司董事認為該等客戶之違約風險並不重大。因此合約資產及貿易應收款項之預期信貸虧損被評估為接近於零。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 4.2 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### (v) Credit risk of debt investments

Debt investments 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. Management consider "low credit risk" for listed bonds to be an investment grade credit rating with at least one major rating agency (Moody's: Baa3 or above; Standard & Poor's: BBB- or above; Fitch: BBB- or above). Other instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. The Group has assessed that the expected credit losses for these financial assets are not material under the 12 months expected credit loss method. Thus no loss allowance provision was recognised as at the date of the statement of financial position.

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

### 4 財務風險管理(續)

#### 4.2 財務風險因素(續)

##### (b) 信貸風險(續)

##### (v) 債務投資之信貸風險

集團持有的債務工具一般僅為於在認可證券交易所掛牌買賣的流通證券，惟為長遠策略性目的而進行者除外。管理層認為，投資信貸評級的上市債券之「低信用風險」是至少由一家主要評級機構(穆迪：Baa3或以上；Standard & Poor: BBB-或以上；Fitch: BBB-或以上)。當其他工具的違約風險較低，且發行者有較強的能力在短期內履行其合約現金流量責任時，則其他工具之信貸風險被認為較低。根據12個月預期信貸虧損法，集團評估該等財務資產的預期信貸虧損屬不重大。因此，並無於財務狀況表日期確認虧損撥備。

集團並無提供任何其他可致使集團承擔信貸風險之擔保。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 4.2 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

###### Previous accounting policy for impairment of trade and other receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor;
- default or delinquency in interest or principal payments;
- probability that the debtor will enter bankruptcy or other financial reorganisation; and
- observable data indicating a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

### 4 財務風險管理(續)

#### 4.2 財務風險因素(續)

##### (b) 信貸風險(續)

###### 貿易及其他應收款項減值之先前會計政策

上一年度，貿易應收款項之減值乃根據已產生虧損模式進行評估。已知不可收回的個別應收款項通過直接削減賬面值的方式撇銷。其他應收款進行集體評估，以釐定是否存在已發生但尚未識別的減值客觀證據。就該等應收款項而言，估計減值虧損於減值的單獨撥備中確認。倘出現以下指標，集團考慮減值證據：

- 債務人遇上重大財務困難；
- 違約或拖欠利息或本金付款；
- 債務人將可能破產或進行其他財務重組；及
- 表明估計未來現金流量的可測量減少之可觀察的資料，例如與違約相關的欠款或經濟狀況的變化。

當預期不可收回額外現金時，已確認減值撥備的應收款項就其撥備進行撇銷。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 4.2 Financial risk factors (Continued)

##### (c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the 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 date of the statement of financial position of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the statement of financial position date) and the earliest date the Group can be required to pay:

### 4 財務風險管理(續)

#### 4.2 財務風險因素(續)

##### (c) 流動資金風險

集團內個別經營實體負責彼等本身的現金管理，包括現金盈餘的短期投資及籌集貸款以彌補預期現金需求，當借貸超過若干預定權限水平時，須獲公司董事局批准方可作實。集團政策為定期監控現時及預期流動資金需求，以保證保持足夠現金儲備及隨時變現的有價證券以及充足之主要金融機構之承諾資金額度，以符合短期及較長期的流動資金需要。

下表詳述集團財務負債於財務狀況表日期的剩餘合約到期日，乃根據合約未折現現金流量(包括使用合約利率計算的利息付款或如屬浮息，按財務狀況表日期的現行利率計算)及集團可能須支付的最早日期為依據：

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 4.2 Financial risk factors (Continued)

##### (c) Liquidity risk (Continued)

Group	集團	Total carrying amount	Total contractual undiscounted	Less than 1 year or on demand	Between 1 to 2 years	Between 2 to 5 years
		賬面總額 HK\$'000 千港元	合約未折現總計 HK\$'000 千港元	1年內或 按要求支付 HK\$'000 千港元	1至2年 HK\$'000 千港元	2至5年 HK\$'000 千港元
As at 31 December 2018	於二零一八年十二月三十一日					
Trade and other payables (excluding other tax payables and salaries payables)	貿易及其他應付款項 (不包括其他應付稅款 及應付薪金)	1,382,522	1,382,522	1,382,522	-	-
Borrowings	借貸	1,519,481	1,561,380	1,469,484	57,925	33,971
Senior notes (Note)	優先票據(附註)	5,029,991	5,551,577	239,344	2,481,596	2,830,637
		<b>7,931,994</b>	<b>8,495,479</b>	<b>3,091,350</b>	<b>2,539,521</b>	<b>2,864,608</b>
As at 31 December 2017	於二零一七年十二月三十一日					
Trade and other payables (excluding other tax payables and salaries payables)	貿易及其他應付款項 (不包括其他應付稅款 及應付薪金)	1,404,899	1,404,899	1,404,899	-	-
Borrowings	借貸	749,258	782,595	715,005	12,240	55,350
Senior notes (Note)	優先票據(附註)	4,970,240	5,771,121	-	2,952,817	2,818,304
		<b>7,124,397</b>	<b>7,958,615</b>	<b>2,119,904</b>	<b>2,965,057</b>	<b>2,873,654</b>

Note:

The Group complied with senior notes covenant and did not trigger the callable terms.

附註：

集團遵守優先票據契約及並無觸發隨時通知償還條款。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 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.

The Group monitors capital on the basis of available cash and cash equivalents and current ratio as shown in and derived from the consolidated statement of financial position. The table below analyses the Group's capital structure:

		2018 二零一八年	2017 二零一七年
Cash and cash equivalents (HK\$'000)	現金及現金等值項目(千港元)	2,508,223	2,290,447
Current ratio (current assets divided by current liabilities)	流動比率(流動資產除以流動負債)	1.02	1.08

The Group's strategy is to maintain the current ratio above 1.00 and sufficient cash and cash equivalents to support the operations and development of its business in the long term.

### 4 財務風險管理(續)

#### 4.3 資本風險管理

集團之資本管理主要目標為保障集團按持續基準經營之能力，以持續為股東帶來回報及為其他權益關涉者帶來利益，並保持最優資本架構以減少資本成本。

集團積極定期檢討及管理資本架構，並經考慮集團之日後資金需求及資本效益、當前及預期盈利能力及預期營運現金流量、預期資本開支及預期策略投資機會而確保優化資本架構及股東回報。為保持或調整資本架構，集團或會調整支付予股東之股息金額，回購公司股份，向股東回報資本，發行新股或銷售資產以減少債務。

集團根據綜合財務狀況表所示及計算所得之可用現金及現金等值項目及流動比率監控資本。下表為集團資本結構之分析：

		2018 二零一八年	2017 二零一七年
Cash and cash equivalents (HK\$'000)	現金及現金等值項目(千港元)	2,508,223	2,290,447
Current ratio (current assets divided by current liabilities)	流動比率(流動資產除以流動負債)	1.02	1.08

集團之策略是將流動比率保持在1.00以上，並且維持足夠之現金及現金等值項目，以支持其業務的長遠營運及發展。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 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.

### 4 財務風險管理(續)

#### 4.4 公平值估計

##### (i) 以公平值列賬之金融工具

下表呈列於財務狀況表日期在香港財務報告準則第7號「金融工具：披露」所界定之公平值三個層次中，以公平值列賬之金融工具之賬面值，而各金融工具之公平值以對該公平值計量屬重大之最低層次輸入數據而整體分類。

所界定之層次如下：

- 第一層次(最高層次)：以可識別金融工具活躍市場所報價格(未經調整)計量公平值。
- 第二層次：以類似金融工具活躍市場報價，或以估值技術(其中所有重大輸入數據乃直接或間接以可觀察數據為本)計量公平值。
- 第三層次(最低層次)：以估值技術(其中任何重大輸入數據乃並非可觀察市場數據為本)計量公平值。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

### 4 財務風險管理(續)

#### 4.4 Fair value estimation (Continued)

#### 4.4 公平值估計(續)

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

##### (i) 以公平值列賬之金融工具(續)

	Level 1 第一層次 HK\$'000 千港元	Level 2 第二層次 HK\$'000 千港元	Level 3 第三層次 HK\$'000 千港元	Total 總計 HK\$'000 千港元
As at 31 December 2018 於二零一八年 十二月三十一日				
Financial assets at FVOCI: 按公平值計入其他全 面收益之 財務資產:				
– Listed equity investments – 上市股本投資	108,946	–	–	108,946
– Listed debt investments – 上市債務投資	329,724	–	–	329,724
– Unlisted debt investments – 非上市債務投資	–	450	–	450
	<b>438,670</b>	<b>450</b>	<b>–</b>	<b>439,120</b>
As at 31 December 2017 於二零一七年 十二月三十一日				
Available-for-sale financial 可供出售財務資產: assets:				
– Listed equity investments – 上市股本投資	136,733	–	–	136,733
– Listed debt investments – 上市債務投資	459,177	–	–	459,177
– Unlisted debt investments – 非上市債務投資	–	450	–	450
Financial assets at FVPL: 按公平值經損益入賬 之財務資產:				
– Listed debt investments – 上市債務投資	20,822	–	–	20,822
– Unlisted debt investments – 非上市債務投資	–	28,020	–	28,020
	<b>616,732</b>	<b>28,470</b>	<b>–</b>	<b>645,202</b>

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

於本年度，第一層次及第二層次之間之工具概無轉撥。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 4.4 Fair value estimation (Continued)

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

**(a) Financial instruments in level 1**

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily Hong Kong and Dow Jones equity and debt investments classified as financial assets at FVOCI (2017: trading securities or available-for-sales).

**(b) Financial instruments in level 2**

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. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

### 4 財務風險管理(續)

#### 4.4 公平值估計(續)

(i) 以公平值列賬之金融工具(續)

**(a) 第一層次金融工具**

於交投活躍市場買賣之金融工具之公平值根據財務狀況表日期之市場報價計算。交投活躍市場乃指可輕易地及定期從交易所、經銷商、經紀人、行業集團、報價服務或規管機構取得報價之市場，而有關報價是在經常進行之真實公平交易之基礎上呈現。集團所持財務資產所用之市場報價為當時買入價。該等工具會被列為第一層次。被列為第一層次之工具主要包括分類為按公平值計入其他全面收益之財務資產之香港及道瓊斯指數證券及債務投資(二零一七年：交易證券或可供出售證券)。

**(b) 第二層次金融工具**

沒有在活躍市場買賣之金融工具(例如場外衍生工具)之公平值利用估值技術釐定。該等估值技術儘量利用可觀察市場數據(如有)，儘量少依賴實體的特定估計。如計量一金融工具之公平值所需的所有重大輸入數據為可觀察數據，則該工具列入第二層次。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 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 financial instruments, including non-current assets carried at cost or amortised cost are not materially different from their fair values as at 31 December 2018 and 2017.

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 borrowings. 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.

### 4 財務風險管理(續)

#### 4.4 公平值估計(續)

(ii) *以非公平值列賬之金融工具之公平值*

集團的金融工具(包括以成本或攤銷成本列賬之非流動資產)之賬面值,與其於二零一八年及二零一七年十二月三十一日之公平值並無重大差別。

集團使用多種方法,並按各財務狀況表日期當時之市況作出假設。長期借貸乃使用同類工具之市場價或交易商之報價。釐定其餘金融工具之公平值時則使用其他技術,例如預計折現現金流量。

賬面值減即期應收賬款及即期應付賬款之減值撥備乃公平值之合理約數。按現行市率計算之估計折現現金流量乃用以釐定該等金融工具之公平值(即第三層次-最低層次)。

### 5 重大會計估計及判斷

集團的管理人員於應用影響根據香港財務報告準則編撰的綜合財務報表所載資產、負債、收入及開支的會計政策時作出假設、估計及判斷。相關假設、估計及判斷乃基於過往經驗及相信於當時情況屬合理的其他因素作出。雖然管理人員會不斷檢討彼等之判斷、估計及假設,但實際結果甚少於估計相同。

有關估計及判斷定期予以評估,並以過往經驗及其他因素為基準,包括對相信於有關情況下屬合理的未來事項的預期。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 5 Critical accounting estimates and judgements (Continued)

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

##### (a) Estimate of impairment of loan and interest receivables from and interest in an associate

The loss allowances for loan and interest receivables from an associate are based on assumptions about default rate and loss given default rate. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 4.2(b).

The Group conducts impairment reviews of the interest in an associate if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investment (a 'loss event') and that loss event has an impact on the estimated future cash flows from the investment that can be reliably estimated. Business valuation of the associate was performed by management to determine the recoverability of the interest in associate after taking into account of marketability and minority interest discount in interest held which involves management estimates and judgements such as commodity price growth, future production profile, and discount rate.

Favourable changes to above assumptions may decrease the impairment amount whereas unfavourable changes may increase the provisions.

#### 5 重大會計估計及判斷(續)

下文所述事項就理解編製集團綜合財務報表所涉估計及判斷而言，尤為重要。

##### (a) 應收一間聯營公司之貸款及利息，以及於一間聯營公司之權益減值評估

應收一間聯營公司之貸款及利息虧損撥備乃基於違約率及違約虧損率之假設而定。於各報告期末，根據集團的過往記錄、現時市場狀況及前瞻性估計，集團於作出該等假設及挑選輸入數據計算減值時使用判斷方法。有關所用主要假設及輸入數據之詳情，請參閱附註4.2(b)。

倘出現客觀證據證明因首次確認資產後發生一宗或多宗事件導致出現減值(「虧損事項」)，而該虧損事項對該項投資的估計未來現金流量構成的影響可合理估計，則集團會對於一間聯營公司之權益進行減值檢討。管理層對聯營公司進行業務估值，以釐定於聯營公司之權益之可回收性，經計及涉及管理層對持有權益之市場及少數權益貼現賬目所作出之估計及判斷，如商品價格上升、未來生產規模及折現率。

上述假設之有利變動或會使減值賬目減少，而不利變動或會使撥備增加。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 5 Critical accounting estimates and judgements (Continued)

#### (b) Estimation of impairment of non-financial assets

The Group tests at least annually whether goodwill has suffered any impairment. Property, plant and equipment and other non-financial assets 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 and crude oil. 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.

The Group relied on experts to assess the geological prospects for the discovery of oil in the oilfield and estimated the value of oil to be produced in the future at a suitable discount rate in order to calculate the present value. For drilling costs and other exploration and evaluation assets, the Group determined whether the related well costs are expensed if it is determined that such economic viability is not attained after performing further feasibility studies. Judgement is required by the Board to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

### 5 重大會計估計及判斷(續)

#### (b) 非財務資產減值估計

集團至少每年測試商譽有否減值。當事件或情況變化顯示賬面值可能無法收回時，物業、廠房及設備以及其他非財務資產亦予以檢討是否可能減值。確定資產是否減值及減值之金額涉及管理層之估計及判斷，例如天然氣及原油之未來價格。然而，減值檢討及計算乃根據與集團之業務計劃一致之假設而作出。若干假設之有利變動或會令集團避免於該等年度對任何資產進行減值，而不利變動或會使資產減值。

集團依賴專家對油田中發現石油的地質評估及按適當折現率估計未來將生產的石油價值，以計算現值。就鑽井成本及其他勘探及評估資產而言，倘確定於進一步進行可行性研究後無法實現經濟可行性，集團釐定有關油井支出是否支銷。董事會須作出判斷以釐定現金流量預測所採納的主要假設，而主要假設變動可重大影響該等現金流量預測，從而影響減值檢討的結果。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 5 Critical accounting estimates and judgements (Continued)

- (c) Estimation of useful lives and residual values of property, plant and equipment under the segment of “sales and distribution of natural gas and other related products”

The Group’s management determines the estimated useful lives and residual values for the Group’s property, plant and equipment in the segment of “Sales and distribution of natural gas and other related products”. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment and land use right 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.

- (d) Estimate of petroleum reserve under the segment of “exploitation and production of crude oil and natural gas”

Estimates of petroleum reserves are key elements in the Group’s investment decision-making process. They are also an important element in testing for impairment. Changes in total proved plus probable petroleum reserves will affect unit-of-production depreciation and depletion recorded in the Group’s consolidated financial statements for property, plant and equipment related to oil and gas production activities. A reduction in proved plus probable reserves will increase depreciation and depletion charges. Petroleum reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

### 5 重大會計估計及判斷(續)

- (c) 「銷售及輸送天然氣及其他相關產品」分部物業、廠房及設備之使用年期及剩餘價值估計

集團管理層釐定集團於「銷售及輸送天然氣及其他相關產品」分部內的物業、廠房及設備之估計可使用年期及剩餘價值。此估計乃基於對類似性質及功能的物業、廠房及設備之實際可使用年期及剩餘價值以及土地使用權的歷史經驗而作出。此估計可因天然氣行業的技術進步及創新而大幅轉變。如剩餘價值與先前估計有差別，管理層將調整折舊費用，或撇銷或撇減技術上過時或被廢棄或出售的非策略性資產。實際剩餘價值可能與估計剩餘價值不同。定期檢討可能導致可折舊年期及剩餘價值轉變，因此於未來期間出現折舊。

- (d) 「開採及生產原油及天然氣」分部石油儲量之估計

石油儲量之估計對集團之投資決策過程至關重要，亦是減值測試之重要因素。探明加概算石油總儲量之變化將影響於集團綜合財務報表就與石油及天然氣生產活動相關之物業、廠房及設備所入賬之單位產量折舊及損耗。探明加概算儲量之減少將增加折舊及損耗金額。石油儲量估計可根據新資料作出向上或向下修訂，例如，來自開發鑽探及生產活動或來自經濟因素之變化，包括產品價格、合同條款或開發計劃等。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 6 Revenue and segment information

The Group's principal activities are the sales and distribution of natural gas, crude oil and other related products and provision of construction and connection services of gas pipelines in the PRC, and the exploitation and production of crude oil and natural gas in Canada. Revenue for the year comprises the following:

Sales and distribution of natural gas and other related products	銷售及輸送天然氣及其他相關產品
Gas pipeline construction and connection services income	燃氣管道建造及接駁服務收入
Revenue from exploitation and production of crude oil and natural gas	開採及生產原油及天然氣所得收入

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, gas pipeline construction and connection; and exploitation and production of crude oil and natural gas.

### 6 營業額及分部資料

集團主要從事銷售及分銷天然氣、原油及其他相關產品及於中國提供燃氣管道建造及接駁服務，以及在加拿大開採及生產原油及天然氣。年內營業額包括以下各項：

	2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Sales and distribution of natural gas and other related products	8,475,905	6,773,775
Gas pipeline construction and connection services income	517,422	524,680
Revenue from exploitation and production of crude oil and natural gas	416,804	352,825
	<b>9,410,131</b>	<b>7,651,280</b>

集團根據定期向執行董事匯報供資源分配及表現評估之內部財務資料識別其經營分部及編製分部資料，並更多側重於銷售天然氣、燃氣管道建造及接駁以及開採及生產原油及天然氣。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 6 Revenue and segment information (Continued)

The Group has presented the following three reportable segments for the year ended 31 December 2018:

- sales and distribution of natural gas and other related products
- gas pipeline construction and connection
- exploitation and production of crude oil and natural gas

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, net, finance income, finance costs, share of losses of investments accounted for using the equity method, reversal of impairment losses on oil and gas properties under property, plant and equipment, written off of exploration and evaluation assets and other unallocated corporate expenses, which is consistent with these in the consolidated financial statements. Meanwhile, the Group does not allocate assets and liabilities to its segments and report the sales from external customers by geographical market, as the executive directors do not use these information to allocate resources to or evaluate the performance of operating segment. Therefore, the Group does not report a measure of segment assets and liabilities for each reportable segment and a measure of sales by geographical market.

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 2018 and 2017 is set out below.

### 6 營業額及分部資料(續)

於截至二零一八年十二月三十一日止年度，集團已呈列以下三個可報告經營分部：

- 銷售及輸送天然氣及其他相關產品
- 燃氣管道建造及接駁
- 開採及生產原油及天然氣

沒有彙總經營分部以組成上述報告分部。

執行董事根據除稅前溢利就業務分部之表現進行評估，而並無分配其他收益淨額、財務收入、財務費用、分佔使用權益法入賬之投資的虧損、物業、廠房及設備項下油氣資產減值虧損撥回撥、勘探及評估資產沖銷、以及其他未分配企業開支，與綜合財務報表所述者一致。與此同時，集團並無分配資產及負債予其分部及呈報來自地區市場外部客戶的銷售額，因為執行董事並無使用該等資料分配資源或評估其經營分部表現。因此，集團並無就各可報告分部呈報分部資產及分部負債之計量及按地區市場銷售額之計量。

截至二零一八年及二零一七年十二月三十一日止年度，向執行董事提供以用作資源分配及分部表現評估有關集團報告分部之資料載列如下。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 6 Revenue and segment information (Continued)

### 6 營業額及分部資料(續)

For the year ended 31 December 2018:

截至二零一八年十二月三十一日止年度：

		Sales and distribution of natural gas and other related products 銷售及 輸送天然氣及 其他相關產品 HK\$'000 千港元	Gas pipeline construction and connection 燃氣管道建造 及接駁 HK\$'000 千港元	Exploitation and production of crude oil and natural gas 開採及 生產原油 及天然氣 HK\$'000 千港元	Group 集團 HK\$'000 千港元
<b>Segment revenue and results</b>	<b>分部收入及業績</b>				
Segment revenue	分部收入				
Recognised at a point in time	於某一時間點確認	8,475,905	-	416,804	8,892,709
Recognised over time	於一段時間內確認	-	517,422	-	517,422
Sales to external customers	外部客戶銷售額	8,475,905	517,422	416,804	9,410,131
Segment results	分部業績	<u>774,131</u>	<u>258,020</u>	<u>60,057</u>	1,092,208
Finance income	財務收入				146,818
Other gains, net	其他收益·淨額				18,936
Finance costs	財務費用				(206,712)
Written off of exploration and evaluation assets	勘探及評估資產沖銷	-	-	(5,651)	(5,651)
Share of losses of investments accounted for using the equity method	分佔使用權益法入賬 之投資的虧損				(3,300)
Unallocated corporate expenses	未分配企業開支				(113,773)
Profit before taxation	除稅前溢利				928,526
Taxation	稅項				(250,301)
Profit for the year	年內溢利				<u>678,225</u>

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 6 Revenue and segment information (Continued)

### 6 營業額及分部資料(續)

For the year ended 31 December 2017:

截至二零一七年十二月三十一日止年度：

		Sales and distribution of natural gas and other related products 銷售及 輸送天然氣及 其他相關產品 HK\$'000 千港元	Gas pipeline construction and connection 燃氣管道建造 及接駁 HK\$'000 千港元	Exploitation and production of crude oil and natural gas 開採及 生產原油 及天然氣 HK\$'000 千港元	Group 集團 HK\$'000 千港元
<b>Segment revenue and results</b>	<b>分部收入及業績</b>				
Sales to external customers	外部客戶銷售額	6,773,775	524,680	352,825	7,651,280
Segment results	分部業績	<u>664,093</u>	<u>242,982</u>	<u>76,842</u>	983,917
Finance income	財務收入				101,741
Other gains, net	其他收益·淨額				22,901
Finance costs	財務費用				(203,677)
Reversal of impairment losses on oil and gas properties under property, plant and equipment	物業、廠房及設備項下油氣資產 減值虧損撥回	-	-	4,402	4,402
Written off of exploration and evaluation assets	勘探及評估資產沖銷	-	-	(2,357)	(2,357)
Share of losses of investments accounted for using the equity method	分佔使用權益法入賬之 投資的虧損				(2,356)
Unallocated corporate expenses	未分配企業開支				(93,105)
Profit before taxation	除稅前溢利				811,466
Taxation	稅項				(188,527)
Profit for the year	年內溢利				<u>622,939</u>

No external customers of the Group contributed over 10.0% of the Group's revenue for the years ended 31 December 2018 and 2017.

截至二零一八年及二零一七年十二月三十一日止年度，集團沒有外部客戶於集團之收入中貢獻超過10.0%。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 6 Revenue and segment information (Continued)

### 6 營業額及分部資料(續)

Analysis of the Group's assets by geographical market for the years ended 31 December 2018 and 2017 is set out below:

截至二零一八年及二零一七年十二月三十一日止年度，集團按地區市場劃分之資產之分析載列如下：

		2018 二零一八年		2017 二零一七年	
		Total assets 總資產 HK\$'000 千港元	Additions to non-current assets 添置非流動資產 HK\$'000 千港元	Total assets 總資產 HK\$'000 千港元	Additions to non-current assets 添置非流動資產 HK\$'000 千港元
Hong Kong	香港	145,069	-	137,351	-
Mainland China	中國內地	12,692,966	835,760	12,018,750	1,020,397
Canada	加拿大	2,430,088	321,559	2,419,335	232,466
<b>Total</b>	<b>合計</b>	<b>15,268,123</b>	<b>1,157,319</b>	14,575,436	<b>1,252,863</b>
Unallocated	未分配				
Investments accounted for using the equity method	使用權益法入賬之投資	312,754		321,167	
Deferred tax assets	遞延稅項資產	7,646		4,796	
Financial assets through other comprehensive income	計入其他全面收益之財務資產	439,120		-	
Available-for-sale financial assets	可供出售財務資產	-		596,360	
Financial assets at fair value through profit and loss	按公平值經損益入賬之財務資產	-		48,842	
<b>Total assets</b>	<b>總資產</b>	<b>16,027,643</b>		15,546,601	

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 7 Other income

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Government subsidies	政府補貼	18,885	14,737
Service income	服務收入	5,853	5,733
Dividend income	股息收入	1,256	3,056
Rental income	租金收入	1,738	1,822
Others	其他	2,337	4,914
		<b>30,069</b>	<b>30,262</b>

### 7 其他收入

### 8 Other gains, net

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Fair value gains on financial assets at fair value through profit or loss	按公平值經損益入賬的財務資產的公平值收益	-	1,394
Gains on disposals of debt investments at fair value through other comprehensive income	出售按公平值計入其他全面收益之債務投資收益	2,097	-
Gains on disposals of available-for-sale assets	出售可供出售資產收益	-	17,748
Gain on disposal of an associate (Note 34)	出售一間聯營公司收益(附註34)	-	3,759
Gain on bargain purchase (Note 33)	議價收購收益(附註33)	12,221	-
Gain on disposal of a land use right	出售土地使用權收益	4,618	-
		<b>18,936</b>	<b>22,901</b>

### 8 其他收益，淨額

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 9 Operating profit

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

### 9 經營溢利

經營溢利已扣除／(計入)以下各項：

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Employee benefit expenses (Note 11)	僱員福利開支(附註11)	384,358	333,359
Minimum lease payments under operating leases for leasehold land and buildings	租賃土地及樓宇的最低經營租賃付款	13,600	13,494
Cost of inventories recognised as expense	確認為開支的存貨成本		
– Purchase of inventories	– 購買存貨	6,982,544	5,415,724
– Change of inventories during the year	– 年內存貨變動	38,340	53,863
Auditor's remuneration	核數師酬金	2,300	2,300
Depreciation and depletion of property, plant and equipment (Note 16)	物業、廠房及設備折舊及損耗(附註16)	470,165	428,491
Amortisation of land use rights (Note 18)	土地使用權攤銷(附註18)	8,769	8,503
Amortisation of intangible assets (Note 19)	無形資產攤銷(附註19)	3,192	2,521
Losses on disposals of property, plant and equipment	出售物業、廠房及設備的虧損	872	1,652
Net exchange gains	匯兌收益淨額	(527)	(28)
Write off of exploration and evaluation assets (Note 17)	勘探及評估資產沖銷(附註17)	5,651	2,357

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 10 Finance income and costs

### 10 財務收入及費用

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Finance income from:	財務收入來自：		
Interest income on bank deposits	銀行存款的利息收入	50,133	30,218
Interest income on debt investments at FVOCI	按公平值計入其他全面收益之債務投資的利息收入	37,076	29,704
Loan to an associate (Note 23(d))	貸款予一間聯營公司(附註23(d))	58,657	40,898
Loans to third parties	貸款予第三方	952	921
		<b>146,818</b>	<b>101,741</b>
Finance costs from:	財務費用來自：		
Interest expense on:	利息費用：		
Bank borrowings	銀行借貸	(56,466)	(23,578)
Other borrowings	其他借貸	(1,351)	(2,494)
Senior notes	優先票據	(246,942)	(274,968)
Accretion of assets retirement obligation (Note 31)	資產報廢承擔添加(附註31)	(2,970)	(2,611)
Less: Amounts capitalised (Note 16(iii))	減：資本化金額(附註16(iii))	101,017	99,974
		<b>(206,712)</b>	<b>(203,677)</b>
Net finance costs	財務費用淨額	<b>(59,894)</b>	<b>(101,936)</b>

### 11 Employee benefit expenses, including directors' emoluments

### 11 僱員福利開支，包括董事酬金

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Salaries, wages and bonuses	薪金、工資及獎金	322,496	293,359
Pension costs — defined contribution plans	退休金成本 - 界定供款計劃	40,593	35,256
Share option	購股權	3,953	3,753
Share awards	股份獎勵	17,316	991
		<b>384,358</b>	<b>333,359</b>

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 11 Employee benefit expenses, including directors' emoluments (Continued)

#### (a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 1 (2017: 1) director whose emolument is reflected in the analysis presented in Note 12(a). The emoluments paid or payable to the remaining 4 (2017: 4) individuals during the year are as follows:

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Salaries, allowances and benefits in kind	薪金、津貼及實物利益	24,769	17,881
Retirement benefits scheme contributions	退休福利計劃供款	18	18
		<b>24,787</b>	<b>17,899</b>

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

		Number of employees 僱員人數	
		2018 二零一八年	2017 二零一七年
HK\$4,000,001 to HK\$5,000,000	4,000,001港元至5,000,000港元	-	4
HK\$5,000,001 to HK\$6,000,000	5,000,001港元至6,000,000港元	4	-

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 2018 and 2017.

### 11 僱員福利開支，包括董事酬金(續)

#### (a) 五名最高薪酬人士

集團年內五名最高酬金之人士包括1名董事(二零一七年：1名)，其酬金已載於附註12(a)呈列的分析。年內已付或應付予其餘4名(二零一七年：4名)人士的酬金如下：

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Salaries, allowances and benefits in kind	薪金、津貼及實物利益	24,769	17,881
Retirement benefits scheme contributions	退休福利計劃供款	18	18
		<b>24,787</b>	<b>17,899</b>

屬以下酬金範圍之僱員人數如下：

		Number of employees 僱員人數	
		2018 二零一八年	2017 二零一七年
HK\$4,000,001 to HK\$5,000,000	4,000,001港元至5,000,000港元	-	4
HK\$5,000,001 to HK\$6,000,000	5,000,001港元至6,000,000港元	4	-

截至二零一八年及二零一七年十二月三十一日止財政年度，集團並無支付或應付任何酬金予董事及上述最高薪酬之僱員，作為招攬彼等加盟集團或作為彼等離職之補償。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 11 Employee benefit expenses, including directors' emoluments (Continued)

#### (b) Senior management's emoluments

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

HK\$0 to HK\$1,000,000	0港元至1,000,000港元
HK\$1,000,001 to HK\$2,000,000	1,000,001港元至2,000,000港元
HK\$2,000,001 to HK\$3,000,000	2,000,001港元至3,000,000港元
HK\$3,000,001 to HK\$4,000,000	3,000,001港元至4,000,000港元
HK\$4,000,001 to HK\$5,000,000	4,000,001港元至5,000,000港元
HK\$5,000,001 to HK\$6,000,000	5,000,001港元至6,000,000港元

### 11 僱員福利開支，包括董事酬金 (續)

#### (b) 高級管理層成員薪酬

屬以下酬金範圍的已付高級管理層成員薪酬詳情：

#### Number of employees 僱員人數

2018 二零一八年	2017 二零一七年
–	7
8	2
1	–
2	2
–	6
5	–

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 12 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules)

### 12 董事利益及權益 (香港公司條例 (第622章) 第383條、公司 (披露董事利益資料) 規則 (第622G章) 及香港上市規則要求披露)

#### (a) Directors' emoluments

Emoluments paid or receivable in respect of person's services as a director or services in connection with the management of the affairs, whether of the Company or its subsidiary undertakings:

#### (a) 董事酬金

已付出任公司或其附屬公司董事或提供與管理事務有關的服務之人士之酬金或其應收酬金如下：

		Fees	Salaries, allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Total
		HK\$'000 千港元	薪金、津貼及實物利益 HK\$'000 千港元	僱主對退休福利計劃的供款 HK\$'000 千港元	總額 HK\$'000 千港元
<b>Executive directors:</b>	<b>執行董事：</b>				
Xu Tie-liang (Chief Executive Officer)	許鈺良 (行政總裁)	120	7,211	18	7,349
Cheung Shing (resigned on March 27, 2018)	張成 (於二零一八年三月二十七日辭任)	54	-	-	54
Guan Yijun	關懿君	120	1,170	18	1,308
Zhu Yuan	朱遠	54	-	-	54
Liu Chunsun	劉春筓	67	780	-	847
<b>Independent non-executive directors:</b>	<b>獨立非執行董事：</b>				
Li Yun-long	李雲龍	120	-	-	120
Wang Guang-tian	王廣田	120	-	-	120
Yang Jie	楊傑	120	-	-	120
<b>Total</b>	<b>總計</b>	<b>775</b>	<b>9,161</b>	<b>36</b>	<b>9,972</b>

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 12 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (Continued)

##### (a) Directors' emoluments (Continued)

Details of remuneration of directors for the year ended 31 December 2017 were as follows:

	Fees	Salaries, allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Total
	袍金 HK\$'000 千港元	薪金、津貼及實物利益 HK\$'000 千港元	僱主對退休福利計劃的供款 HK\$'000 千港元	總額 HK\$'000 千港元
<b>Executive directors:</b>				
Xu Tie-liang (Chief Executive Officer)	120	10,348	18	10,486
Cheung Shing (resigned on March 27, 2018)	120	-	-	120
Guan Yijun	120	1,170	18	1,308
Zhu Yuan	120	-	-	120
<b>Independent non-executive directors:</b>				
Shi Xun-zhi (resigned on May 18, 2017)	45	-	-	45
Li Yun-long	120	-	-	120
Wang Guang-tian	120	-	-	120
Yang Jie (appointed on May 18, 2017)	75	-	-	75
<b>Total</b>	<b>840</b>	<b>11,518</b>	<b>36</b>	<b>12,394</b>

No directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors of the Company as an accepting office as director or as a compensation for loss of office as director.

#### 12 董事利益及權益(香港公司條例(第622章)第383條、公司(披露董事利益資料)規則(第622G章)及香港上市規則要求披露)(續)

##### (a) 董事酬金(續)

截至二零一七年十二月三十一日止年度之董事酬金詳情如下：

	Fees	Salaries, allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Total
	袍金 HK\$'000 千港元	薪金、津貼及實物利益 HK\$'000 千港元	僱主對退休福利計劃的供款 HK\$'000 千港元	總額 HK\$'000 千港元
<b>Executive directors:</b>				
Xu Tie-liang (Chief Executive Officer)	120	10,348	18	10,486
Cheung Shing (resigned on March 27, 2018)	120	-	-	120
Guan Yijun	120	1,170	18	1,308
Zhu Yuan	120	-	-	120
<b>Independent non-executive directors:</b>				
Shi Xun-zhi (resigned on May 18, 2017)	45	-	-	45
Li Yun-long	120	-	-	120
Wang Guang-tian	120	-	-	120
Yang Jie (appointed on May 18, 2017)	75	-	-	75
<b>Total</b>	<b>840</b>	<b>11,518</b>	<b>36</b>	<b>12,394</b>

概無公司董事放棄任何酬金，集團亦無向任何公司董事支付酬金，作為接受董事職位之獎勵或離任董事職位之補償。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

- 12 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (Continued)**
- (b) Directors' retirement benefits**
- No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2017: Nil).
- (c) Directors' termination benefits**
- No payment was made to directors as compensation for the early termination of the appointment during the year (2017: Nil).
- (d) Consideration provided to third parties for making available directors' services**
- No payment was made to the former employer of directors for making available the services of them as a director of the Company (2017: Nil).
- (e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors**
- There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year (2017: Nil).
- (f) Directors' material interests in transactions, arrangements or contracts**
- No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: Nil).
- 12 董事利益及權益 (香港公司條例 (第622章) 第383條、公司 (披露董事利益資料) 規則 (第622G章) 及香港上市規則要求披露) (續)**
- (b) 董事退休福利**
- 董事並無就其有關管理公司或其附屬公司事務之其他服務獲支付或應收退休福利 (二零一七年：無)。
- (c) 董事離職福利**
- 年內，並無向董事作出提前終止任命的補償 (二零一七年：無)。
- (d) 就獲取董事服務向第三方支付代價**
- 並無就獲取董事作為公司董事提供的服務而向其前僱主作出付款 (二零一七年：無)。
- (e) 有關以董事、該等董事的受控制法團及關連實體為受益人的貸款、準貸款及其他交易的資料**
- 年內，概無以董事、或該等董事之受控制法團及關連實體為受益人之貸款、準貸款及其他交易 (二零一七年：無)。
- (f) 董事於交易、安排或合約的重大權益**
- 公司概無於年終或年內任何時間訂有任何公司董事於當中直接或間接擁有任何重大權益且與集團業務有關之重大交易、安排及合約 (二零一七年：無)。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 13 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 (2017: Nil).

Pursuant to the relevant PRC corporate income tax rules and regulations, withholding tax is imposed on dividends declared in respect of profits earned by the Company's PRC subsidiaries from 1 January 2008 onwards at 10% (2017: 10%). Certain entities of the Group with Hong Kong business and directly owns at least 25% of the capital of the PRC subsidiaries are entitled to the lower withholding tax rate at 5% (2017: 5%).

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% (2017: 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% (2017: 15%).

Canada income tax has been provided at the rate of 27% on the estimated assessable profit for the year (2017: 27%), which represented the tax rate in Alberta, Canada and the Canada's federal tax rate of 12% (2017: 12%) and 15% (2017: 15%) respectively.

Taxation on other overseas profits has been calculated on the estimated assessable profit for the year at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Current tax:	當期稅項：		
PRC corporate income tax	中國企業所得稅	224,985	163,592
Under provision in prior years	過往年度撥備不足	3,743	3,957
Deferred tax (Note 30)	遞延稅項(附註30)	228,728	167,549
		21,573	20,978
Taxation	稅項	<b>250,301</b>	<b>188,527</b>

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2018 (2017: Nil).

#### 13 稅項

由於集團於本年度並無賺取任何須繳納香港利得稅之應課稅溢利，故並無為香港利得稅作撥備(二零一七年：無)。

根據相關中國企業所得稅法及條例，自二零一八年一月一日起，就公司中國附屬公司所賺取之溢利申報股息按10%(二零一七年：10%)之稅率繳納預扣稅。若干擁有香港業務且直接擁有中國附屬公司至少25%股本之集團實體享有5%(二零一七年：5%)之較低預扣稅。

根據相關中國企業所得稅法、條例及實施細則，於中國內地的附屬公司按25%(二零一七年：25%)之稅率繳納中國企業所得稅。若干附屬公司享有稅務優惠及寬免，據此，該等附屬公司之溢利以優惠所得稅稅率15%(二零一七年：15%)納稅。

年內加拿大所得稅乃按27%估計應課稅溢利計提(二零一七年：27%)，即阿爾伯塔省及加拿大聯邦稅率分別為12%(二零一七年：12%)及15%(二零一七年：15%)。

其他海外溢利乃以集團經營所在司法權區適用現行稅率按年內估計應課稅溢利計算稅項。

截至二零一八年十二月三十一日止年度，並無有關其他全面收益組成部分之稅務影響(二零一七年：無)。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 13 Taxation (Continued)

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

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Profit before taxation	除稅前溢利	928,526	811,466
Tax calculated at the applicable rates in the tax jurisdictions concerned	按有關稅務司法權區之適用稅率計算的稅項	282,266	228,038
Tax effect of income not subject to taxation	毋須課稅收入的稅務影響	(27,180)	(36,092)
Tax effect of expenses not deductible for tax purpose	不可減免開支的稅務影響	16,064	13,172
Tax effect of tax concessions	稅收減免的稅務影響	(34,296)	(27,327)
Unrecognised tax losses	未確認稅項虧損	7,500	6,779
Utilisation of unrecognised tax losses	動用未確認稅項虧損	(5,725)	-
Withholding tax on dividend income	股息收入預扣稅	7,929	-
Under provision in prior years	過往年度撥備不足	3,743	3,957
Taxation	稅項	<b>250,301</b>	<b>188,527</b>

The weighted average tax rate is 30.4% (2017: 28.1%). The increase is caused by change in the profitability of the Group's subsidiaries in the respective jurisdictions, especially due to the increase in the loss before taxation for entities with zero tax rate in certain tax jurisdictions.

### 13 稅項(續)

集團除稅前溢利之稅項與使用適用集團溢利之加權平均稅率產生之理論金額差異如下：

加權平均稅率為30.4%(二零一七年：28.1%)。該增加乃由集團於各司法權區之附屬公司之盈利能力變動，尤其是若干稅收司法權區稅率為零之企業實體的除稅前虧損增加所致。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 14 Dividend

Proposed final dividend of HK cents 0.4 擬派末期股息每股普通股0.4港仙  
(2017: HK cents 0.35) per ordinary share (二零一七年: 0.35港仙)

A final dividend relating to the year ended 31 December 2017 amounted to HK\$20,390,000 was fully paid on 6 July 2018.

The Board proposed a final dividend of HK cents 0.4 (2017: HK cents 0.35) per ordinary share for the year ended 31 December 2018 on 27 March 2019 amounting to a total of approximately HK\$23,356,000. This proposed final dividend is not reflected as a dividend payable as of 31 December 2018, but will be recorded as a distribution of contributed surplus for the year ending 31 December 2019.

### 15 Earnings per share

#### (a) Basic

The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK\$281,904,000 (2017: HK\$250,467,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the year of approximately 4,976,719,000 shares (2017: 5,148,640,000 shares).

### 14 股息

2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
<b>23,356</b>	<b>20,390</b>

截至二零一七年十二月三十一日止年度之末期股息20,390,000港元已於二零一八年七月六日悉數支付。

董事局建議於二零一九年三月二十七日派付截至二零一八年十二月三十一日止年度之末期股息每股普通股0.4港仙(二零一七年: 0.35港仙)，總額約為23,356,000港元。建議分派末期股息並未反映為於二零一八年十二月三十一日之應付股息，但將於截至二零一九年十二月三十一日止年度入賬作為以實繳盈餘賬派付。

### 15 每股盈利

#### (a) 基本

於計算每股基本盈利時乃基於公司擁有人應佔集團溢利約281,904,000港元(二零一七年: 250,467,000港元)及年內已發行普通股加權平均數減去年內根據股份獎勵計劃所持股份約4,976,719,000股(二零一七年: 5,148,640,000股)。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 15 Earnings per share (Continued)

#### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: share options and shares held under the share award scheme during the year. For the share options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and future service cost.

### 15 每股盈利(續)

#### (b) 攤薄

每股攤薄盈利乃在假設所有具攤薄潛力之普通股已轉換之情況下，計算經調整已發行普通股之加權平均數。公司有兩類具攤薄潛力之普通股：購股權及年內為股份獎勵計劃而持有的股份。就購股權而言，有關計算是根據所有附於未行使購股權之認購權之貨幣價值按公平值(以公司股份之全年平均市場股價計算)購入之股份數目及未來服務成本來計算。

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Profit attributable to owners of the Company	公司擁有人應佔溢利	281,904	250,467
Weighted average number of ordinary shares in issue less shares held under the share award scheme during the year (thousands)	年內已發行普通股減股份獎勵計劃項下所持股份後之加權平均數(千股)	4,976,719	5,148,640
Adjustment for share options and awarded shares (thousands)	購股權及獎勵股份調整(千股)	20,933	7,595
Weighted average number of ordinary shares for diluted earning per share (thousands)	每股攤薄盈利普通股加權平均數(千股)	<b>4,997,652</b>	<b>5,156,235</b>

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 16 Property, plant and equipment

### 16 物業、廠房及設備

		Buildings	Plant and machinery	Oil and gas properties	Pipelines	(Note (i)) Others (附註(i))	(Note (iii)) Construction in progress (附註(iii))	Total
		樓宇 HK\$'000 千港元	廠房及機器 HK\$'000 千港元	油氣資產 HK\$'000 千港元	管道 HK\$'000 千港元	其他 HK\$'000 千港元	在建工程 HK\$'000 千港元	總計 HK\$'000 千港元
<b>As at 1 January 2017</b>	<b>於二零一七年一月一日</b>							
Cost	成本	741,328	921,251	3,407,931	2,559,323	333,958	1,323,504	9,287,295
Accumulated depreciation and depletion	累計折舊及損耗	(143,551)	(311,666)	(1,443,229)	(566,396)	(197,461)	–	(2,662,303)
Net book value	賬面淨值	597,777	609,585	1,964,702	1,992,927	136,497	1,323,504	6,624,992
<b>Year ended 31 December 2017</b>	<b>截至二零一七年十二月三十一日止年度</b>							
At 1 January 2017	於二零一七年一月一日	597,777	609,585	1,964,702	1,992,927	136,497	1,323,504	6,624,992
Currency realignment	貨幣調整	14,202	11,733	97,946	157,558	33,824	74,233	389,496
Additions	添置	12,515	26,136	225,676	22,065	14,851	833,944	1,135,187
Transfers	轉撥	60,587	109,295	–	566,996	2,989	(739,867)	–
Transfer from exploration and evaluation assets (Note 17)	轉撥自勘探及評估資產 (附註17)	–	–	14,320	–	–	–	14,320
Disposals/written-off	出售/沖銷	(832)	(1,923)	–	(2,915)	(9,017)	–	(14,687)
Depreciation and depletion for the year (Note (ii))	年內折舊及損耗 (附註(ii))	(29,372)	(74,382)	(169,524)	(123,299)	(31,914)	–	(428,491)
Reversal of impairment losses (Note (iv))	減值虧損撥回 (附註(iv))	–	–	4,402	–	–	–	4,402
At 31 December 2017	於二零一七年十二月三十一日	654,877	680,444	2,137,522	2,613,332	147,230	1,491,814	7,725,219
<b>As at 31 December 2017</b>	<b>於二零一七年十二月三十一日</b>							
Cost	成本	836,175	1,095,468	3,830,865	3,378,691	397,775	1,491,814	11,030,788
Accumulated depreciation, depletion and impairment	累計折舊、損耗及減值	(181,298)	(415,024)	(1,693,343)	(765,359)	(250,545)	–	(3,305,569)
Net book value	賬面淨值	654,877	680,444	2,137,522	2,613,332	147,230	1,491,814	7,725,219

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 16 Property, plant and equipment (Continued)

### 16 物業、廠房及設備(續)

		Buildings	Plant and machinery	Oil and gas properties	Pipelines	(Note (i)) Others (附註(i))	(Note (iii)) Construction in progress (附註(iii))	Total
		樓宇	廠房及機器	油氣資產	管道	其他	在建工程	總計
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		千港元	千港元	千港元	千港元	千港元	千港元	千港元
<b>Year ended 31 December 2018</b>	<b>截至二零一八年十二月三十一日止年度</b>							
At 1 January 2018	於二零一八年一月一日	654,877	680,444	2,137,522	2,613,332	147,230	1,491,814	7,725,219
Currency realignment	貨幣調整	(39,766)	(37,655)	(111,284)	(169,680)	(8,299)	(96,166)	(462,850)
Acquisition of business (Note 33)	收購業務(附註33)	-	-	64,971	-	-	-	64,971
Additions	添置	2,612	6,122	264,346	11,911	25,664	743,214	1,053,869
Transfers	轉撥	54,575	29,506	-	499,304	1,318	(584,703)	-
Transfer from exploration and evaluation assets (Note 17)	轉撥自勘探及評估資產(附註17)	-	-	21,268	-	-	-	21,268
Disposals/written-off	出售/沖銷	-	(1,337)	-	(5,636)	(617)	-	(7,590)
Depreciation and depletion for the year (Note (ii))	年內折舊及損耗(附註(ii))	(26,151)	(74,692)	(173,575)	(163,741)	(32,006)	-	(470,165)
At 31 December 2018	於二零一八年十二月三十一日	646,147	602,388	2,203,248	2,785,490	133,290	1,554,159	7,924,722
<b>As at 31 December 2018</b>	<b>於二零一八年十二月三十一日</b>							
Cost	成本	841,702	1,062,561	3,980,739	3,661,474	386,037	1,554,159	11,486,672
Accumulated depreciation, depletion and impairment	累計折舊、損耗及減值	(195,555)	(460,173)	(1,777,491)	(875,984)	(252,747)	-	(3,561,950)
Net book value	賬面淨值	646,147	602,388	2,203,248	2,785,490	133,290	1,554,159	7,924,722

Notes:

- (i) Others mainly represent motor vehicles, furniture, fixtures and equipment, and tool and moulds with net book values amounting to approximately HK\$34,684,000 (2017: HK\$42,085,000), HK\$31,741,000 (2017: HK\$38,764,000) and HK\$66,865,000 (2017: HK\$66,381,000) respectively.
- (ii) Depreciation and depletion of approximately HK\$453,034,000 (2017: HK\$406,998,000), HK\$1,183,000 (2018: HK\$1,253,000) and HK\$15,948,000 (2017: HK\$20,240,000) have been charged in cost of sales, selling and distribution costs and administrative expenses respectively.

附註：

- (i) 其他主要指汽車、傢俬、裝置及設備及工具以及模具，賬面淨值分別約為34,684,000港元(二零一七年：42,085,000港元)、31,741,000港元(二零一七年：38,764,000港元)及66,865,000港元(二零一七年：66,381,000港元)。
- (ii) 折舊及損耗約453,034,000港元(二零一七年：406,998,000港元)、1,183,000港元(二零一八年：1,253,000港元)及15,948,000港元(二零一七年：20,240,000港元)分別於銷售成本、銷售及輸送成本及行政開支中扣除。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 16 Property, plant and equipment (Continued)

Notes: (Continued)

- (iii) During the year, the Group has capitalised borrowing costs amounting to HK\$101,017,000 (2017: HK\$99,974,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 5.3% (2017: 5.4%).
- (iv) The recoverable amount of oil and gas properties is determined at the value-in-use using a discounted cash flow method and is assessed at the Cash Generating Units ("CGUs") level within the segment of "exploitation and production of crude oil and natural gas".

The Group regularly assesses market commodity prices, costs to carry out planned drilling programs, drilling results, and reservoir performance to determine if there are any indicators of impairment of the Group's assets.

The fair value measurement of the Group's oil and gas properties is designated Level 3 on the fair value hierarchy.

The key assumptions for the calculation are those regarding the discount rates and expected changes in future oil prices. The expected future oil prices for the next five years ranged from US\$58.6 to US\$72.8 per barrel (2017: US\$57.5 to US\$71.2 per barrel). Forecast benchmark crude oil price assumptions tended to be stable because short-term increases or decreases in prices were not considered indicative of long-term price levels, but were nonetheless subject to change. The Group used a pre-tax discount rates ranging from 8% to 20% (2017: 8% to 20%) to discount future cash flows from the Group's CGU(s). These rates differed based upon classification of reserve type, commodity type, timing of future development expenditures and operating burdens.

As at 31 December 2018, a one percent increase in the pre-tax discount rate would result in an impairment of approximately HK\$110,700,000 (2017: HK\$115,400,000), while a five percent decrease in the forecast operating cash flows would result in an impairment of approximately \$98,600,000 (2017: HK\$104,700,000).

### 16 物業、廠房及設備(續)

附註：(續)

- (iii) 年內，集團就合資格資產資本化借貸成本101,017,000港元(二零一七年：99,974,000港元)。借貸成本按其一般借貸的加權平均比率5.3%(二零一七年：5.4%)資本化。
- (iv) 油氣資產的可收回金額採用貼現現金流量法按使用價值釐定，並在「開採及生產原油及天然氣業務」分部的現金產生單位(「現金產生單位」)層級進行評估。

為確定集團的資產是否存在任何減值跡象，集團定期對市場商品價格、規劃鑽井程序、鑽井結果及儲集性能進行評估。

集團的油氣資產的公平值計量指定為公平值層次的第三層。

該計算方法的主要假設為折現率及日後油價預期變化。未來五年的日後預期油價介乎每桶油當量58.6美元至72.8美元(二零一七年：每桶油當量57.5美元至71.2美元)。預測基準原油價趨於穩定，由於價格短期上升或下跌並不視為長期價格水平的指標，但仍會變動。集團使用介乎8%至20%(二零一七年：8%至20%)的除稅前折現率折現集團現金產生單位的未來現金流量。該等利率基於儲量類型、商品類型、未來開發支出的時間及經營負擔而變化。

於二零一八年十二月三十一日，除稅前折現率減少百分之一將會導致減值約110,700,000港元(二零一七年：115,400,000港元)，而預測經營現金流量下降百分之五將會導致減值約98,600,000港元(二零一七年：104,700,000港元)。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 17 Exploration and evaluation assets

### 17 勘探及評估資產

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Cost	成本		
At 1 January	於一月一日	215,189	213,548
Currency realignment	貨幣調整	(9,669)	11,528
Additions	添置	4,380	6,790
Written off (Note 9)	沖銷(附註9)	(5,651)	(2,357)
Transfer to oil and gas properties under property, plant and equipment (Note 16)	轉撥至物業、廠房及設備項下油氣資產(附註16)	(21,268)	(14,320)
At 31 December	於十二月三十一日	<b>182,981</b>	<b>215,189</b>

Exploration and evaluation assets represent the Group's costs of acquiring licenses and interests in undeveloped lands in West Central Alberta, Canada, which are pending the determination of proven or probable oil and gas reserves. The costs are accumulated in cost centers by well, field, or exploration area pending determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting mineral resource is considered to be determined when proven reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven reserves have been discovered.

勘探及評估資產指集團於加拿大阿爾伯塔省中西部未開發土地的許可證及權益收購成本，須待釐定已探明及待探明油氣儲量。有關成本透過油井、油田或勘探區域於成本中心累積，待釐定技術及商業可行性。

當釐定存在探明儲量時，開採礦產資源的技術及商業可行性被認為已確定。至少每年對各勘探許可證或油田進行檢討，確保是否已發現探明儲量。

### 18 Land use rights

### 18 土地使用權

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Net book value	賬面淨值		
At 1 January	於一月一日	456,458	393,344
Currency realignment	貨幣調整	(25,426)	27,211
Additions	添置	3,886	44,406
Disposals	出售	(10,915)	-
Amortisation for the year (Note 9)	年內攤銷(附註9)	(8,769)	(8,503)
At 31 December	於十二月三十一日	<b>415,234</b>	<b>456,458</b>

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 19 Intangible assets

#### 19 無形資產

		Goodwill 商譽 HK\$'000 千港元	Other intangible assets 其他無形資產 HK\$'000 千港元	Total 總計 HK\$'000 千港元
<b>As at 1 January 2017</b>	於二零一七年一月一日			
Cost	成本	971,746	38,958	1,010,704
Accumulated amortisation	累計攤銷	-	(8,413)	(8,413)
Net book value	賬面淨值	<u>971,746</u>	<u>30,545</u>	<u>1,002,291</u>
<b>Year ended 31 December 2017</b>	截至二零一七年十二月三十一日止年度			
At 1 January 2017	於二零一七年一月一日	971,746	30,545	1,002,291
Currency realignment	貨幣調整	25,753	2,105	27,858
Additions	添置	-	7,696	7,696
Amortisation for the year (Note 9)	年內攤銷(附註9)	-	(2,521)	(2,521)
At 31 December 2017	於二零一七年十二月三十一日	<u>997,499</u>	<u>37,825</u>	<u>1,035,324</u>
<b>As at 31 December 2017</b>	於二零一七年十二月三十一日			
Cost	成本	997,499	48,586	1,046,085
Accumulated amortisation	累計攤銷	-	(10,761)	(10,761)
Net book value	賬面淨值	<u>997,499</u>	<u>37,825</u>	<u>1,035,324</u>
<b>Year ended 31 December 2018</b>	截至二零一八年十二月三十一日止年度			
At 1 January 2018	於二零一八年一月一日	997,499	37,825	1,035,324
Currency realignment	貨幣調整	(58,694)	(1,992)	(60,686)
Additions	添置	-	3,080	3,080
Amortisation for the year (Note 9)	年內攤銷(附註9)	-	(3,192)	(3,192)
At 31 December 2018	於二零一八年十二月三十一日	<u>938,805</u>	<u>35,721</u>	<u>974,526</u>
<b>As at 31 December 2018</b>	於二零一八年十二月三十一日			
Cost	成本	938,805	49,045	987,850
Accumulated amortisation	累計攤銷	-	(13,324)	(13,324)
Net book value	賬面淨值	<u>938,805</u>	<u>35,721</u>	<u>974,526</u>

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 19 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 13.6% (2017: 13.4%) using post-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 3.0% (2017: 3.0%) 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% (2017: 2.6%) per annum, which is based on industry growth forecasts. The Board considered no impairment loss is necessary as at 31 December 2018.

In sales and distribution of natural gas and other related products business, the recoverable amount calculated based on value in use exceeded carrying value by HK\$1,710,102,000 (2017: HK\$1,587,584,000).

Since the carrying amounts of the group of CGUs are not sensitive to the changes in assumption, no sensitivity analysis is disclosed.

### 19 無形資產(續)

附註：

商譽分配到按銷售及輸送天然氣及其他相關產品業務所識別的一組現金生產單位(亦是一個經營分部，為集團為內部管理目的而對商譽實施監控的最低層次)。

該組現金生產單位之可收回金額乃按照使用價值而計算。使用價值之關鍵假設涉及年內折現率、增長率及售價及直接成本之預期變動。管理層使用反應當前市場評估貨幣時間價值及該組現金生產單位特定風險之稅後利率估計折現率13.6%(二零一七年：13.4%)。未來五年3.0%(二零一七年：3.0%)之增長率乃基於工業增長預測。售價及直接成本變動乃基於對市場未來變動之過往慣例及預期。

使用價值計算乃根據管理層准許的未來五年內最近之財務預算而作出的現金流量預測衍生而來。超過5年的現金流量使用是每年3.0%(二零一七年：2.6%)的增長率推斷，此乃基於行業增長預測。董事局認為於二零一八年十二月三十一日，並無必要的減值虧損。

在銷售及輸送天然氣及其他相關產品業務當中，根據使用價值計算的可收回金額超出賬面值的數額為1,710,102,000港元(二零一七年：1,587,584,000港元)。

由於集團現金生產單位的賬面值對假設變動並不敏感，故並無披露任何敏感度分析。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 20 Investments accounted for using the equity method

#### 20 使用權益法入賬之投資

The amounts recognised in the consolidated statement of financial position are as follows:

於綜合財務狀況表確認之金額如下：

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Associates	聯營公司	296,922	296,732
Joint venture	合營企業	15,832	24,435
At 31 December	於十二月三十一日	<b>312,754</b>	<b>321,167</b>

The amounts recognised in the consolidated profit or loss are as follows:

於綜合損益表確認之金額如下：

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Associates	聯營公司	4,491	1,330
Joint venture	合營企業	(7,791)	(3,686)
For the year ended 31 December	截至十二月三十一日止年度	<b>(3,300)</b>	<b>(2,356)</b>

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 20 Investments accounted for using the equity method (Continued)

### 20 使用權益法入賬之投資(續)

#### Interests in associates

#### 於聯營公司權益

Nature of investments in associates, which are unlisted limited liability companies, as at 31 December 2018:

於二零一八年十二月三十一日，於聯營公司(為非上市有限公司)投資之性質：

Name	Registered capital	Country of establishment	Principal activities	Percentage of interest held indirectly
名稱	註冊資本	成立之國家	主要業務	間接持有權益百分比
青海中油潔神能源有限公司 ("潔神能源")	RMB20,000,000	PRC	Trading of natural gas	49%
青海中油潔神能源有限公司 ("潔神能源")	人民幣20,000,000元	中國	天然氣買賣	49%
Sino Director Limited (Note)	US\$10,000	BVI	Investment holding	25%
Sino Director Limited (附註)	10,000美元	英屬維爾京群島	投資控股	25%
青海中油超飛信息技術有限公司	RMB1,000,000	PRC	Provision of IT services	50%
青海中油超飛信息技術有限公司	人民幣1,000,000元	中國	提供IT服務	50%
江蘇豐港天然氣有限公司	RMB80,000,000	PRC	Trading of nature gas	20%
江蘇豐港天然氣有限公司	人民幣80,000,000元	中國	天然氣買賣	20%

#### Note:

#### 附註：

As at 31 December 2018 and 2017, the Group invested HK257,250,000 in Sino Director Limited with 25% equity interests as an associate. One of the subsidiaries of Sino Director Limited is the beneficial owner of the mining rights granted by the local government authority of the PRC. Sino Director Limited and its subsidiaries are collectively regarded as the "Sino Director Group".

於二零一八年及二零一七年十二月三十一日，集團已向Sino Director Limited投資257,250,000港元，持有該聯營公司的25%股權。Sino Director Limited之其中一間附屬公司為於中國當地相關政府部門所授出開採許可權証之實益擁有人。Sino Director Limited及其附屬公司統稱為「Sino Director集團」。

A business valuation was performed for the underlying assets of Sino Director Limited. The recoverable amount is determined based on fair value less costs of disposal using discounted cash flow method. The key assumptions are discount rates, marketability discount rate, minority interest discount rate, forecasted production volume and forecasted commodity prices. Management estimates a discount rate of 11.4% (2017: 11.2%) using a post-tax rates that reflects current market assessment of time value and the specific risks relating to the underlying assets of Sino Director Group.

集團的相關資產進行業務估值。可收回金額乃使用折現現金流量法根據公平值減出售成本釐定。可收回金額計算之關鍵假設為折現率、市場貼現率、少數權益貼現率、預測產量及預測商品價格。管理層使用反映當前市場對時間價值評估之稅後利率及Sino Director集團相關資產之特定風險估計折現率11.4%(二零一七年：11.2%)。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 20 Investments accounted for using the equity method (Continued)

##### Interests in associates (Continued)

The commodity price growth rate of 3.0% (2017: 3.0%) used in the calculations is based on inflation growth forecasts. The Board considered no impairment loss on the Group's total investment in associate is necessary as at 31 December 2018.

As at 31 December 2018, the Group determined that the recoverable amount of Sino Director Limited amounting to approximately HK\$595,175,000 (2017: HK\$586,250,000) exceeded its carrying value amounting to approximately HK\$257,250,000 (2017: HK\$257,250,000).

The recoverable amount of the investment in Sino Director Limited would equal its carrying amount if (1) the commodity price growth rate decreased to -4.3%, (2) the estimated future production volume dropped by 57.9%; or (3) the post-tax discount rate increased to 21.0%. Management has considered and assessed reasonably possible changes for other key assumptions and not identified any instances that could cause the carrying amount of the investment in Sino Director Limited to exceed its recoverable amount.

None of these entities are currently considered material to the Group. The aggregated for associates which accounted for using the equity method was as followed:

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
- Total assets	- 總資產	1,291,873	1,327,939
- Total liabilities	- 總負債	(939,240)	(968,098)
Net assets	資產淨值	352,633	359,841
Revenue	營業額	101,834	48,594
Profit and total comprehensive income for the year	年內溢利及全面收益總額	11,191	3,804

There are no material commitments or contingent liabilities relating to the Group's interest in associates.

#### 20 使用權益法入賬之投資(續)

##### 於聯營公司權益(續)

計算中採用的商品價格增長率3.0%(二零一七年:3.0%)乃基於通脹增長預測。於二零一八年十二月三十一日,董事局認為集團於聯營公司的投資並無必要的減值虧損。

於二零一八年十二月三十一日,集團釐定 Sino Director Limited 的可收回金額約為 595,175,000 港元(二零一七年:586,250,000 港元),高於其賬面值約 257,250,000 港元(二零一七年:257,250,000 港元)。

倘(1)商品價格增長率減少至-4.3%, (2)估計未來產量下降57.9%;或(3)除稅後折現率增加至21.0%,則於 Sino Director Limited 投資的可收回金額將等於其賬面值。管理層已考慮及評估其他關鍵假設可能產生的合理變動,但並未發現任何可能導致於 Sino Director Limited 投資的賬面值超過其可收回金額之事項。

當前概無該等實體被認為對集團屬重大。使用權益法入賬的聯營公司概述如下:

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
- Total assets	- 總資產	1,291,873	1,327,939
- Total liabilities	- 總負債	(939,240)	(968,098)
Net assets	資產淨值	352,633	359,841
Revenue	營業額	101,834	48,594
Profit and total comprehensive income for the year	年內溢利及全面收益總額	11,191	3,804

並無與集團於合營企業權益有關之任何重大承擔或或然負債。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 20 Investments accounted for using the equity method (Continued)

### 20 使用權益法入賬之投資 (續)

#### Interest in a joint venture

#### 於一間合營企業權益

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Share of net assets:	應佔資產淨值：		
At 1 January	於一月一日	24,435	26,621
Currency realignment	貨幣調整	(812)	1,500
Share of loss of a joint venture	應佔一間合營企業虧損	(7,791)	(3,686)
At 31 December	於十二月三十一日	15,832	24,435

Nature of investment in a joint venture, which is an unlisted limited liability company, as at 31 December 2018:

於二零一八年十二月三十一日，於合營企業(為私營有限公司)投資之性質：

Name	Registered capital	Country of establishment	Principal Activities	Percentage of interest held indirectly
名稱	註冊資本	成立之國家	主要業務	間接持有權益百分比
山西國興煤層氣輸配有限公司	RMB	PRC	Trading of coalbed methane	35%
山西國興煤層氣輸配有限公司	人民幣	中國	煤層氣買賣	35%

The joint venture is currently considered not material to the Group. The summarised financial information for the joint venture which accounted for using the equity method was as followed:

當前概無該等合營企業被認為對集團屬重大。使用權益法入賬的合營企業財務資料概述如下：

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 20 Investments accounted for using the equity method (Continued)

Interest in a joint venture (Continued)

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
- Total assets	- 總資產	613,761	531,483
- Total liabilities	- 總負債	(568,527)	(464,881)
Net assets	資產淨值	45,234	66,602
Revenue	營業額	187,417	113,856
Loss and total comprehensive loss for the year	年內虧損及全面虧損總額	(22,260)	(10,531)

There are no material commitments or contingent liabilities relating to the Group's interest in the joint venture.

### 21 Financial assets at fair value through other comprehensive income

#### (i) Classification of financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise:

- Equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant.
- Debt securities where the contractual cash flows are solely principal and interest and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets.

### 20 使用權益法入賬之投資(續)

於一間合營企業權益(續)

	2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
- 總資產	613,761	531,483
- 總負債	(568,527)	(464,881)
資產淨值	45,234	66,602
營業額	187,417	113,856
年內虧損及全面虧損總額	(22,260)	(10,531)

並無與集團於合營企業權益有關之任何重大承擔或或然負債。

### 21 按公平值計入其他全面收益之財務資產

#### (i) 按公平值計入其他全面收益之財務資產之分類

按公平值計入其他全面收益之財務資產包括：

- 並非持作買賣的股本證券，且集團已於初步確認時不可撤回地選擇將其於此類別內確認。該等證券為戰略投資，且集團認為此分類更有相關性。
- 合約現金流量純粹為支付本金及利息的債務證券，且集團業務模式的目標以收取合約現金流量及出售財務資產的方式實現。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 21 Financial assets at fair value through other comprehensive income (Continued)

(ii) Equity investments at fair value through other comprehensive income

Equity investments at fair value through other comprehensive income comprise the following investments:

Equity securities: – listed in Hong Kong	股本證券： – 香港上市
---------------------------------------------	-----------------

(a) These investments were classified as available-for-sale in 2017, see (vii) below.

In the prior financial year, the Group had designated equity investments as available-for-sale where management intended to hold them for the medium to long-term.

### 21 按公平值計入其他全面收益之財務資產(續)

(ii) 按公平值計入其他全面收益之股本投資

按公平值計入其他全面收益之股本投資包括以下投資：

<b>2018</b> 二零一八年 HK\$'000 千港元	<b>2017</b> 二零一七年 HK\$'000 千港元 (Note (a)) (附註(a))
<b>108,946</b>	–

(a) 該等投資於二零一七年分類為可供出售，請參閱下文(vii)。

於上一財政年度，集團有指定為可供出售之股本證券，管理層有意作中長期持有。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 21 Financial assets at fair value through other comprehensive income (Continued)

#### (iii) Debt investments at fair value through other comprehensive income

Debt investments at fair value through other comprehensive income comprise the following investments in listed and unlisted bonds:

Debt securities:	債務證券：
– listed in Hong Kong	– 香港上市
– listed outside Hong Kong	– 香港以外上市
– unlisted	– 非上市

(b) These investments were classified as available-for-sale and financial assets at fair value through profit or loss in 2017, see (vii) below and Note 24 respectively.

On disposal of these debt investments, any related balance within the fair value through other comprehensive income reserve is reclassified to profit or loss.

### 21 按公平值計入其他全面收益之財務資產(續)

#### (iii) 按公平值計入其他全面收益之債務投資

按公平值計入其他全面收益之債務投資包括下列上市及非上市債券投資：

2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元 (Note (b)) (附註(b))
99,356	–
230,368	–
450	–
<b>330,174</b>	<b>–</b>

(b) 該等投資於二零一七年分類為可供出售及按公平值經損益入賬之財務資產，請分別參閱下文(vii)及附註24。

於出貨該等債務投資後，按公平值計入其他全面收益儲備內之任何有關結餘重新分類至損益。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 21 Financial assets at fair value through other comprehensive income (Continued)

(iv) Amounts recognised in profit or loss and other comprehensive income

During the year, the following gains/(losses) were recognised in profit or loss and other comprehensive income.

	2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
(Losses)/gains recognised in other comprehensive income; 2017 relating to available-for-sale financial assets, see (vii) below	(54,000)	58,044
Gains reclassified from other comprehensive income to profit or loss on the sale of debt instruments at fair value through other comprehensive income; 2017 relating to available-for-sale financial assets, see (vii) below	2,097	17,748
Dividends from equity investments held at fair value through other comprehensive income recognised in profit or loss in other income (note 7)	1,256	3,056

(v) Financial assets pledged as security

At 31 December 2017, certain available-for-sale financial assets amounted to HK\$342,548,000 are pledged as a security for the Group's banking facilities. At 31 December 2018, no financial assets at FVOCI is pledged to any banking facilities.

### 21 按公平值計入其他全面收益之財務資產(續)

(iv) 於損益及其他全面收益中確認之金額

年內，下列收益／(虧損)已於損益及其他全面收益中確認。

	2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
(Losses)/gains recognised in other comprehensive income; 2017 relating to available-for-sale financial assets, see (vii) below	(54,000)	58,044
Gains reclassified from other comprehensive income to profit or loss on the sale of debt instruments at fair value through other comprehensive income; 2017 relating to available-for-sale financial assets, see (vii) below	2,097	17,748
Dividends from equity investments held at fair value through other comprehensive income recognised in profit or loss in other income (note 7)	1,256	3,056

(v) 質押為抵押品之財務資產

於二零一七年十二月三十一日，若干金額為342,548,000港元之可供出售財務資產予以質押，作為集團銀行融資的抵押。於二零一八年十二月三十一日，概無按公平值計入其他全面收益之財務資產質押予任何銀行融資。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 21 Financial assets at fair value through other comprehensive income (Continued)

#### (vi) Fair value, impairment and risk exposure

Information about the methods and assumptions used in determining fair value is provided in Note 4.4.

Debt securities at fair value through other comprehensive income are considered to be low risk, and therefore the impairment provision is determined as 12 months expected credit losses. The Group has assessed that the expected credit losses for these financial assets are not material under the 12 months expected credit loss method. Thus no loss allowance provision was recognised as at the balance sheet date. For details of the risk management, please refer to Note 4.2.

The carrying amounts of the financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets) are denominated in the following currencies:

### 21 按公平值計入其他全面收益之財務資產(續)

#### (vi) 公平值、減值及風險

有關釐定公平值所用方法及假設的資料載於附註4.4。

按公平值計入其他全面收益之債務證券被視為低風險，因此減值撥備乃按12個月預期信貸虧損釐定。集團已根據12個月預期信貸虧損方法評估該等財務資產之預期信貸虧損屬不重大。因此，於結算日並無確認虧損準備撥備。有關風險管理之詳情，請參閱附註4.2。

按公平值計入其他全面收益之財務資產(二零一七年：可供出售財務資產)賬面值按以下貨幣計值：

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
US\$	美元	330,174	469,879
HK\$	港元	108,946	126,481
		<b>439,120</b>	<b>596,360</b>

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 21 Financial assets at fair value through other comprehensive income (Continued)

### 21 按公平值計入其他全面收益之財務資產(續)

(vii) Financial assets previously classified as available-for-sale financial assets (2017)

(vii) 先前分類為可供出售財務資產之財務資產(二零一七年)

Available-for-sale financial assets included the following classes of financial assets:

可供出售財務資產包括以下類別的財務資產：

	2017 二零一七年 HK\$'000 千港元
<b>Non-current assets</b>	
Equity securities:	
– listed outside Hong Kong	118,961
– listed in Hong Kong	17,772
Debt securities:	
– listed in Hong Kong	89,476
– listed outside Hong Kong	369,701
– unlisted	450
	596,360

**Classification of financial assets as available-for-sale**

Investments were designated as available-for-sale financial assets if they did not have fixed maturities and fixed or determinable payments, and management intended to hold them for the medium to long-term. Financial assets that were not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) were also included in the available-for-sale category.

The financial assets were presented as non-current assets unless they matured, or management intended to dispose of them within 12 months of the end of the reporting period.

**Impairment indicators for available-for-sale financial assets**

A security was considered to be impaired if there had been a significant or prolonged decline in the fair value below its cost. See Note 3(l) for further details about the group's previous impairment policies for available-for-sale financial assets.

**財務資產分類為可供出售**

對如並無固定到期日及固定或可予釐定的付款的指定為可供出售財務資產的投資，管理層有意作中長期持有。非分類為任何其他類別的財務資產(按公平值經損益入賬、貸款及應收款項或持有至到期投資)亦計入可供出售類別。

除非財務資產到期或管理層有意於報告期末後12個月內出售，否則財務資產作非流動資產呈列。

**可供出售財務資產的減值指標**

如果其公平值大幅度或長期地低於其成本，則將該證券視為減值。有關集團可供出售財務資產先前減值政策的進一步詳情，請參閱附註3(l)。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 22 Inventories

#### 22 存貨

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Raw materials	原料	127,760	105,078
Work-in-progress	在建工程	76,878	69,226
Finished goods and natural gas	製成品及天然氣	78,139	70,134
		<b>282,777</b>	<b>244,438</b>

#### 23 Contract assets, deposits, trade and other receivables

#### 23 合約資產、按金、貿易及其他應收款項

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Trade receivables (Notes (b) and (c))	貿易應收款項(附註(b)及(c))	625,352	784,363
Contract assets (Notes (b) and (e))	合約資產(附註(b)及(e))	109,210	-
Loan to an associate (Note (d))	貸款予一間聯營公司(附註(d))	695,486	637,251
Loans to third parties	貸款予第三方	22,600	24,000
		<b>1,452,648</b>	<b>1,445,614</b>
Prepaid construction costs	預付建設成本	141,719	108,341
Prepayment for acquisition of land use rights	收購土地使用權預付款項	67,634	35,003
Prepaid natural gas costs	預付天然氣成本	346,848	258,733
Prepaid material and equipment costs	預付材料及設備成本	197,092	182,263
Interest receivables from an associate (Note (d))	應收一間附屬公司利息(附註(d))	252,945	210,583
Other interest receivables	其他應收利息	5,769	5,011
Other prepayments	其他預付款項	105,614	109,787
Note receivables	應收票據	84,408	55,655
Other receivables	其他應收款項	160,280	142,507
		<b>2,814,957</b>	<b>2,553,497</b>
Less: Non-current portion	減：非流動部分	<b>(1,063,841)</b>	<b>(956,763)</b>
Current portion	流動部分	<b>1,751,116</b>	<b>1,596,734</b>

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 23 Contract assets, deposits, trade and other receivables (Continued)

Notes:

- (a) The Board considers that the carrying amounts of deposits, trade and other receivables approximate their fair values as the impact of discounting is not significant.
- (b) The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The Group has assessed that the expected credit losses for these financial assets are not material. Thus no loss allowance provision was recognised as at the statement of financial position date. For details of the calculation of the allowance, please refer to Note 4.2(b).

Information about the impairment of trade receivables and contract assets, and the Group's exposure to credit risk and risk management can be found in Note 4.2.

- (c) 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 based on invoice date is as follows:

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Up to 3 months	三個月以內	552,984	730,625
3 to 6 months	三個月至六個月	43,421	30,363
Over 6 months	六個月以上	28,947	23,375
Total	合計	<b>625,352</b>	<b>784,363</b>

### 23 合約資產、按金、貿易及其他應收款項(續)

附註：

- (a) 由於折讓影響並不重大，董事局認為，按金、貿易及其他應收款項之賬面值與其公平值相若。
- (b) 集團採用香港財務報告準則第9號簡化方法計量預期信貸虧損，為所有貿易應收款項及合約資產使用全期預期虧損撥備。集團已評估該等財務資產的預期信貸虧損，金額並不重大。因此，於財務狀況表日期並無確認任何虧損準備撥備。有關撥備計算之詳情，請參閱附註4.2(b)。

有關貿易應收款項及合約資產減值，以及集團面臨之信貸風險及風險管理之資料載於附註4.2。

- (c) 集團給予貿易客戶之平均信貸期介乎60日至90日之間，並且不斷監控其尚未償還之貿易應收款項。集團高級管理層定期審閱逾期未還之結餘。

根據發票日期的貿易應收款項之賬齡分析如下：

	2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Up to 3 months	552,984	730,625
3 to 6 months	43,421	30,363
Over 6 months	28,947	23,375
Total	<b>625,352</b>	<b>784,363</b>

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 23 Contract assets, deposits, trade and other receivables (Continued)

Notes: (Continued)

(d) Loan and interest receivables from an associate

Loan to an associate	貸款予一間聯營公司
Interest receivables from an associate	應收一間聯營公司利息
Loss allowance	虧損撥備
Total	總額

On 23 September 2011, the Group entered into a loan agreement for the construction of assets with Sino Director Limited, an associate, with interest bearing at 6.2% per annum. On 1 January 2018, the Group has entered a new loan agreement with the associate and the interest rate has been revised as 8.5% per annum. As at 31 December 2018, the Group loan to Sino Director Limited amounted to approximately HK\$708,486,000 (2017: HK\$637,251,000). The outstanding interest amounted to approximately HK\$256,945,000 (2017: HK\$210,583,000). Both the loan and interest receivables are repayable on demand.

Management considered that the loan to the associate is low risk, and therefore the impairment provision is determined at 12 months expected credit losses. Applying the expected credit risk model resulted in the recognition of a loss allowance of HK\$17,000,000 on 1 January 2018 (previous loss allowance was nil) for the loan and interest receivables from the associate and there is no change in the allowance during the year ended 31 December 2018.

(e) The contract assets primarily relate to the Group's rights to consideration for gas pipeline construction and connection services completed but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional.

### 23 合約資產、按金、貿易及其他應收款項(續)

附註：(續)

(d) 應收一間聯營公司貸款及利息

2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
708,486	637,251
256,945	210,583
965,431 (17,000)	847,834 —
948,431	847,834

於二零一一年九月二十三日，集團與聯營公司Sino Director Limited訂立貸款協議(關於資產建設)，按6.2%之年利率計息。於二零一八年一月一日，集團與聯營公司訂立新貸款協議及年利率已修改為8.5%。於二零一八年十二月三十一日，集團向Sino Director Limited貸款約708,486,000港元(二零一七年：637,251,000港元)。未還利息約為256,945,000港元(二零一七年：210,583,000港元)。該等貸款及應收利息均須按要求償還。

管理層認為，向聯營公司貸款為低風險，及因此按12個月預期信貸虧損釐定減值撥備。採用預期信貸風險模式導致於二零一八年一月一日就該等貸款及應收聯營公司利息確認虧損撥備17,000,000港元(先前虧損撥備為零)及於截至二零一八年十二月三十一日止年度該等撥備並無變動。

(e) 合約資產主要與集團就於報告日期已完成天然氣管道建造及接駁服務但未開具發票的收款權有關。合約資產於該權利成為無條件時轉撥至應收款項。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 23 Contract assets, deposits, trade and other receivables (Continued)

Notes: (Continued)

- (f) The carrying amounts of the deposits, trade and other receivables (excluding prepayments and other tax recoverables) are denominated in the following currencies:

Renminbi	人民幣
CAD	加元
Others	其他

### 23 合約資產、按金、貿易及其他應收款項(續)

附註：(續)

- (f) 按金、貿易及其他應收款項(不包括預付款項及其他可收回稅項)之賬面值按以下貨幣計值：

	2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
	1,736,466	1,717,333
	19,622	42,532
	90,752	78,297
	<b>1,846,840</b>	<b>1,838,162</b>

### 24 Financial assets at fair value through profit or loss

Debt securities:		
- listed outside Hong Kong		
- unlisted		

The carrying amounts of the financial assets at FVPL are denominated in US\$.

In 2017, the Group classified financial assets at FVPL if they were acquired principally for the purpose of selling in the short term, i.e. are held for trading. See Note 3(l)(v) for the Group's accounting policies for the financial assets.

Please see Note 2(a) for the explanations regarding the reclassification of debt securities from financial assets at FVPL to FVOCI on 1 January 2018 following the adoption of HKFRS 9.

As at 31 December 2017, all the financial assets at FVPL are pledged as a security for the Group's unutilised banking facilities.

### 24 按公平值經損益入賬之財務資產

2017  
二零一七年  
HK\$'000  
千港元

債務證券：		
- 香港以外上市		20,822
- 非上市		28,020
		<b>48,842</b>

按公平值經損益入賬之財務資產之賬面值以美元計值。

於二零一七年，集團將主要目的為短期內出售(即持作買賣)而收購的財務資產分類為按公平值經損益入賬之財務資產。有關集團財務資產之會計政策，請參閱附註3(l)(v)。

有關採納香港財務報告準則第9號後，於二零一八年一月一日，債務證券由按公平值經損益入賬之財務資產重新分類為按公平值計入其他全面收益之財務資產之闡述，請參閱附註2(a)。

於二零一七年十二月三十一日，所有按公平值經損益入賬之財務資產予以質押，作為集團未動用銀行融資的抵押。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 25 Time deposits, bank balances and cash

#### 25 定期存款、銀行結餘及現金

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Cash at banks and on hand	銀行及手頭現金	2,496,198	2,299,083
Short-term bank deposits	短期銀行存款	170,704	39,895
		<b>2,666,902</b>	2,338,978
Less: Time deposits with maturity over three months	減：存款期超過三個月的定期存款	<b>(158,679)</b>	(48,531)
Cash and cash equivalents	現金及現金等值項目	<b>2,508,223</b>	2,290,447

The interest rates for short-term bank deposits was approximately from 2.9% to 4.15% (2017: 1.5% to 1.95%) per annum. The deposits have a maturity of ranging from 90 to 183 days (2017: 90 to 365 days).

Included in bank deposits, bank balances and cash are amounts of approximately HK\$2,601,884,000 or RMB2,302,552,000 (2017: HK\$2,311,901,000 or RMB1,926,584,000) 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:

短期銀行存款的年利率介乎約2.9%至4.15%(二零一七年：1.5%至1.95%)。存款期介乎90日至183日(二零一七年：90日至365日)。

銀行存款、銀行結餘及現金約2,601,884,000港元或人民幣2,302,552,000元(二零一七年2,311,901,000港元或人民幣1,926,584,000元)均以人民幣計值，並存於中國內地的銀行。該等人民幣計值結餘兌換成外幣及從中國內地匯出資金須遵守中國政府頒佈的外匯管理規章制度。

定期存款、銀行結餘及現金之賬面值以下列貨幣計值：

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Renminbi	人民幣	2,605,104	2,313,282
US\$	美元	37,637	17,438
HK\$	港元	23,497	7,667
Others	其他	664	591
		<b>2,666,902</b>	2,338,978

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 26 Trade and other payables

### 26 貿易及其他應付款項

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Trade payables	貿易應付款項	505,977	447,956
Consideration payables	應付代價	5,650	6,000
Construction cost payables	應付建設成本	433,485	415,775
Interest payable	應付利息	58,330	59,775
Dividends payable to non-controlling interests	應付非控股權益股息	-	125,828
Salaries payables	應付薪金	26,725	15,540
Other taxes payable	其他應付稅項	6,670	11,294
Other payables and accruals	其他應付款項及應計費用	379,080	349,565
		<b>1,415,917</b>	<b>1,431,733</b>

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

董事局認為，貿易及其他應付款項之賬面值與其公平值相若。

The ageing analysis of trade payables based on invoice date is as follows:

根據發票日期的貿易應付款項之賬齡分析如下：

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Up to 3 months	三個月以內	402,076	358,365
3 to 6 months	三個月至六個月	40,910	40,316
Over 6 months	六個月以上	62,991	49,275
Total	合計	<b>505,977</b>	<b>447,956</b>

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 26 Trade and other payables (Continued)

The carrying amounts of trade and other payables (excluding other tax payables and salaries payables) are denominated in the following currencies:

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Renminbi	人民幣	1,217,902	1,273,459
HK\$	港元	35,135	52,041
CAD	加元	129,485	79,399
		<b>1,382,522</b>	<b>1,404,899</b>

#### 27 Contract liabilities/receipt in advance

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Receipt in advance for sales of natural gas and other related products	銷售天然氣及其他相關產品之預收款項	1,356,955	1,366,236
Receipt in advance for connections of gas pipelines	燃氣管道接駁之預收款項	113,173	217,767
		<b>1,470,128</b>	<b>1,584,003</b>

#### 26 貿易及其他應付款項(續)

貿易及其他應付款項(不包括其他應付稅款及應付薪金)的賬面值以下列貨幣計值：

#### 27 合約負債／預收款項

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 27 Contract liabilities/receipt in advance (Continued)

- (a) The contract liabilities primarily relate to the payments received in advance for sales and distribution of natural gas and other related products, included the amount received from customers using I/C cards amounting to approximately HK\$867,423,000 not yet delivered to customers. Revenue is recognised when gas is used by customers. Below is the movement for the amount received from customers using I/C cards:

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
At 1 January	於一月一日	883,205	637,431
Currency realignment	貨幣調整	(48,837)	52,372
Payments received in advance	已收預收款項	4,321,324	4,154,799
Recognised during the year	年內已確認	(4,288,269)	(3,961,397)
At 31 December	於十二月三十一日	<b>867,423</b>	<b>883,205</b>

#### (b) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities.

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Revenue recognised that was included in the contract liability balance at the beginning of the year	於年初計入合約負債結餘之已確認收益	964,335	-
Sales and distribution of natural gas and other related products	銷售及輸送天然氣及其他相關產品	172,362	-
Gas pipeline construction and connection services	燃氣管道建造及接駁服務	-	-

There is no revenue recognised during the current year related to performance obligations that were satisfied in prior year.

### 27 合約負債／預收款項(續)

- (a) 合約負債主要與銷售及輸送天然氣及其他相關產品之已收預收款項有關，包括已收客戶使用I/C卡支付的款項約867,423,000港元，但貨品尚未交付予客戶。收益乃於客戶使用燃氣時確認。以下為已收客戶使用I/C卡支付的款項的變動：

#### (b) 有關合約負債之已確認收益

下表列示於本年度與結轉合約負債有關的已確認收益金額。

本年度概無與過往年度已獲達成履約責任有關的已確認收益。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 27 Contract liabilities/receipt in advance (Continued)

#### (c) Unsatisfied contracts with customers

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its fixed-price construction and connection contracts, as well as sales and distribution of natural gas and other products contracts, such that the information about revenue that the Group will be entitled to when it satisfied the remaining performance obligations under those contracts that had an original expected duration of one year or less is not disclosed.

### 27 合約負債／預收款項(續)

#### (c) 未獲達成客戶合約

集團已應用香港財務報告準則第15號第121段之實際可行權宜之計，以釐定建造及接駁合約以及銷售及分銷天然氣及其他產品合約之價格，從而使集團在履行該等原預期期限為一年或更短的合約項下之剩餘履約責任時豁免披露有關收益之資料。

### 28 Borrowings

### 28 借貸

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Bank borrowings, unsecured	銀行借貸 – 無抵押	1,451,455	653,258
Other borrowings, unsecured	其他借貸 – 無抵押	68,026	96,000
		<b>1,519,481</b>	749,258
Less: amounts due within one year classified under current liabilities	減：分類為流動負債於一年內到期 之款項	<b>(1,455,839)</b>	(689,258)
Non-current portion	非流動部分	<b>63,642</b>	60,000

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 28 Borrowings (Continued)

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

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Renminbi	人民幣	1,284,268	492,000
CAD	加元	235,213	257,258
		<b>1,519,481</b>	<b>749,258</b>
At fixed rates	固定利率	1,047,736	354,000
At floating rates	浮動利率	471,745	395,258
		<b>1,519,481</b>	<b>749,258</b>
Weighted average effective interest rates (per annum):	加權平均實際年利率：		
– Bank borrowings	– 銀行借貸	4.7%	4.3%
– Other borrowings	– 其他借貸	6.0%	6.4%

### 29 Senior notes

US\$ denominated senior notes 以美元計值之優先票據

On 25 April 2013, the Company issued senior notes, with an aggregate nominal value of US\$350,000,000 (equivalent to HK\$2,713,000,000) at par value (the "Senior Notes A"), which bear interest at 5.25% per annum and the interest is payable semi-annually in arrears. The net proceeds after deducting the direct issuance costs, amounted to approximately US\$344,000,000 (equivalent to HK\$2,666,000,000). The Senior Notes A was mature on 25 April 2018 and were listed on the Hong Kong Stock Exchange.

### 28 借貸(續)

借貸的賬面值以下列貨幣計值，並以下列利率列賬：

	2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Renminbi	1,284,268	492,000
CAD	235,213	257,258
	<b>1,519,481</b>	<b>749,258</b>
At fixed rates	1,047,736	354,000
At floating rates	471,745	395,258
	<b>1,519,481</b>	<b>749,258</b>
Weighted average effective interest rates (per annum):		
– 銀行借貸	4.7%	4.3%
– 其他借貸	6.0%	6.4%

### 29 優先票據

	2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
US\$ denominated senior notes	5,029,991	4,970,240

於二零一三年四月二十五日，公司按面值發行賬面總值為350,000,000美元(相等於2,713,000,000港元)的優先票據(「優先票據A」)，按每年5.25%計息且利息每半年支付。扣除直接發行費用後之所得款項淨額為約344,000,000美元(相等於2,666,000,000港元)。優先票據A於二零一八年四月二十五日到期及於香港聯交所上市。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 29 Senior notes (Continued)

On 11 November 2014, the Company issued senior notes, with an aggregate nominal value of US\$300,000,000 (equivalent to HK\$2,325,000,000) at par value (the "Senior Notes B"), which bear interest at 5.00% per annum and the interest is payable semiannually in arrears. The net proceeds after deducting the direct issuance costs, amounted to approximately US\$296,900,000 (equivalent to HK\$2,300,975,000). The Senior Notes B will mature on 7 May 2020 and are listed on the Hong Kong Stock Exchange.

On 11 April 2017, the Company issued senior notes, with an aggregate nominal value of US\$350,000,000 (equivalent to HK\$2,712,500,000) at par value (the "Senior Notes C"), which bear interest at 4.625% per annum and the interest is payable semi-annually in arrears. The net proceeds after deducting the direct issuance costs, amounted to approximately US\$346,556,000 (equivalent to HK\$2,685,809,000). The Senior Note C will mature on 20 April 2022 and are listed on the Hong Kong Stock Exchange.

On 21 May 2017, the Company redeemed in full the outstanding aggregate principal amount of US\$350,000,000 of Senior Notes A before their maturity at a total redemption price of US\$354,594,000 (equivalent to HK\$2,478,104,000), representing 101.3125% of the principal amount plus accrued and unpaid interest, by using the net proceeds from the offering of Senior Notes C.

As at 31 December 2018, the fair value of the senior notes amounted to approximately HK\$4,876,916,000 (2017: HK\$5,082,411,000). The effective interest is 4.92% (2017: 5.20%). The fair value of the senior notes traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The senior notes are within level 1 of the fair value hierarchy.

### 29 優先票據(續)

於二零一四年十一月十一日，公司按面值發行賬面總值為300,000,000美元(相等於2,325,000,000港元)的優先票據(「優先票據B」)，按每年5.00%計息且利息每半年支付。扣除直接發行費用後之所得款項淨額為約296,900,000美元(相等於2,300,975,000港元)。優先票據B將於二零二零年五月七日期到期及於香港聯交所上市。

於二零一七年四月十一日，公司按面值發行賬面總值為350,000,000美元(相等於2,712,500,000港元)的優先票據(「優先票據C」)，按每年4.625%計息且利息每半年支付。扣除直接發行費用後之所得款項淨額為約346,556,000美元(相等於2,685,809,000港元)。優先票據C將於二零二二年四月二十日期到期及於香港聯交所上市。

於二零一七年五月二十一日，公司於到期日前透過動用發售優先票據C所得款項淨額悉數贖回優先票據A未償還本金總額350,000,000美元，總贖回價354,594,000美元(相等於2,478,104,000港元)，為本金額的101.3125%加應計及未付利息。

於二零一八年十二月三十一日，優先票據之公平值約為4,876,916,000港元(二零一七年：5,082,411,000港元)。實際利率為4.92%(二零一七年：5.20%)。於交投活躍市場買賣之優先票據之公平值根據財務狀況表日之市場報價計算。交投活躍市場乃指可輕易地及定期從交易所、經銷商、經紀人、行業集團、報價服務或規管機構取得報價之市場，而有關報價是在經常進行之真實公平市場交易之基礎上呈現。該等優先票據被列為公平值第一層次。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 30 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using the tax rates enacted or substantively enacted by the statement of financial position date.

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 related to the same fiscal authority.

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Deferred tax assets	遞延所得稅資產	(7,646)	(4,796)
Deferred tax liabilities	遞延所得稅負債	270,019	260,359
Deferred tax liabilities (net)	遞延所得稅負債(淨額)	<b>262,373</b>	<b>255,563</b>

The net movements in the deferred income tax account are as follows:

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
At 1 January	於一月一日	255,563	221,291
Currency realignment	貨幣調整	(14,763)	13,294
Charged to consolidated profit and loss (Note 13)	於綜合損益內扣除(附註13)	21,573	20,978
At 31 December	於十二月三十一日	<b>262,373</b>	<b>255,563</b>

### 30 遞延所得稅

遞延所得稅採用負債法就暫時差額按財務狀況表日期已頒佈或實質頒佈之稅率全數計算。

當有法定可執行權利可將當期稅項資產與當期稅務負債抵銷，而遞延所得稅涉及同一財務機關時，則可將遞延所得稅資產與負債抵銷。

遞延所得稅賬戶之變動淨額如下：

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 30 Deferred income tax (Continued)

The movements in deferred income tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

#### Deferred income tax assets

	Asset retirement obligation 資產報廢承擔		Tax losses 稅項虧損		Total 合計		
	2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元	2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元	2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元	
At 1 January	於一月一日	(35,186)	(29,354)	(103,072)	(94,135)	(138,258)	(123,489)
Currency alignment	貨幣調整	1,900	(1,711)	5,339	(4,155)	7,239	(5,866)
Credited to consolidated profit or loss	計入綜合損益	(4,695)	(4,121)	(1,986)	(4,782)	(6,681)	(8,903)
At 31 December	於十二月三十一日	(37,981)	(35,186)	(99,719)	(103,072)	(137,700)	(138,258)

### 30 遞延所得稅(續)

年內遞延所得稅資產及負債(與同一稅務司法權區之結餘抵銷前)之變動如下:

#### 遞延所得稅資產

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 30 Deferred income tax (Continued)

#### Deferred income tax liabilities

		Accelerated tax depreciation and depletion 加速稅項折舊及損耗		Tax losses 其他		Total 合計	
		2018	2017	2018	2017	2018	2017
		二零一八年 HK\$'000 千港元	二零一七年 HK\$'000 千港元	二零一八年 HK\$'000 千港元	二零一七年 HK\$'000 千港元	二零一八年 HK\$'000 千港元	二零一七年 HK\$'000 千港元
At 1 January	於一月一日	358,254	309,226	35,567	35,554	393,821	344,780
Currency alignment	貨幣調整	(20,133)	19,147	(1,869)	13	(22,002)	19,160
Charged/(credited) to consolidated profit or loss	於綜合損益內扣除/(計入)	34,448	29,881	(6,194)	-	28,254	29,881
At 31 December	於十二月三十一日	372,569	358,254	27,504	35,567	400,073	393,821

During 2018, deferred income tax liabilities to the extent of approximately HK\$168,000 (2017: HK\$2,496,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries because the Board considers 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 in a total amount of approximately HK\$1,276,072,000 (2017: HK\$1,472,230,000) as at 31 December 2018 and HK\$7,929,000 (2017: HK\$7,396,000) has been recognised as deferred tax liability for the withholding tax.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2018, the Group had unrecognised deferred tax assets for its tax losses of approximately HK\$112,812,000 (2017: HK\$108,963,000) to carry forward against future taxable income. All the tax losses will be expired within the next 5 years.

### 30 遞延所得稅(續)

#### 遞延所得稅負債

於二零一八年，遞延所得稅負債上限約168,000港元(二零一七年：2,496,000港元)並無確認為預扣稅及其他稅項，此款項用於支付某些附屬公司之未匯出盈利；因為董事局認為撥回暫時差額時間由集團控制且此暫時差額有可能將不會在可見未來撥回。於二零一八年十二月三十一日，未匯出盈利總金額約為1,276,072,000港元(二零一七年：1,472,230,000港元)及7,929,000港元(二零一七年：7,396,000港元)已就預扣稅確認為遞延稅項負債。

遞延所得稅資產以相關的稅務利益透過可從未來應課稅盈利變現為上限，為稅務虧損結轉而確認。於二零一八年十二月三十一日，集團之未確認遞延稅項資產之稅項虧損約112,812,000港元(二零一七年：108,963,000港元)以結轉與未來應課稅收入對銷。所有稅項虧損將於下個五年內屆滿。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 31 Assets retirement obligation

The movements in assets retirement obligation are as below:

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
At 1 January	於一月一日	130,311	108,723
Currency realignment	貨幣調整	(7,036)	2,619
Acquisition of business (Note 33)	收購業務(附註33)	557	-
Accretion (Note 10)	添加(附註10)	2,970	2,611
Site restoration expenditure	場地恢復支出	(4,698)	(7,507)
Change in estimates and discount rate	估計及折現率變動	5,241	16,084
Provision for the year	年內撥備	13,333	7,781
At 31 December	於十二月三十一日	<b>140,678</b>	<b>130,311</b>

Note:

In accordance with the relevant rules and regulations in Canada, the Group is obliged to accrue the cost for land reclamation and site closures for the Group's ownership interest in oil and natural gas assets including well sites and gathering systems. The provision for asset retirement obligation has been determined by the directors based on their best estimates in accordance with the relevant rules and regulations.

#### 31 資產報廢承擔

資產報廢承擔之變動如下：

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
At 1 January	於一月一日	130,311	108,723
Currency realignment	貨幣調整	(7,036)	2,619
Acquisition of business (Note 33)	收購業務(附註33)	557	-
Accretion (Note 10)	添加(附註10)	2,970	2,611
Site restoration expenditure	場地恢復支出	(4,698)	(7,507)
Change in estimates and discount rate	估計及折現率變動	5,241	16,084
Provision for the year	年內撥備	13,333	7,781
At 31 December	於十二月三十一日	<b>140,678</b>	<b>130,311</b>

附註：

根據加拿大有關規則及法規，集團有責任就集團於石油及天然氣資產(包括油井及集氣系統)的土地開墾及關閉場地支付成本。有關資產報廢承擔的撥備已由董事以彼等最佳估計為基礎根據有關規則及法規釐定。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 32 Share capital, share option and share award schemes

### 32 股本及購股權／獎勵計劃

#### (a) Share capital

#### (a) 股本

		Number of shares 股份數目 '000 千股	Amount 金額 HK\$'000 千港元
Ordinary shares of HK\$0.01 each	每股0.01港元之普通股		
Authorised shares	法定股份		
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	於二零一七年一月一日、 二零一七年十二月三十一日、 二零一八年一月一日及 二零一八年十二月三十一日	125,000,000	1,250,000
Issued and fully paid	已發行及繳足		
At 1 January 2017, 31 December 2017 and 1 January 2018	於二零一七年一月一日、 二零一七年十二月三十一日及 二零一八年一月一日	5,825,684	58,257
Issue of shares to the exercise of share options	發行股份以行使購股權	13,440	134
At 31 December 2018	於二零一八年十二月三十一日	5,839,124	58,391

#### (b) Share option scheme

#### (b) 購股權計劃

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

根據股東於二零一一年十一月二十三日通過之決議案，公司採納購股權計劃（「購股權計劃」）。

Under the 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.

根據購股權計劃，董事局可酌情提呈購股權予任何合資格參與者。合資格參與者為公司或其附屬公司之僱員、行政人員或高級職員（包括公司或其附屬公司之執行及非執行董事），以及任何將會或曾經為公司或其附屬公司提供服務之供應商、專家顧問或顧問。

The maximum number of shares in respect of which options may be granted under the Share Option Scheme is 10% of the issued shares of the Company from time to time.

根據購股權計劃及原有購股權計劃授出之購股權涉及之股份數目上限為公司不時之已發行股份之10%。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 32 Share capital, share option and share award schemes (Continued)

#### (b) Share option scheme (Continued)

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

The offer of a grant of options may be accepted within 21 days after the date of the offer, with a consideration of HK\$1 for the grant thereof. Exercise period in respect of the options granted shall be determined by the Board and in any event such period of time shall not exceed a period of 10 years commencing on the date upon which such option is deemed to be granted and accepted.

The exercise price in relation to each option offered to an eligible participant under the 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 Share Option Scheme was valid for 10 years from 23 November 2011.

On 22 January 2016, in order to motivate and reward the Company's staff, 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. The share options shall be exercisable in the following periods:

- 30% of the share options are exercisable on 22 January 2018;
- 30% of the share options are exercisable on 22 January 2019; and
- the remaining share options are exercisable on 22 January 2020.

### 32 股本及購股權／獎勵計劃 (續)

#### (b) 購股權計劃(續)

於任何十二個月期間，每位合資格參與者之配額上限不得超過購股權提呈之日已發行股份數目之1%。

獲授購股權之人士可於購股權提呈之日起計21日內繳付1港元之代價後接納獲提呈授予之購股權。購股權之行使期限由董事局決定，而在任何情況下，有關期限不得超過有關購股權被視為授出及獲接納之日起計十年。

董事局全權酌情就根據該購股權計劃提呈予合資格參與者之每份購股權釐定行使價，惟在任何情況下該價格不得低於以下之最高者：(a)購股權提呈當日股份於聯交所每日報價中所列之正式收市價；(b)在緊接提呈購股權當日前五個營業日股份於聯交所每日報價中所列之正式收市價平均數；及(c)股份面值。

購股權計劃從二零一一年十一月二十三日起有效期為期十年。

於二零一六年一月二十二日，為激勵及獎勵公司員工，公司已向其若干合資格參與者授出可認購合共100,000,000股公司股本中每股面值0.01港元之普通股的購股權。購股權可於下列期間行使：

- 30%的購股權於二零一八年一月二十二日可予行使；
- 30%的購股權於二零一九年一月二十二日可予行使；及
- 其餘購股權於二零二零年一月二十二日可予行使

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 32 Share capital, share option and share award schemes (Continued)

### 32 股本及購股權／獎勵計劃 (續)

#### (b) Share option scheme (Continued)

#### (b) 購股權計劃(續)

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

- (i) 購股權的數目及加權平均行使價如下：

		2018 二零一八年		2017 二零一七年	
		Exercise price 行使價 HK\$ 港元	Number of option 購股權數目 '000 千份	Exercise price 行使價 HK\$ 港元	Number of option 購股權數目 '000 千份
Outstanding at 1 January	於一月一日尚未行使	0.46	100,000	0.46	100,000
Exercise during the year	年內行使	0.46	(13,440)	-	-
Outstanding at 31 December	於十二月三十一日尚未行使	0.46	86,560	0.46	100,000

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 32 Share capital, share option and share award schemes (Continued)

#### (b) Share option scheme (Continued)

- (ii) The following table discloses details of the Company's share options held by employees as at 31 December 2018:

	Date of grant	Exercise price per share	Exercise period	Outstanding at 31 December 2018
	授出日期	每股行使價 HK\$ 港元	行使期	於二零一八年 十二月三十一日 尚未行使
Employees 僱員	22 January 2016 二零一六年 一月二十二日	0.46 0.46	22 January 2018 to 22 January 2019 二零一八年一月二十二日至 二零一九年一月二十二日	16,560 16,560
	22 January 2016 二零一六年 一月二十二日	0.46 0.46	22 January 2019 to 22 January 2020 二零一九年一月二十二日至 二零二零年一月二十二日	30,000 30,000
	22 January 2016 二零一六年 一月二十二日	0.46 0.46	22 January 2020 to 22 January 2021 二零二零年一月二十二日至 二零二一年一月二十二日	40,000 40,000
Total	總計			86,560

The fair value of the options granted during the year ended 31 December 2016 determined using the binomial option pricing model was approximately HK\$0.127, HK\$0.148 and HK\$0.171 per share respectively. The significant inputs into the model were share price of HK\$0.455 as at the grant date, exercise price as shown above, volatility of 40.99%, 40.97% and 42.56%, expected life of options of eight, seven and six years, and annual risk-free interest rate of 0.993%, 1.056% and 1.184% respectively. The volatility measured at the standard deviation of expected share price returns is based on the historical volatility of the Company's share price over a period of eight, seven and six years before the date when the options were granted.

採用二項式期權定價模式，於截至二零一六年十二月三十一日止年度授出的購股權已釐定公平值分別約為每股0.127港元、0.148港元及0.171港元。輸入模式內的重點數據為於授出日期之估價0.455港元、上表所示行使價、分別為40.99%、40.97%及42.56%之波幅、購股權分別為八年、七年及六年之預計年期以及分別為0.993%、1.056%及1.184%之無風險利率。按預期股價回報的標準差計量的波幅乃是基於公司於購股權授出日期之前八年、七年及六年期間之歷史波幅。

### 32 股本及購股權／獎勵計劃 (續)

#### (b) 購股權計劃(續)

- (ii) 下表披露僱員於二零一八年十二月三十一日所持公司購股權之詳情：

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 32 Share capital, share option and share award schemes (Continued)

#### (c) Share award scheme

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

Pursuant to the rules relating to the Restricted Share Award Scheme (“Scheme Rules”), shares are comprised of (i) shares subscribed for or purchased by the Company and delivered to the Trustee appointed by the Company (Note 38(c)) 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 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 Share Option Scheme. All options granted under the Share Option Scheme continue to be valid and exercisable subject to and in accordance with the terms of the Share Option Scheme, respectively.

### 32 股本及購股權／獎勵計劃 (續)

#### (c) 股份獎勵計劃

於二零一一年十一月四日，董事局已批准採納一項購股權計劃（「限制性股份獎勵計劃」）作為獎勵以嘉許集團合資格僱員之貢獻，為集團持續經營及發展為激勵以挽留僱員，為集團進一步發展吸納合適人才。

根據限制性股份獎勵計劃有關規則（「計劃規則」），股份來自(i)公司認購或購買並隨後送交予公司委託的受託人（附註38(c)）之股份；或(ii)由受託人以公司自公司資金安排支付予受託人之現金認購或購買並為有關合資格承授人以信託方式持有之股份（「限制性股份」），直至該等股份根據計劃規則歸屬於有關合資格承授人為止。董事局會根據計劃規則實施限制性股份獎勵計劃，包括向受託人提供所需資金，以購入或認購最多佔公司不時之已發行股本10%之股份。

根據限制性股份獎勵計劃，限制性股份可以零代價授予公司合資格承授人或公司任何一家附屬公司，但受限於董事局根據限制性股份獎勵計劃授出限制性股份時決定的若干條件（包括但不限於，禁售期）。限制性股份獎勵計劃將從採納日起生效，為期十年。

限制性股份獎勵計劃與購股權計劃並行。根據購股權計劃授出的所有購股權將繼續有效及可行使，惟須分別遵守及依照購股權計劃的條款。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 32 Share capital, share option and share award schemes (Continued)

#### (c) Share award scheme (Continued)

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.

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 as instructed by the Board.

During the year ended 31 December 2018, 30,860,000 (2017: 1,680,000) restricted shares have been awarded to employees without vesting condition.

### 32 股本及購股權／獎勵計劃 (續)

#### (c) 股份獎勵計劃 (續)

根據計劃規則，董事局可不時按其絕對酌情權及彼等認為適用參與限制性獎勵計劃的不同因素挑選合資格承授人，並釐定將授出之限制性股份數目。董事局須就受託人即將購入之股份，以公司之資源向受託人支付購入價及相關費用。

受託人將以信託方式代合資格承授人持有相關限制性股份，直至彼等獲歸屬。待相關合資格承授人達成董事局於作出獎勵時所特定之一切歸屬條件，將有權獲得限制性股份，受託人將轉讓該有關限制性股份予承授人。

在歸屬前不再受僱於集團之受獎人，未歸屬股份即予沒收。沒收股份由限制性股份獎勵計劃受託人持有，而受託人根據董事局指示獎勵該等股份予受獎人。

截至二零一八年十二月三十一日止年度，已向僱員授出30,860,000股(二零一七年：1,680,000股)限制性股份，並無歸屬條件。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 32 Share capital, share option and share award schemes (Continued)

### 32 股本及購股權／獎勵計劃 (續)

#### (c) Share award scheme (Continued)

#### (c) 股份獎勵計劃(續)

*Details of the Awarded Shares awarded during the year*

*年內授出獎勵股份的詳情*

For the year ended 31 December 2018:

截至二零一八年十二月三十一日止年度：

Date of award 授出日期	Number of shares awarded 授出股份數目 HK\$ 港元	Fair value per share 每股股份公平值	Vesting period 歸屬期
-----------------------	--------------------------------------------------------	------------------------------------	-----------------------

Employees 僱員			
7 May 2018 二零一八年五月七日	860,000 860,000	0.6 0.6	Without vesting condition 無歸屬條件

Employees 僱員			
19 December 2018 二零一八年十二月十九日	30,000,000 30,000,000	0.56 0.56	Without vesting condition 無歸屬條件

For the year ended 31 December 2017:

截至二零一七年十二月三十一日止年度：

Date of award 授出日期	Number of shares awarded 授出股份數目 HK\$ 港元	Fair value per share 每股股份公平值	Vesting period 歸屬期
-----------------------	--------------------------------------------------------	------------------------------------	-----------------------

Employees 僱員			
13 April 2017 二零一七年四月十三日	1,680,000 1,680,000	0.59 0.59	Without vesting condition 無歸屬條件

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 32 Share capital, share option and share award schemes (Continued)

#### (c) Share award scheme (Continued)

##### Details of the Awarded Shares awarded during the year (Continued)

Movement in the number of shares awarded for the years ended 31 December 2018 and 2017 were as follows:

Outstanding at 1 January	於一月一日尚未行使
Awarded	已授出
Vested	已歸屬
Outstanding at 31 December	於十二月三十一日尚未行使

During the year ended 31 December 2018, the Trustee acquired under the Award Scheme 53,640,000 (2017: 181,260,000) ordinary shares of the Company through purchases on the open market with a price range of HK\$0.54 (2017: HK\$0.52) to HK\$0.65 (2017: HK\$0.83) per share at a total cost (including related transaction costs) of HK\$29,030,000 (2017: HK\$104,257,000) which was credited to shares held for share award scheme account of the Company as an equity component of the Company. As at 31 December 2018, the total number of shares in the reserve was 839,989,221 (2017: 817,209,221).

### 32 股本及購股權／獎勵計劃 (續)

#### (c) 股份獎勵計劃(續)

##### 年內授出獎勵股份的詳情(續)

已授出股份數目於截至二零一八年及二零一七年十二月三十一日止年度之變動如下：

##### Number of Awarded Shares 獎勵股份數目

2018 二零一八年	2017 二零一七年
1,520,000	1,520,000
30,860,000	1,680,000
(30,860,000)	(1,680,000)
1,520,000	1,520,000

於截至二零一八年十二月三十一日止年度，受託人根據獎勵計劃按介乎每股0.54港元(二零一七年：0.52港元)至0.65港元(二零一七年：0.83港元)的價格在公開市場購入公司53,640,000(二零一七年：181,260,000股)普通股，總成本(包括相關交易成本)為29,030,000港元(二零一七年：104,257,000港元)，已計入公司就股份獎勵計劃持有的股份賬目，作為公司的股本部分。於二零一八年十二月三十一日，儲備股份總數為839,989,221股(二零一七年：817,209,221股)。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 33 Acquisition of business

Effective from 30 August 2018, the Group has completed a business acquisition consisting of oil and gas assets in West Central Alberta, Canada from an independent third party at cash consideration of CAD8,627,000 (approximately HK\$52,193,000). The Group commenced to account for the business combination from the effective date when the Group gained control over the business. The gain on bargain purchase amounted to approximately HK\$12,221,000 was attributable to the acquisition. Details of net assets acquired and gain on bargain purchase are as follows:

		HK\$'000 千港元
Total cash consideration	總現金代價	52,193
Recognised amounts of identifiable assets acquired and liabilities assumed	所收購可識別資產及所承擔負債的已確認金額	
Property, plant and equipment (Note 16)	物業、廠房及設備(附註16)	64,971
Asset retirement obligation (Note 31)	資產報廢承擔(附註31)	(557)
Total identifiable net assets	可識別淨資產總值	64,414
Gain on bargain purchase (Note 8)	議價收購收益(附註8)	12,221

Acquisition related costs were not significant and have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2018.

The acquired business contributed revenues of HK\$7,260,000 and net profit of HK\$2,420,000 since the date of acquisition to 31 December 2018, if the acquisition has occurred on 1 January 2018, consolidated pro-forma revenue and profit for the year ended 31 December 2018 would have been HK\$40,535,000 and HK\$26,620,000 respectively.

### 33 收購業務

自二零一八年八月三十日起，集團完成向一名獨立第三方進行的業務收購，收購包括加拿大阿爾伯塔省中西部的油氣資產，現金代價為8,627,000加元(約52,193,000港元)。集團自生效日期(即集團獲得對業務的控制權時)開始將業務合併入賬。因該收購而錄得溢價收購收益約12,221,000港元。已收購資產淨值及議價收購收益詳情如下：

相關收購成本並不重大且已自截至二零一八年十二月三十一日止年度之綜合全面收益表內的行政開支扣除。

自收購日期至二零一八年十二月三十一日，所收購業務貢獻營業額7,260,000港元及純利2,420,000港元，倘收購事項已於二零一八年一月一日進行，截至二零一八年十二月三十一日止年度綜合備考營業額及溢利將分別為40,535,000港元及26,620,000港元。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 34 Disposal of an associate

On 15 March 2017, a subsidiary of the Company, in which 75% equity interest held by the Company, entered into a sales and purchase agreement with independent third parties, pursuant to which the independent third parties agreed to purchase, and the subsidiary agreed to sell its entire 30% equity interests in an associate total cash consideration of RMB6,000,000 (approximately HK\$6,960,000). The transaction was completed on 15 March 2017 resulting in recognition of a gain on disposal of approximately HK\$3,759,000 (Note 8).

### 35 Cash flow information

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

<b>Net Debt</b> 債務淨額		<b>2018</b> 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Cash and cash equivalents	現金及現金等值項目	<b>2,508,223</b>	2,290,447
Borrowings — repayable within one year	借貸 — 應於一年內償還	<b>(1,455,839)</b>	(689,258)
Borrowings — repayable after one year	借貸 — 應於一年後償還	<b>(63,642)</b>	(60,000)
Senior notes — repayable after one year	優先票據 — 應於一年後償還	<b>(5,029,991)</b>	(4,970,240)
Net debt	債務淨額	<b>(4,041,249)</b>	(3,429,051)
Cash and cash equivalents	現金及現金等值項目	<b>2,508,223</b>	2,290,447
Gross debt — fixed interest rates	債務總額 — 固定利率	<b>(6,077,727)</b>	(5,324,240)
Gross debt — variable interest rates	債務總額 — 浮動利率	<b>(471,745)</b>	(395,258)
Net debt	債務淨額	<b>(4,041,249)</b>	(3,429,051)

### 34 出售一間聯營公司

於二零一七年三月十五日，公司一間附屬公司(公司持有75%的股權)與一名獨立第三方訂立一份買賣協議，據此，獨立第三方同意購買，及附屬公司同意出售其於一間聯營公司30%之股權，總現金代價為人民幣6,000,000元(約6,960,000港元)。該交易已於二零一七年三月十五日完成，導致確認出售收益約3,759,000港元(附註8)。

### 35 現金流量資料

本節載列各所示年度債務淨額的分析及債務淨額的變動。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 35 Cash flow information (Continued)

### 35 現金流量資料(續)

		Other assets 其他資產	Liabilities from financing activities 融資活動產生的負債			Total 總計
		Cash and cash equivalents  現金及現金 等值項目 HK\$'000 千港元	Borrowings due within 1 year  於一年內 到期的借貸 HK\$'000 千港元	Borrowings due after 1 year  於一年後 到期的借貸 HK\$'000 千港元	Senior notes due after 1 year  於一年後 到期的 優先票據 HK\$'000 千港元	
Net debts as at 1 January 2017	於二零一七年一月一日之債務淨額	1,833,483	(360,907)	-	(5,006,417)	(3,533,841)
Cash flows	現金流量	329,654	(141,178)	(55,005)	311,145	444,616
Finance costs	財務費用	-	(23,127)	(2,945)	(274,968)	(301,040)
Foreign exchange adjustments	外匯調整	127,310	(164,046)	(2,050)	-	(38,786)
Net debts as at 31 December 2017	於二零一七年十二月三十一日之債務淨額	2,290,447	(689,258)	(60,000)	(4,970,240)	(3,429,051)
Change in accounting policy (Note 2(a))	會計政策變動(附註2(a))	-	-	-	(54,512)	(54,512)
Cash flows	現金流量	325,095	(786,142)	(10,460)	241,703	(229,804)
Finance costs	財務費用	-	(54,456)	(3,361)	(246,942)	(304,759)
Reclassify from non-current to current	由非流動重新分類至流動	-	(7,200)	7,200	-	-
Foreign exchange adjustments	外匯調整	(107,319)	81,217	2,979	-	(23,123)
Net debts as at 31 December 2018	於二零一八年十二月三十一日之債務淨額	2,508,223	(1,455,839)	(63,642)	(5,029,991)	(4,041,249)

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 36 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 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Land and buildings expiring:	於下列期限到期的土地及樓宇：		
Within one year	一年內	18,763	13,831
After one year but within five years	一年後但五年內	38,918	22,731
After five years	五年後	29,632	26,923
		<b>87,313</b>	<b>63,485</b>

##### (b) Capital commitments

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

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Contracted but not provided for:	已訂約但未撥備：		
Property, plant and equipment	物業、廠房及設備	127,140	199,091

#### 36 承擔

##### (a) 經營租賃

集團根據經營租賃安排租賃其部分辦公物業。租賃物業的租期經磋商介乎1年至20年之間不等。

於二零一八年十二月三十一日，集團根據不可撤銷經營租賃到期應付的未來最低租賃付款總額如下：

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Land and buildings expiring:	於下列期限到期的土地及樓宇：		
Within one year	一年內	18,763	13,831
After one year but within five years	一年後但五年內	38,918	22,731
After five years	五年後	29,632	26,923
		<b>87,313</b>	<b>63,485</b>

##### (b) 資本承擔

集團於財務狀況表日期有以下未撥備的未履行資本承擔：

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Contracted but not provided for:	已訂約但未撥備：		
Property, plant and equipment	物業、廠房及設備	127,140	199,091

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 37 Related party transactions

As at 31 December 2018, 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 24.5%. The remaining 75.5% 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.

#### 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 12.

### 37 關連人士交易

於二零一八年十二月三十一日，公司由中泰國際集團有限公司（「中泰國際」）（於英屬維爾京群島（「英屬維爾京群島」）註冊成立的公司，由公司主席及執行董事許鈺良先生全資實益擁有）間接擁有約24.5%。公司其餘75.5%股份被廣泛持有。許鈺良先生及公司其他董事均為公司主要管理人員而被視為公司的關連人士。

#### 與主要管理人員的交易

公司董事被視為集團主要管理人員。主要管理人員之酬金乃由薪酬委員會經考慮個別人士之表現及市場趨勢後釐定。付予該等人士之酬金詳情載於附註12。

### 38 Particulars of the principal subsidiaries and controlled structured entities

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

Name 名稱	Place of incorporation/ establishment and kind of legal entity 註冊成立/ 成立地點及法律實體類型	Nominal value of issued share capital/registered capital 已發行股本面值/ 註冊資本	Percentage of equity attributable to the Company		Principal activities 主要業務
			Directly 直接	Indirectly 間接	
Profaiith Group Limited	BVI, Wholly foreign-owned enterprise 英屬維爾京群島， 外商獨資企業	US\$1 1美元	100.0%	-	Investment holding 投資控股
All Praise Investment Limited	BVI, Wholly foreign-owned enterprise 英屬維爾京群島， 外商獨資企業	US\$1 1美元	100.0%	-	Investment holding 投資控股
China Oil And Gas Group Limited 中油燃氣集團有限公司	BVI, Wholly foreign-owned enterprise 英屬維爾京群島， 外商獨資企業	US\$1 1美元	100.0%	-	Investment holding 投資控股

### 38 主要附屬公司及受控制結構實體之詳情

(a) 主要附屬公司詳情如下：

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 38 Particulars of the principal subsidiaries and controlled structured entities (Continued)

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

### 38 主要附屬公司及受控制結構實體之詳情(續)

(a) 主要附屬公司詳情如下：(續)

Name 名稱	Place of incorporation/ establishment and kind of legal entity 註冊成立/ 成立地點及法律實體類型	Nominal value of issued share capital/registered capital 已發行股本面值/ 註冊資本	Percentage of equity attributable to the Company		Principal activities 主要業務
			Directly 直接	Indirectly 間接	
China Oil And Gas Management Limited 中油燃氣管理有限公司	Hong Kong, Wholly foreign-owned enterprise 香港，外商獨資企業	HK\$1 1港元	-	100.0%	Investment holding 投資控股
Alta Financial Holdings Limited 恒泰金融集團有限公司	BVI, Wholly foreign-owned enterprise 英屬維爾京群島，外商獨資企業	US\$1,000 1,000美元	-	100.0%	Investment holding 投資控股
Zhongda Industrial Group Inc 中大工業集團有限公司	BVI, Wholly foreign-owned enterprise 英屬維爾京群島，外商獨資企業	US\$10,000 10,000美元	-	100.0%	Investment holding 投資控股
China Oil And Gas Group (Asia) Limited 中油燃氣集團(亞洲)有限公司	Hong Kong, Wholly foreign-owned enterprise 香港，外商獨資企業	HK\$1 1港元	-	100.0%	Investment holding 投資控股
Hong Kong China Oil And Gas Group Limited 香港中油燃氣集團有限公司	Hong Kong, Wholly foreign-owned enterprise 香港，外商獨資企業	HK\$1 1港元	-	100.0%	Investment holding 投資控股
Accelstar Pacific Limited	BVI, Wholly foreign-owned enterprise 英屬維爾京群島，外商獨資企業	US\$50,000 50,000美元	-	100.0%	Investment holding 投資控股
Plentigreat Holdings Limited	BVI, Wholly foreign-owned enterprise 英屬維爾京群島，外商獨資企業	US\$10,000 10,000美元	-	100.0%	Investment holding 投資控股
Vast China Group Limited	BVI, Wholly foreign-owned enterprise 英屬維爾京群島，外商獨資企業	US\$1 1美元	-	100.0%	Investment holding 投資控股

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 38 Particulars of the principal subsidiaries and controlled structured entities (Continued)

### 38 主要附屬公司及受控制結構實體之詳情(續)

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

(a) 主要附屬公司詳情如下：(續)

Name 名稱	Place of incorporation/ establishment and kind of legal entity 註冊成立/ 成立地點及法律實體類型	Nominal value of issued share capital/registered capital 已發行股本面值/ 註冊資本	Percentage of equity attributable to the Company		Principal activities 主要業務
			Directly 直接	Indirectly 間接	
Sino Invent Holdings Limited	BVI, Wholly foreign-owned enterprise 英屬維爾京群島· 外商獨資企業	US\$1 1美元	-	100.0%	Investment holding 投資控股
China City Natural Gas Investment Group Company Limited* ("CCNG")	PRC, Wholly foreign-owned enterprise 中國·外商獨資企業	RMB1,000,000,000 人民幣 1,000,000,000元	-	51.0%	Investment holding and trading of natural gas 投資控股及天然氣買賣
中油中泰燃氣投資集團有限公司 (「中油中泰」)	PRC, Limited liability company 中國·有限責任公司	RMB65,874,000 人民幣65,874,000元	-	40.8%(i)	Trading of natural gas, gas pipeline construction and operation of natural gas stations 天然氣買賣·天然氣管道建造及天然氣站經營
西寧中油燃氣有限責任公司	PRC, Limited liability company 中國·有限責任公司	RMB44,000,000 人民幣44,000,000元	-	40.8%(i)	Gas pipeline construction 天然氣管道建造
青海宏利燃氣管道安裝工程有限責任公司	PRC, Limited liability company 中國·有限責任公司	RMB20,800,000 人民幣20,800,000元	-	40.8%(i)	Trading of natural gas 天然氣買賣
青海中油壓縮天然氣銷售有限公司	PRC, Limited liability company 中國·有限責任公司	RMB900,000 人民幣900,000元	-	40.8%(i)	Trading of natural gas-related equipment 天然氣相關設備買賣
西寧中油商貿有限公司	PRC, Limited liability company 中國·有限責任公司	RMB100,000,000 人民幣100,000,000元	-	30.6%(i)	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道建造
醴陵中油燃氣有限責任公司	PRC, Limited liability company 中國·有限責任公司	RMB100,000,000 人民幣100,000,000元	-	30.6%(i)	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道建造

\* For identification purpose only

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 38 Particulars of the principal subsidiaries and controlled structured entities (Continued)

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

Name 名稱	Place of incorporation/ establishment and kind of legal entity 註冊成立/ 成立地點及法律實體類型	Nominal value of issued share capital/registered capital 已發行股本面值/ 註冊資本	Percentage of equity attributable to the Company		Principal activities 主要業務
			Directly 直接	Indirectly 間接	
濱州中油燃氣有限責任公司	PRC, Limited liability company 中國·有限責任公司	RMB50,000,000 人民幣50,000,000元	-	40.8%(i)	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道建造
惠民中油燃氣有限責任公司	PRC, Limited liability company 中國·有限責任公司	RMB25,000,000 人民幣25,000,000元	-	50.5%	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道建造
湖南中油燃氣有限責任公司	PRC, Limited liability company 中國·有限責任公司	RMB45,000,000 人民幣45,000,000元	-	30.6%(i)	Natural gas transmission through pipeline 管道天然氣輸送
泰州中油燃氣有限責任公司	PRC, Limited liability company 中國·有限責任公司	RMB15,000,000 人民幣15,000,000元	-	51.0%	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道建造
潮州中油燃氣有限公司	PRC, Limited liability company 中國·有限責任公司	RMB30,000,000 人民幣30,000,000元	-	51.0%	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道建造
潮安縣華明燃氣有限公司	PRC, Limited liability company 中國·有限責任公司	RMB12,000,000 人民幣12,000,000元	-	40.8%(i)	Trading of natural gas 天然氣買賣
中油中泰物流(珠海)有限公司	PRC, Limited liability company 中國·有限責任公司	RMB75,000,000 人民幣75,000,000元	-	100.0%	Transportation services 運輸服務

#### 38 主要附屬公司及受控制結構實體之詳情(續)

(a) 主要附屬公司詳情如下:(續)

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 38 Particulars of the principal subsidiaries and controlled structured entities (Continued)

### 38 主要附屬公司及受控制結構實體之詳情(續)

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

(a) 主要附屬公司詳情如下：(續)

Name 名稱	Place of incorporation/ establishment and kind of legal entity 註冊成立/ 成立地點及法律實體類型	Nominal value of issued share capital/registered capital 已發行股本面值/ 註冊資本	Percentage of equity attributable to the Company 公司應佔股權百分比		Principal activities 主要業務
			Directly 直接	Indirectly 間接	
青海中油管道燃氣有限公司	PRC, Limited liability company 中國·有限責任公司	RMB20,000,000 人民幣20,000,000元	-	51.0%	Natural gas transmission through pipeline 管道天然氣運輸
泰州中油管輸天然氣有限公司	PRC, Limited liability company 中國·有限責任公司	RMB111,000,000 人民幣111,000,000元	-	45.5%(i)	Gas pipeline design and construction, natural gas transmission through pipeline 天然氣管道設計及建造· 管道天然氣輸送
鄧平中油燃氣有限責任公司	PRC, Limited liability company 中國·有限責任公司	RMB20,000,000 人民幣20,000,000元	-	35.7%(i)	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道 建造
中油中泰(深圳)新能源有限公司	PRC, Limited liability company 中國·有限責任公司	RMB71,000,000 人民幣71,000,000元	-	51.0%	Investment holding 投資控股
仙桃中油燃氣有限責任公司	PRC, Limited liability company 中國·有限責任公司	RMB67,910,000 人民幣67,910,000元	-	35.7%(i)	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道 建造
仙桃市潔能天然氣有限公司	PRC, Limited liability company 中國·有限責任公司	RMB2,000,000 人民幣2,000,000元	-	35.7%(i)	Trading of natural gas 天然氣買賣
武漢東方市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

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 38 Particulars of the principal subsidiaries and controlled structured entities (Continued)

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

Name 名稱	Place of incorporation/ establishment and kind of legal entity 註冊成立/ 成立地點及法律實體類型	Nominal value of issued share capital/registered capital 已發行股本面值/ 註冊資本	Percentage of equity attributable to the Company		Principal activities 主要業務
			Directly 直接	Indirectly 間接	
	中國·有限責任公司	人民幣75,000,000元			天然氣買賣及天然氣管道 建造
西寧中油中泰管道燃氣 有限公司	PRC, Limited liability company	RMB50,000,000	-	40.8%(i)	Gas pipeline design and construction
南京潔寧燃氣有限公司	中國·有限責任公司 PRC, Wholly foreign-owned enterprise	人民幣50,000,000元 HK\$187,500,000	-	100.0%	天然氣管道設計及建造 Investment holding, construction of natural gas stations and trading of natural gas
安徽中油燃氣有限公司	中國·外商獨資企業 PRC, Sino-foreign equity joint venture	187,500,000港元 RMB18,000,000	-	80.4%	投資控股·天然氣站建造 及天然氣買賣 Trading of natural gas and gas pipeline construction
中油燃氣投資集團有限 公司(前稱中油燃氣 (廣東)投資有限公司)	中國·中外合資合營企業 PRC, Wholly foreign-owned enterprise	人民幣18,000,000元 US\$75,000,000	-	100.0%	天然氣買賣及天然氣管道 建造 Investment holding
恒泰國際融資租賃有限 公司	中國·外商獨資企業 PRC, Limited liability company	75,000,000美元 US\$26,981,000	-	100.0%	投資控股 Provision for finance
新疆恒泰融資租賃 有限公司	中國·有限責任公司 PRC, Sino-foreign equity joint venture	26,981,000美元 RMB170,000,000	-	100.0%	提供融資 Provision for finance
	中國·中外合資合營企業	人民幣170,000,000 元			提供融資

#### 38 主要附屬公司及受控制結構 實體之詳情(續)

(a) 主要附屬公司詳情如下:(續)

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 38 Particulars of the principal subsidiaries and controlled structured entities (Continued)

### 38 主要附屬公司及受控制結構實體之詳情(續)

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

(a) 主要附屬公司詳情如下：(續)

Name 名稱	Place of incorporation/ establishment and kind of legal entity 註冊成立/ 成立地點及法律實體類型	Nominal value of issued share capital/registered capital 已發行股本面值/ 註冊資本	Percentage of equity attributable to the Company 公司應佔股權百分比		Principal activities 主要業務
			Directly 直接	Indirectly 間接	
揚州中油燃氣有限責任公司	PRC, Sino-foreign equity joint venture 中國·中外合資合營企業	RMB40,000,000 人民幣40,000,000元	-	38.8%(ii)	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道建造
青海中油甘河工業園區燃氣有限公司	PRC, Sino-foreign equity joint venture 中國·中外合資合營企業	RMB26,000,000 人民幣26,000,000元	-	60.4%	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道建造
南通中油燃氣有限責任公司	PRC, Sino-foreign equity joint venture 中國·中外合資合營企業	RMB15,000,000 人民幣15,000,000元	-	75.0%	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道建造
萍鄉市燃氣公司	PRC, Sino-foreign equity joint venture 中國·中外合資合營企業	RMB284,400,000 人民幣284,400,000元	-	51.0%	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道建造
Baccalieu Energy Inc.	Canada 加拿大	CAD 141,040,000 141,040,000加元	-	100.0%	Exploitation and distribution of crude oil and natural gas 開採及分銷原油及天然氣

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 38 Particulars of the principal subsidiaries and controlled structured 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, Hong Kong China Oil and Gas Group Limited ("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.

### 38 主要附屬公司及受控制結構實體之詳情(續)

- (a) 主要附屬公司詳情如下：(續)

附註：

- (i) 集團透過擁有51.0%權益的附屬公司中油中泰持有該等附屬公司控股權益。因此，集團擁有該等實體的控制權，而該等實體被視為公司的附屬公司。
- (ii) 集團透過中油中泰及全資附屬公司香港中油燃氣集團有限公司(「香港中油燃氣」)持有該附屬公司控股權益。因此，集團擁有該實體控制權，而該實體被視為公司的附屬公司。
- (iii) 董事認為，上表所列公司附屬公司主要影響本年度業績或佔集團資產淨值重大部分。董事認為，提供其他附屬公司之詳情會導致篇幅冗長。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 38 Particulars of the principal subsidiaries and controlled structured entities (Continued)

(b) Set out below are the summarised consolidated financial information of CCNG and its subsidiaries that have non-controlling interests that are material to the Group. The information below is the amount before inter-company eliminations:

### 38 主要附屬公司及受控制結構實體之詳情(續)

(b) 下表載列中油中泰及其附屬公司(擁有對集團而言屬重大之非控股權益)綜合財務資料概要。下述資料為公司間對銷前之金額：

		2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Total assets	總資產	8,906,970	7,947,199
Total liabilities	總負債	<b>(4,759,378)</b>	(3,705,442)
Net assets	資產淨值	<b>4,147,592</b>	4,241,757
Revenue	營業額	<b>7,577,665</b>	6,268,785
Profit for the year	年內溢利	<b>649,997</b>	425,740
Other comprehensive (loss)/gain	其他全面(虧損)/收益	<b>(152,952)</b>	267,881
Total comprehensive income	全面收益總額	<b>497,045</b>	693,621
Dividend paid to non-controlling interests	支付股息予非控股權益	<b>126,605</b>	26,638

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 38 Particulars of the principal subsidiaries and controlled structured entities (Continued)

- (b) Set out below are the summarised consolidated financial information of CCNG and its subsidiaries that have non-controlling interests that are material to the Group. The information below is the amount before inter-company eliminations: (Continued)

#### 38 主要附屬公司及受控制結構實體之詳情(續)

- (b) 下表載列中油中泰及其附屬公司(擁有對集團而言屬重大之非控股權益)綜合財務資料概要。下述資料為公司間對銷前之金額:(續)

		CCNG 中油中泰 2018 二零一八年 HK\$'000 千港元	CCNG 中油中泰 2017 二零一七年 HK\$'000 千港元
Net cash generated from operating activities	經營業務產生之現金淨額	917,108	986,390
Net cash used in investing activities	投資活動所用之現金淨額	(1,067,136)	(481,667)
Net cash generated from/used in financing activities	融資活動所得/所用之現金淨額	437,162	(200,713)
Net increase in cash and cash equivalents	現金及現金等值項目增加淨額	287,134	304,010
Cash and cash equivalents at 1 January	於一月一日之現金及現金等值項目	1,430,538	1,040,994
Effect of foreign exchange rate changes	匯率變動影響	(11,921)	85,534
Cash and cash equivalents at 31 December	於十二月三十一日之現金及現金等值項目	1,705,751	1,430,538

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 38 Particulars of the principal subsidiaries and controlled structured entities (Continued)

### 38 主要附屬公司及受控制結構實體之詳情(續)

(c) Details of the controlled structured entity are as follows:

(c) 受控制結構實體詳情如下：

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

公司控制一間在香港營運的結構實體，其詳情如下：

Structured entities 結構實體	Principal activities 主要業務
Best Thinker Limited ("Trustee")	Purchases, administers and holds the Company's shares for the Restricted Share Award Scheme for the benefit of eligible employees of the Group
Best Thinker Limited (「受託人」)	為集團合資格僱員利益就限制性股份獎勵計劃買入、管理及持有公司股份

As the Trustee is set up solely for the purpose of purchasing, administering and holding the Company's shares for the Restricted Share Award Scheme (Note 32(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".

由於受託人乃專為就限制性股份獎勵計劃(附註32(c))買入、管理及持有公司股份而設置，公司有權控制受託人的財政及營運政策，並可從獲授限制性股份的僱員予持續受僱於集團時所提供的服務獲得利益。受託人的資產及負債自信託獲採納時起均包括在公司綜合財務狀況表中，並將受託人持有的公司股份作為一個扣減項目在權益中呈報，列作「為股份獎勵計劃所持股份」。

### 39 Approval of consolidated financial statements

### 39 批准綜合財務報表

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 27 March 2019.

董事局於二零一九年三月二十七日批准及授權刊發綜合財務報表。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 40 Statement of financial position of the Company

### 40 公司財務狀況表

	Note 附註	2018 二零一八年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元
Non-current assets			
Intangible assets		1,702	1,702
Interests in subsidiaries		5,736,642	5,103,723
Available-for-sale financial assets		-	20,050
		<b>5,738,344</b>	5,125,475
Current assets			
Amounts due from subsidiaries		57,400	51,218
Cash and cash equivalents		10,673	3,027
		<b>68,073</b>	54,245
Current liabilities			
Other payables		(49,554)	(42,447)
Net current assets		<b>18,519</b>	11,798
Total assets less current liabilities		<b>5,756,863</b>	5,137,273
Non-current liabilities			
Senior notes		(5,029,991)	(4,970,240)
Net assets		<b>726,872</b>	167,033
Equity			
Equity attributable to owners of the Company			
Share capital	32	58,391	58,257
Reserves	41	668,481	108,776
Total equity		<b>726,872</b>	167,033

The statement of financial position of the Company was approved by the Board of Directors on 27 March 2019 and was signed on its behalf.

公司財務狀況表已於二零一九年三月二十七日獲董事局批准並由以下董事代為簽署。

Xu Tie-liang  
Director

Guan Yijun  
Director

許鉄良  
董事

關懿君  
董事

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 41 Reserves of the Company

### 41 公司儲備

		Share premium	Capital redemption reserve	Shares held for share award scheme	Share-based compensation reserve	Exchange fluctuation reserve	(Note) Contributed surplus	(Accumulated) losses	Total
		股份溢價	資本贖回儲備	為股份獎勵計劃所持股份	以股份為基礎的報酬計劃	匯兌波動儲備	應入盈餘	(累計)虧損	總額
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		千港元	千港元	千港元	千港元	千港元	千港元	千港元	千港元
At 1 January 2017	於二零一七年一月一日	24,578	998	(305,706)	3,441	(17,542)	1,520,328	(703,030)	523,067
Vesting of shares under share award scheme	根據股份獎勵計劃歸屬股份	-	-	991	(991)	-	-	-	-
Exchange differences on translating foreign operations	換算海外業務的匯兌差額	-	-	-	-	(802)	-	-	(802)
Equity-settled share-based payments	以權益結算以股份為基礎的付款	-	-	-	4,744	-	-	-	4,744
Shares purchased for share award scheme	為股份獎勵計劃購買股份	-	-	(104,257)	-	-	-	-	(104,257)
Final dividend for the year ended 31 December 2016	截至二零一六年十二月三十一日止年度之末期股息	-	-	-	-	-	(29,128)	-	(29,128)
Loss for the year	年內虧損	-	-	-	-	-	-	(284,848)	(284,848)
At 31 December 2017 as originally presented	於二零一七年十二月三十一日原呈列	24,578	998	(408,972)	7,194	(18,344)	1,491,200	(987,878)	108,776
Change in accounting policy (Note 2(a))	會計政策變動(附註2(a))	-	-	-	-	-	-	(54,512)	(54,512)
Restated total equity as at 1 January 2018	於二零一八年一月一日經重列權益總額	24,578	998	(408,972)	7,194	(18,344)	1,491,200	(1,042,390)	54,264
Vesting of shares under share award scheme	根據股份獎勵計劃歸屬股份	-	-	17,316	(17,316)	-	-	-	-
Exchange differences on translating foreign operations	換算海外業務的匯兌差額	-	-	-	-	(131)	-	-	(131)
Equity-settled share-based payments	以權益結算以股份為基礎的付款	-	-	-	21,269	-	-	-	21,269
Shares purchased for share award scheme	為股份獎勵計劃購買股份	-	-	(29,030)	-	-	-	-	(29,030)
Proceeds from shares issued upon exercise of share options	於行使購股權時發行股份所得款項	7,755	-	-	(1,707)	-	-	-	6,048
Final dividend for the year ended 31 December 2017	截至二零一七年十二月三十一日止年度之末期股息	-	-	-	-	-	(20,390)	-	(20,390)
Profit for the year	年內溢利	-	-	-	-	-	-	636,451	636,451
At 31 December 2018	於二零一八年十二月三十一日	32,333	998	(420,686)	9,440	(18,475)	1,470,810	(405,939)	668,481

**Note:**

The contributed surplus of the Company represents the excess of the net assets value of the subsidiaries acquired pursuant to the Group's reorganisation in 1993 over the nominal value of the Company's shares issued in exchange thereof. Under the Companies Act of Bermuda 1981 (as amended), the contributed surplus of the Company is distributable to the shareholders in certain circumstances which the Company is able to satisfy.

**附註：**

公司之繳入盈餘指集團於一九九三年因重組而收購附屬公司之資產淨值超出公司就收購而發行股份之面值之金額。根據一九八一年百慕達公司法(修訂本)，公司之繳入盈餘在若干情況下可供分派予股東，惟目前公司能符合此等情況。

## Independent Auditor's Report 獨立核數師報告書



To the Shareholders of China Oil And Gas Group Limited  
(incorporated in Bermuda with limited liability)

### Opinion

#### What we have audited

The consolidated financial statements of China Oil And Gas Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 64 to 195, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong  
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

### 羅兵咸永道

致中油燃氣集團有限公司股東  
(於百慕達註冊成立之有限公司)

### 意見

#### 我們已審計的內容

中油燃氣集團有限公司(以下簡稱「貴公司」)及其附屬公司(以下統稱「貴集團」)列載於第64至195頁的綜合財務報表，包括：

- 於二零一七年十二月三十一日的綜合財務狀況表；
- 截至該日止年度的綜合全面收益表；
- 截至該日止年度的綜合權益變動表；
- 截至該日止年度的綜合現金流量表；及
- 綜合財務報表附註，包括主要會計政策概要。

#### 我們的意見

我們認為，該等綜合財務報表已根據香港會計師公會頒布的《香港財務報告準則》真實而中肯地反映了貴集團於二零一七年十二月三十一日之綜合財務狀況及其截至該日止年度的綜合財務表現及綜合現金流量，並已遵照香港《公司條例》的披露規定妥為擬備。

## Independent Auditor's Report 獨立核數師報告書

(continued) (續)



To the Shareholders of China Oil And Gas Group Limited (Continued)  
(incorporated in Bermuda with limited liability)

### Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

### Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment assessments of loan receivable from and interest in an associate
- Impairment assessment of goodwill

## 羅兵咸永道

致中油燃氣集團有限公司股東(續)  
(於百慕達註冊成立之有限公司)

### 意見的基礎

我們已根據香港會計師公會頒布的《香港審計準則》進行審計。我們在該等準則下承擔的責任已在本報告「核數師就審計綜合財務報表承擔的責任」部分中作進一步闡述。

我們相信，我們所獲得的審計憑證能充足及適當地為我們的審計意見提供基礎。

### 獨立性

根據香港會計師公會頒布的《專業會計師道德守則》(以下簡稱「守則」)，我們獨立於貴集團，並已履行守則中的其他專業道德責任。

### 關鍵審計事項

關鍵審計事項是根據我們的專業判斷，認為對本期綜合財務報表的審計最為重要的事項。這些事項是在我們審計整體綜合財務報表及出具意見時進行處理的。我們不會對這些事項提供單獨的意見。

我們在審計中識別的關鍵審計事項概述如下：

- 應收一間聯營公司貸款及於該聯營公司的權益減值評估
- 商譽減值評估

## Independent Auditor's Report 獨立核數師報告書

(continued) (續)



To the Shareholders of China Oil And Gas Group Limited (Continued)  
(incorporated in Bermuda with limited liability)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Impairment assessments of loan receivable from and interest in an associate</b></p> <p>Refer to note 5(a) critical accounting estimates and judgements and note 20 and 23(c) to the Group's consolidated financial statements.</p> <p>The Group had loan receivable from an associate of approximately HK\$637,251,000 and interest in this associate of approximately HK\$257,250,000 as at 31 December 2017.</p> <p>Management concluded that no provision was required as the associate has the ability to repay the loan and the recoverable amount of the associate's business exceeded its carrying value.</p> <p>Management assessed the recoverability of interest in the associate based on the recoverable amount of the associate's business valuation applying the fair value less costs of disposal method. The key underlying assumptions were set out in notes 5(a) and 20 to the Group's consolidated financial statements.</p>	<p>Our procedures in relation to management's impairment assessment of interest in this associate included the evaluation of the appropriateness of valuation methodology and reasonableness of the key assumptions used with assistance of our internal expert.</p> <p>Our procedures in relation to management's impairment assessment of loan receivable from the associate included reviewing the financial statements, business plan and forecast of the associate to identify whether there are indications the associate cannot repay its debt, as and when they fall due.</p> <p>We evaluated management's estimated commodity price growth rate by challenging management's rationale to support their projections. We researched the most up-to-date commodity price and performed independent market research on the commodity price growth that was in line with management's forecasts.</p>

### 羅兵咸永道

致中油燃氣集團有限公司股東(續)  
(於百慕達註冊成立之有限公司)

關鍵會計事項	我們的審計如何處理關鍵會計事項
<p><b>應收一間聯營公司貸款及於該聯營公司的權益減值評估</b></p> <p>參考附註5(a)重大會計估計及判斷以及貴集團綜合財務報表附註20及23(c)。</p> <p>於二零一七年十二月三十一日，貴集團應收一間聯營公司貸款約為637,251,000港元及於該聯營公司擁有的權益約為257,250,000港元。</p> <p>管理層斷定毋須作出撥備，蓋因該聯營公司有償還貸款且聯營公司業務的可收回金額超過其賬面值。</p> <p>根據應用使用公平值減出售成本法計算的聯營公司業務可收回金額估值，管理層對於聯營公司權益的可收回性進行評估。關鍵相關假設載於貴集團綜合財務報表附註5(a)及20。</p>	<p>我們與管理層對於聯營公司權益的減值評估相關的程序包括在我們的估值專家協助下對所採用的估值方法是否適當及重大假設是否合理進行評估。</p> <p>我們與管理層對應收聯營公司貸款的減值評估相關的程序包括覆核聯營公司的財務報表、業務計劃及預測，以認定是否存在聯營公司無法償還其到期債務的跡象。</p> <p>通過對管理層用以支持其預測的基本原理提出質疑，我們對管理層的估計商品價格增長率進行評估。我們研究最近期的商品價格，並就與管理層預測相一致的商品價格增長進行獨立市場調研。</p>

## Independent Auditor's Report 獨立核數師報告書

(continued) (續)



To the Shareholders of China Oil And Gas Group Limited (Continued)  
(incorporated in Bermuda with limited liability)

Key Audit Matter	How our audit addressed the Key Audit Matter
<b>Impairment assessments of loan receivable from and interest in an associate (continued)</b>	
We focused on this area due to the magnitude of the loan receivable from and interest in this associate. Moreover, significant judgements and estimates were involved in estimating the recoverable amount of the interest in the associate and the loan receivable.	We compared the future production profile against the reserve estimation report conducted by management's expert and evaluated the competence, capacity and objectivity of the expert.
	We evaluated the reasonableness of the discount rate applied by benchmarking management's assumptions with those applied by comparable companies and industry forecasts.
	We physically inspected the site and discussed with local management to understand the current status of operation.
	We performed sensitivity analysis in consideration of the potential impact of reasonably possible downside changes in these key assumptions.
	We found the management's judgements and assumptions used in the impairment assessments of loan receivable from and interest in an associate were supported by the available evidence.

## 羅兵咸永道

致中油燃氣集團有限公司股東(續)  
(於百慕達註冊成立之有限公司)

關鍵會計事項	我們的審計如何處理關鍵會計事項
<b>應收一間聯營公司貸款及於該聯營公司的權益減值評估(續)</b>	
我們因應收該聯營公司貸款及於該聯營公司擁有的權益甚巨而關注此領域。另外，對於聯營公司權益及應收貸款的可收回金額進行估計涉及重大判斷及估計。	我們將未來生產概況與管理層專家進行的儲量估算報告進行對比，並評估專家的專長、能力及客觀性。
	通過將管理層的假設與可資比較公司所採用者及行業預測進行比較，我們對所採用的貼現率之合理性進行評估。
	我們實地視察現場並與當地管理層討論，以了解當前營運狀況。
	考慮到該等關鍵假設可能進行合理下行變化的潛在影響，我們進行了敏感度分析。
	我們發現，管理層在應收一間聯營公司貸款及於該聯營公司的權益減值評估中應用的判斷及假設獲現有證據支持。

## Independent Auditor's Report 獨立核數師報告書

(continued) (續)



To the Shareholders of China Oil And Gas Group Limited (Continued)  
(incorporated in Bermuda with limited liability)

Key Audit Matter	How our audit addressed the Key Audit Matter
------------------	----------------------------------------------

**Impairment assessment of goodwill**

Refer to note 5(b) critical accounting estimates and judgements and note 19 to the Group's consolidated financial statements.

The Group carried goodwill of approximately HK\$997,499,000 as at 31 December 2017, which was allocated to a group of cash generating units ("CGUs") relating to the sales and distribution of natural gas and other related products business ("Natural Gas Business") CGUs.

Management estimated the recoverable amount of the Natural Gas Business CGUs based on value-in-use calculations that applied the key assumptions and inputs set out in notes 5(b) and 19 to the Group's consolidated financial statements. Based on value-in-use calculations, management has concluded there was no impairment of the goodwill as at 31 December 2017.

We focused on this area due to the magnitude of the goodwill balance and the significant judgements made by management in estimating the recoverable amount of the goodwill.

Our procedures in relation to testing management's goodwill impairment assessment of the Natural Gas Business CGUs included the evaluation of the appropriateness of valuation methodology and reasonableness of the key assumptions used with assistance of our valuation experts.

We challenged management on the estimated growth rate, expected changes to selling prices and direct costs assumptions and compared cash flows generated during the year ended 31 December 2017 with prior years' performance. We evaluated the reasonableness of the discount rate applied by benchmarking management's assumptions with those applied by comparable companies and industry forecasts. Furthermore, we evaluated the terminal growth rate with reference to the long term inflation rate.

We found the management's judgements and assumptions used in the impairment assessment of goodwill were supported by the available evidence.

## 羅兵咸永道

致中油燃氣集團有限公司股東(續)  
(於百慕達註冊成立之有限公司)

關鍵會計事項	我們的審計如何處理關鍵會計事項
--------	-----------------

**商譽減值評估**

參考附註5(b)重大會計估計及判斷以及貴集團綜合財務報表附註19。

於二零一七年十二月三十一日，貴集團錄得商譽約997,499,000港元。商譽分配至一組現金產生單位(「現金產生單位」)，該組現金產生單位乃與銷售及分銷天然氣及其他相關產品業務(「天然氣業務」)現金產生單位有關。

管理層根據使用價值計算法對天然氣業務現金產生單位的可收回金額進行估計。該方法應用貴集團綜合財務報表附註5(b)及19所載的重大假設及數據。根據使用價值計算法管理層已斷定，於二零一七年十二月三十一日概無任何商譽減值。

我們因商譽結餘甚巨且管理層於對商譽的可收回金額進行估計時作出的重大判斷而關注此領域。

我們測試管理層對天然氣業務現金產生單位商譽減值評估相關的程序包括在我們的估值專家協助下對所採用的估值方法是否適當及關鍵假設是否合理進行評估。

我們就估計增長率、預期售價變動及直接費用假設對管理層提出質疑，並將截至二零一七年十二月三十一日止年度之現金流量與上年表現進行對比。通過將管理層的假設與可資比較公司所採用者及行業預測進行比較，我們對所採用的貼現率之合理性進行評估。另外，根據長期通脹率，我們對最終增長率進行評估。

我們發現，管理層在商譽減值評估中應用的判斷及假設獲現有證據支持。

## Independent Auditor's Report 獨立核數師報告書

(continued) (續)



To the Shareholders of China Oil And Gas Group Limited (Continued)  
(incorporated in Bermuda with limited liability)

### Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## 羅兵咸永道

致中油燃氣集團有限公司股東(續)  
(於百慕達註冊成立之有限公司)

### 其他資料

貴公司董事須對其他信息負責。其他信息包括年報內的所有信息，但不包括綜合財務報表及我們的核數師報告。

我們對綜合財務報表的意見並不涵蓋其他信息，我們亦不對該等其他信息發表任何形式的鑒證結論。

結合我們對綜合財務報表的審計，我們的責任是閱讀其他信息，在此過程中，考慮其他信息是否與綜合財務報表或我們在審計過程中所了解的情況存在重大抵觸或者似乎存在重大錯誤陳述的情況。

基於我們已執行的工作，如果我們認為其他信息存在重大錯誤陳述，我們需要報告該事實。在這方面，我們沒有任何報告。

## Independent Auditor's Report 獨立核數師報告書

(continued) (續)



To the Shareholders of China Oil And Gas Group Limited (Continued)  
(incorporated in Bermuda with limited liability)

### Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee are responsible for overseeing the Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

### 羅兵咸永道

致中油燃氣集團有限公司股東(續)  
(於百慕達註冊成立之有限公司)

### 董事及審核委員會就綜合財務報表須承擔的責任

貴公司董事須負責根據香港會計師公會頒布的《香港財務報告準則》及香港《公司條例》的披露規定擬備真實而中肯的綜合財務報表，並對其認為為使綜合財務報表的擬備不存在由於欺詐或錯誤而導致的重大錯誤陳述所需的內部控制負責。

在擬備綜合財務報表時，董事須負責評估 貴集團持續經營的能力，並在適用情況下披露與持續經營有關的事項，以及使用持續經營為會計基礎，除非董事有意將 貴集團清盤或停止經營，或別無其他實際的替代方案。

審核委員會須負責監督 貴集團的財務報告過程。

### 核數師就審核綜合財務報表須承擔的責任

我們的目標，是對綜合財務報表整體是否不存在由於欺詐或錯誤而導致的重大錯誤陳述取得合理保證，並出具包括我們意見的核數師報告。我們僅向按照百慕達一九八一年《公司法》第90條向 閣下(作為整體)報告我們的意見，除此之外本報告別無其他目的。我們不會就本報告的內容向任何其他人士負責或承擔任何責任。合理保證是高水平的保證，但不能保證按照《香港審計準則》進行的審計，在某一重大錯誤陳述存在時總能發現。錯誤陳述可以由欺詐或錯誤引起，如果合理預期它們單獨或滙總起來可能影響綜合財務報表使用者依賴綜合財務報表所作出的經濟決定，則有關的錯誤陳述可被視作重大。

## Independent Auditor's Report 獨立核數師報告書

(continued) (續)



To the Shareholders of China Oil And Gas Group Limited (Continued)  
(incorporated in Bermuda with limited liability)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## 羅兵咸永道

致中油燃氣集團有限公司股東(續)  
(於百慕達註冊成立之有限公司)

在根據《香港審計準則》進行審計的過程中，我們運用了專業判斷，保持了專業懷疑態度。我們亦：

- 識別和評估由於欺詐或錯誤而導致綜合財務報表存在重大錯誤陳述的風險，設計及執行審計程序以應對這些風險，以及獲取充足和適當的審計憑證，作為我們意見的基礎。由於欺詐可能涉及串謀、偽造、蓄意遺漏、虛假陳述，或凌駕於內部控制之上，因此未能發現因欺詐而導致的重大錯誤陳述的風險高於未能發現因錯誤而導致的重大錯誤陳述的風險。
- 了解與審計相關的內部控制，以設計適當的審計程序，但目的並非對 貴集團內部控制的有效性發表意見。
- 評價董事所採用會計政策的恰當性及作出會計估計和相關披露的合理性。
- 對董事採用持續經營會計基礎的恰當性作出結論。根據所獲取的審計憑證，確定是否存在與事項或情況有關的重大不確定性，從而可能導致對 貴集團的持續經營能力產生重大疑慮。如果我們認為存在重大不確定性，則有必要在核數師報告中提請使用者注意綜合財務報表中的相關披露。假若有關的披露不足，則我們應當發表非無保留意見。我們的結論是基於核數師報告日止所取得的審計憑證。然而，未來事項或情況可能導致 貴集團不能持續經營。
- 評價綜合財務報表的整體列報方式、結構和內容，包括披露，以及綜合財務報表是否中肯反映交易和事項。

## Independent Auditor's Report 獨立核數師報告書

(continued) (續)



**To the Shareholders of China Oil And Gas Group Limited (Continued)**  
(incorporated in Bermuda with limited liability)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wilson Chan.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 27 March 2018

### 羅兵咸永道

**致中油燃氣集團有限公司股東(續)**  
(於百慕達註冊成立之有限公司)

- 就 貴集團內實體或業務活動的財務信息獲取充足、適當的審計憑證，以便對綜合財務報表發表意見。我們負責 貴集團審計的方向、監督和執行。我們為審計意見承擔全部責任。

除其他事項外，我們與審核委員會溝通了計劃的審計範圍、時間安排及重大審計發現等，包括我們在審計過程中識別出內部控制的任何重大缺陷。

我們還向審核委員會提交聲明，說明我們已符合有關獨立性的相關道德要求，並與他們溝通有可能合理地被認為會影響我們獨立性的所有關係和其他事項，以及在適用的情況下，相關的防範措施。

從與審核委員會溝通的事項中，我們確定哪些事項對本期綜合財務報表的審計最為重要，因而構成關鍵審核事項。我們在核數師報告中描述這些事項，除非法律法規不允許公開披露這些事項，或在極端罕見的情況下，如果合理預期在我們報告中溝通某事項造成的負面後果超過產生的公眾利益，我們決定不應在報告中溝通該事項。

出具本獨立核數師報告的審計項目合夥人是陳偉信。

**羅兵咸永道會計師事務所**  
執業會計師

香港，二零一八年三月二十七日

中油燃氣集團有限公司 2017年年報

63

## Consolidated Statement of Comprehensive Income

### 綜合全面收益表

For the year ended 31 December 2017

截至二零一七年十二月三十一日止年度

		Note	2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Revenue	營業額	6	7,651,280	6,446,452
Cost of sales	銷售成本		(6,435,083)	(5,318,367)
Gross profit	毛利		1,216,197	1,128,085
Other income	其他收入	7	30,262	26,735
Other gains, net	其他收益，淨額	8	22,901	137,780
Selling and distribution costs	銷售及分銷費用		(50,507)	(66,537)
Administrative expenses	行政開支		(307,497)	(301,650)
Reversal of impairment losses on oil and gas properties under property, plant and equipment	物業、廠房及設備項下油氣資產減值虧損回撥	16	4,402	52,003
Operating profit	經營溢利	9	915,758	976,416
Finance income	財務收入	10	101,741	83,310
Finance costs	財務費用	10	(203,677)	(201,946)
Share of losses of investments accounted for using the equity method	分佔使用權益法入賬的投資虧損	20	(2,356)	(15,651)
Profit before taxation	除稅前溢利		811,466	842,129
Taxation	稅項	13	(188,527)	(184,461)
Profit for the year	年內溢利		622,939	657,668
Other comprehensive income/(loss): <i>Items that may be reclassified to profit or loss</i>	其他全面收入/(虧損)： 可重新分類至損益的項目			
Release of exchange reserve upon disposal of a subsidiary	於出售附屬公司時變現匯兌儲備		-	4,456
Currency translation differences	貨幣換算差額		482,811	(401,693)
Change in value of available-for-sale financial assets	可供出售財務資產價值變動		40,296	1,820
Other comprehensive income/(loss) for the year, net of tax	年內其他全面收入/(虧損)，扣除稅項		523,107	(395,417)
Total comprehensive income for the year	年內全面收入總額		1,146,046	262,251
Profit attributable to: Owners of the Company	應佔溢利： 公司擁有人		250,467	311,791
Non-controlling interests	非控股權益		372,472	345,877
			622,939	657,668
Total comprehensive income for the year attributable to: Owners of the Company	年內應佔全面收入總額： 公司擁有人		642,756	80,003
Non-controlling interests	非控股權益		503,290	182,248
			1,146,046	262,251
Earnings per share attributable to owners of the Company for the year	公司擁有人年內應佔每股盈利	15		
- Basic (HK cents)	- 基本(港仙)		4.865	5.981
- Diluted (HK cents)	- 攤薄(港仙)		4.858	5.963

The notes on pages 72 to 195 are an integral part of these consolidated financial statements.

第72至195頁之隨附附註為本綜合財務報表之組成部分。

## Consolidated Statement of Financial Position

### 綜合財務狀況表

As at 31 December 2017  
於二零一七年十二月三十一日

	Note 附註	2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	16	7,725,219	6,624,992
Exploration and evaluation assets	17	215,189	213,548
Land use rights	18	456,458	393,344
Intangible assets	19	1,035,324	1,002,291
Investments accounted for using the equity method	20	321,167	300,065
Available-for-sale financial assets	21	596,360	638,262
Other non-current assets	23	956,763	792,258
Deferred tax assets	30	4,796	19,510
		<b>11,311,276</b>	<b>9,984,270</b>
<b>Current assets</b>			
Inventories	22	244,438	190,573
Deposits, trade and other receivables	23	1,596,734	1,516,892
Financial assets at fair value through profit or loss	24	48,842	47,448
Current tax recoverable		6,333	6,003
Time deposits with maturity over three months	25	48,531	25,170
Cash and cash equivalents	25	2,290,447	1,833,483
		<b>4,235,325</b>	<b>3,619,569</b>
<b>Total assets</b>		<b>15,546,601</b>	<b>13,603,839</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	26	1,431,733	1,327,747
Receipt in advance	27	1,584,003	1,156,195
Short-term borrowings	28	689,258	360,907
Current tax payable		215,042	152,095
		<b>3,920,036</b>	<b>2,996,944</b>

## Consolidated Statement of Financial Position

### 綜合財務狀況表

As at 31 December 2017

於二零一七年十二月三十一日

(continued) (續)

	Note 附註	2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
<b>Non-current liabilities</b>			
Senior notes	29	4,970,240	5,006,417
Long-term borrowings	28	60,000	–
Deferred tax liabilities	30	260,359	240,801
Assets retirement obligation	31	130,311	108,723
		<b>5,420,910</b>	<b>5,355,941</b>
<b>Total liabilities</b>		<b>9,340,946</b>	<b>8,352,885</b>
<b>Equity</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	32	58,257	58,257
Reserves		3,286,289	2,772,174
		<b>3,344,546</b>	<b>2,830,431</b>
Non-controlling interests		2,861,109	2,420,523
<b>Total equity</b>		<b>6,205,655</b>	<b>5,250,954</b>
<b>Total equity and liabilities</b>		<b>15,546,601</b>	<b>13,603,839</b>

The notes on pages 72 to 195 are an integral part of these consolidated financial statements.

第72至195頁之附註為本綜合財務報表之組成部分。

The financial statements on pages 64 to 195 were approved by the Board of Directors on 27 March 2018 and were signed on its behalf.

第64至195頁之財務報表已於二零一八年三月二十七日獲董事局批准並簽署。

**Xu Tie-liang**  
Director

**Guan Yijun**  
Director

**許鉄良**  
董事

**關懿君**  
董事

## Consolidated Statement of Changes in Equity 綜合權益變動表

For the year ended 31 December 2017  
截至二零一七年十二月三十一日止年度

		Attributable to owners of the Company 公司擁有人應佔									
		Share capital	Share premium	Shares held for share award scheme 為股份 獎勵計劃 所持股份	(Note) Other reserves (附註) 其他儲備	Exchange fluctuation reserve 匯兌波動 儲備	Share-based compensation reserve 以股份為 基礎的酬金 儲備	Retained profits	Total	Non- controlling interests	Total equity
		HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元
<b>At 1 January 2016</b>	於二零一六年一月一日	58,257	24,578	(275,629)	1,534,741	(371,122)	-	1,806,239	2,777,064	2,423,190	5,200,254
<b>Profit for the year</b>	年內溢利	-	-	-	-	-	-	311,791	311,791	345,877	657,668
<b>Other comprehensive income/(loss):</b>	其他全面收入/(虧損):										
Release of exchange reserve upon disposal of a subsidiary (Note 34(b))	於出售一間附屬公司時 變現匯兌儲備(附註34(b))	-	-	-	-	2,673	-	-	2,673	1,783	4,456
Exchange differences on translating foreign operations	換算海外業務的匯兌差額	-	-	-	-	(236,281)	-	-	(236,281)	(165,412)	(401,693)
Changes in value of available-for-sale financial assets	可供出售財務資產價值變動	-	-	-	1,820	-	-	-	1,820	-	1,820
<b>Total comprehensive income/(loss) for the year</b>	年內全面收入/(虧損)總額	-	-	-	1,820	(233,608)	-	311,791	80,003	182,248	262,251
Vesting of shares under share award scheme	根據股份獎勵計劃歸屬股份	-	-	1,798	-	-	(1,798)	-	-	-	-
Shares purchased for share award scheme	為股份獎勵計劃購買股份	-	-	(31,875)	-	-	-	-	(31,875)	-	(31,875)
Value of employee services	僱員服務價值	-	-	-	-	-	5,239	-	5,239	-	5,239
Capital injection by non-controlling interests	非控股權益注資	-	-	-	-	-	-	-	-	11,151	11,151
Disposal of a subsidiary (Note 34(b))	出售一間附屬公司(附註34(b))	-	-	-	-	-	-	-	-	(86,841)	(86,841)
Dividend paid to non-controlling interests	派付股息予非控股權益	-	-	-	-	-	-	-	-	(109,225)	(109,225)
<b>At 31 December 2016</b>	於二零一六年十二月三十一日	58,257	24,578	(305,706)	1,536,561	(604,730)	3,441	2,118,030	2,830,431	2,420,523	5,250,954

## Consolidated Statement of Changes in Equity

### 綜合權益變動表

For the year ended 31 December 2017

截至二零一七年十二月三十一日止年度

(continued) (續)

		Attributable to owners of the Company 公司擁有人應佔									
		Share capital	Share premium	Shares held for share award scheme	(Note) Other reserves	Exchange fluctuation reserve	Share-based compensation reserve	Retained profits	Non-controlling interests	Total equity	
		股本	股份溢價	為股份獎勵計劃所持股份	(附註) 其他儲備	匯兌波動儲備	以股份為基礎的酬金儲備	保留溢利	總額	非控股權益	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
		千港元	千港元	千港元	千港元	千港元	千港元	千港元	千港元	千港元	
At 1 January 2017	於二零一七年一月一日	58,257	24,578	(305,706)	1,536,561	(604,730)	3,441	2,118,030	2,830,431	2,420,523	5,250,954
Profit for the year	年內溢利	-	-	-	-	-	-	250,467	250,467	372,472	622,939
Other comprehensive income:	其他全面收入：										
Exchange differences on translating foreign operations	換算海外業務的匯兌差額	-	-	-	-	351,993	-	-	351,993	130,818	482,811
Changes in value of available-for-sale financial assets	可供出售財務資產價值變動	-	-	-	40,296	-	-	-	40,296	-	40,296
<b>Total comprehensive income for the year</b>	<b>年內全面收入總額</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,296</b>	<b>351,993</b>	<b>-</b>	<b>250,467</b>	<b>642,756</b>	<b>503,290</b>	<b>1,146,046</b>
Vesting of shares under share award scheme	根據股份獎勵計劃歸屬股份	-	-	991	-	-	(991)	-	-	-	-
Shares purchased for share award scheme	為股份獎勵計劃購買股份	-	-	(104,257)	-	-	-	(104,257)	-	(104,257)	(104,257)
Value of employee services	僱員服務價值	-	-	-	-	-	4,744	-	4,744	-	4,744
Capital injection by non-controlling interests	非控股權益注資	-	-	-	-	-	-	-	-	14,400	14,400
Dividend paid to non-controlling interests	派付股息予非控股權益	-	-	-	-	-	-	-	-	(77,104)	(77,104)
Final dividend for the year ended 31 December 2016 (Note 14)	截至二零一六年十二月三十一日止年度末期股息(附註14)	-	-	-	(29,128)	-	-	-	(29,128)	-	(29,128)
<b>At 31 December 2017</b>	<b>於二零一七年十二月三十一日</b>	<b>58,257</b>	<b>24,578</b>	<b>(408,972)</b>	<b>1,547,729</b>	<b>(252,737)</b>	<b>7,194</b>	<b>2,368,497</b>	<b>3,344,546</b>	<b>2,861,109</b>	<b>6,205,655</b>

Note:

As at 31 December 2017, other reserves mainly comprise capital and other reserve amounting to HK\$106,279,000 (2016: HK\$65,983,000) and contribution surplus amounting to HK\$1,441,450,000 (2016: HK\$1,470,578,000).

附註：

於二零一七年十二月三十一日，其他儲備主要包括資本及其他儲備106,279,000港元(二零一六年：65,983,000港元)及繳入盈餘1,441,450,000港元(二零一六年：1,470,578,000港元)。

The notes on pages 72 to 195 are an integral part of these consolidated financial statements.

第72至195頁之隨附附註為本綜合財務報表之組成部分。

## Consolidated Statement of Cash Flows

### 綜合現金流量表

For the year ended 31 December 2017

截至二零一七年十二月三十一日止年度

	Note	2017	2016
	附註	二零一七年	二零一六年
		HK\$'000	HK\$'000
		千港元	千港元
Cash flows from operating activities	經營活動現金流量		
Profit for the year	年內溢利	622,939	657,668
Adjustments for:	就以下各項作出調整：		
Taxation	稅項	188,527	184,461
Finance costs	財務費用	203,677	201,946
Finance income	財務收入	(101,741)	(83,310)
Share of losses of investments accounted for using the equity method	分佔使用權益法入賬的投資虧損	2,356	15,651
Equity-settled share-based payments	以權益結算以股份為基礎的付款	4,744	5,239
Amortisation of intangible assets	無形資產攤銷	2,521	2,685
Depreciation and depletion of property, plant and equipment	物業、廠房及設備折舊及損耗	428,491	415,992
Amortisation of land use rights	土地使用權攤銷	8,503	8,587
Reversal for impairment losses on oil and gas properties under property, plant and equipment	物業、廠房及設備項下油氣資產減值虧損回撥	(4,402)	(52,003)
Losses on disposals of property, plant and equipment	出售物業、廠房及設備的虧損	1,652	4,698
Losses on exploration and evaluation assets	勘探及評估資產虧損	-	1,909
Fair value gains on financial assets at fair value through profit or loss	按公平值經損益入賬的財務資產公平值收益	(1,394)	(902)
Losses on disposals of financial assets at fair value through profit or loss	出售按公平值經損益入賬的財務資產虧損	-	3
Gains on disposals of available-for-sale financial assets	出售可供出售財務資產的收益	(17,748)	(1,879)
Gain on disposals of an associate/a subsidiary	出售一間聯營公司／一間附屬公司的收益	(3,759)	(124,199)
Gain on bargain purchases	議價收購收益	-	(10,803)
Written off of exploration and evaluation assets	勘探及評估資產沖銷	2,357	11,745
Provision for assets retirement obligation	資產報廢承擔	7,781	8,844
		<b>1,344,504</b>	<b>1,246,332</b>
Changes in working capital:	營運資金變動：		
Inventories	存貨	(40,252)	(25,787)
Deposits, trade and other receivables	按金、貿易及其他應收款項	65,760	7,641
Trade and other payables	貿易及其他應付款項	(184,259)	51,307
Receipt in advance	預收款項	304,271	154,780
Cash generated from operations	經營產生現金	1,490,024	1,434,273
Taxation paid	已付稅項	(104,190)	(144,740)
Net cash generated from operating activities	經營活動產生的現金淨額	<b>1,385,834</b>	<b>1,289,533</b>

中油燃氣集團有限公司 2017年年報

69

## Consolidated Statement of Cash Flows

### 綜合現金流量表

For the year ended 31 December 2017

截至二零一七年十二月三十一日止年度

(continued) (續)

	Note	2017	2016
	附註	二零一七年 HK\$'000 千港元	二零一六年 HK\$'000 千港元
Cash flows from investing activities	投資活動現金流量		
Interest received	已收利息	69,492	46,797
Purchases of property, plant and equipment, land use rights and prepaid construction costs	購置物業、廠房及設備、土地 使用權以及預付建設成本	(944,982)	(797,776)
Proceeds from disposal of exploration and evaluation assets	出售勘探及評估資產所得款項	-	1,023
Proceeds from disposal of property, plant and equipment	出售物業、廠房及設備 所得款項	13,035	62,966
Net cash inflow as a result of disposal of an associate/a subsidiary	因出售一間聯營公司/ 一間附屬公司現金流入淨額	6,960	232,780
Purchases of other intangible assets and prepaid of intangible assets	購置其他無形資產以及就 無形資產預付款項	(7,696)	(473)
Purchases of available-for-sale financial assets	購買可供出售財務資產	(112,329)	(400,797)
Proceeds from disposal of available-for-sale financial assets	出售可供出售財務資產所得款項	212,275	121,181
Acquisition of businesses, net of cash	收購業務，扣除現金	-	(44,079)
Investments in associates	投資聯營公司	(19,124)	-
Loans to third parties	貸款予第三方	-	(19,780)
Repayments from third parties	第三方償還貸款	31,452	22,599
Loan to an associate	貸款予一間聯營公司	(119,837)	(33,198)
(Increase)/decrease in time deposits with maturity over three months	存款期超過三個月定期 存款(增加)/減少	(23,361)	190,830
Site restoration expenditure	工地恢復支出	(7,507)	(8,207)
Net cash used in investing activities	投資活動所用現金淨額	(901,622)	(626,134)
Cash flows from financing activities	融資活動現金流量		
Interest paid	已付利息	(262,431)	(291,988)
New borrowings raised	新造借貸	413,862	78,076
Redemption of senior notes	贖回優先票據	(2,748,104)	-
Repayments of borrowings	償還借貸	(59,046)	(678,791)
Capital injection by non-controlling interests	非控股權益注資	14,400	11,151
Dividend paid to non-controlling interests	派付股息予非控股權益	(65,663)	(109,225)
Proceeds from issuance of senior notes net of transaction costs	發行優先票據所得款項 (扣除交易成本)	2,685,809	-
Dividend paid	已付股息	(29,128)	-
Purchases of own shares for share award scheme	為股份獎勵計劃購買本身股份	(104,257)	(31,875)
Net cash used in financing activities	融資活動所用現金淨額	(154,558)	(1,022,652)

## Consolidated Statement of Cash Flows

### 綜合現金流量表

For the year ended 31 December 2017  
截至二零一七年十二月三十一日止年度  
(continued) (續)

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
	Note 附註		
Net increase/(decrease) in cash and cash equivalents	現金及現金等值項目增加/(減少)淨額	329,654	(359,253)
Cash and cash equivalents at 1 January	於一月一日之現金及現金等值項目	1,833,483	2,303,704
Effect of foreign exchange rate changes	匯率變動影響	127,310	(110,968)
Cash and cash equivalents at 31 December	於十二月三十一日之現金及現金等值項目	2,290,447	1,833,483
	25		

The notes on pages 72 to 195 are an integral part of these consolidated financial statements.

第72至195頁之隨附附註為本綜合財務報表之組成部分。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

#### 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 is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business 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 energy related business in various regions in the People’s Republic of China (“PRC”) and West Central Alberta, Canada, including but not limited to 1) piped city gas business, pipeline design and construction; 2) transportation, distribution and sales of compressed natural gas (“CNG”) and liquefied natural gas (“LNG”); and 3) development, production and sale of oil and gas and other upstream energy resources. The Company and its subsidiaries are collectively referred to the “Group”.

These financial statements are presented in Hong Kong dollars, unless otherwise stated.

#### 2 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”) and requirements of the Hong Kong Companies ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the 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 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.

#### 1 一般資料

中油燃氣集團有限公司(「公司」)為於百慕達註冊成立之獲豁免有限公司，而其股份在香港聯合交易所有限公司(「聯交所」)上市。註冊辦事處位於Clarendon House, 2 Church Street, Hamilton HM11, Bermuda。主要營業地點之地址為香港銅鑼灣告士打道255-257號信和廣場28樓2805室。公司為一間投資控股公司。其附屬公司主要於中華人民共和國(「中國」)及加拿大阿爾伯塔省中西部多個地區從事能源相關業務之投資，包括但不限於1)進行城市管道燃氣營運、管道設計及建造；2)壓縮天然氣(「CNG」)及液化天然氣(「LNG」)之運輸、分銷及銷售；及3)原油及天然氣等其他上游能源資源開發、生產及銷售。公司及其附屬公司統稱為「集團」。

除非另有說明，否則該等財務報表以港幣呈列。

#### 2 編製基準

公司之綜合財務報表乃依據所有適用香港財務報告準則(「香港財務報告準則」)及香港法例第622章香港公司條例的規定而編製。綜合財務報表乃依據歷史成本慣例而編製，並經重估以公平值列賬之若干可供出售財務資產及按公平值經損益入賬之財務資產後作出修訂。

編製符合香港財務報告準則之財務報表要求使用若干關鍵會計估計。其亦要求管理層於應用集團之會計政策時行使其判斷。涉及較高程度判斷或較為複雜之範疇，或對綜合財務報表而言屬重大之假設及估計已於附註5披露。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

#### (a) Changes in accounting policy and disclosures

##### (i) Amendments to standards adopted by the Group

The Group has adopted the following amendments to standards which are relevant to the Group's operations and are mandatory for the financial year beginning on or after 1 January 2017:

Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKAS 7	Disclosure initiative
Amendments to HKFRS 12	Disclosure of Interest in Other Entities

The adoption of above amendments to standards did not have any material impacts on the preparation of the consolidated financial statements.

### 2 編製基準 (續)

#### (a) 會計政策及披露的變動

##### (i) 集團採納的準則修訂

集團已採納下列與集團的經營有關及於二零一七年一月一日或之後的財政年度強制執行的準則修訂：

香港會計準則第12號 (修訂本)	就未變現虧損 確認遞延稅項 資產
香港會計準則第7號 (修訂本)	主動披露
香港財務報告準則第12號 (修訂本)	其他實體權益之 披露

採納上述準則修訂對編製綜合財務報表並無產生任何重大影響。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 2 Basis of preparation (Continued)

##### (b) New standards, amendments to standards and interpretations not yet adopted

The following are new standards, amendments to standards and interpretations that have been issued but are not effective for the financial year beginning 1 January 2017 and have not been early adopted.

		Effective for accounting periods beginning on or after			於自以下日期或其後開始的會計期間生效
HKAS 28 (Amendment)	Investments in Associates and Joint Ventures	1 January 2018	香港會計準則第28號(修訂本)	投資聯營公司及合營企業	二零一八年一月一日
HKAS 40 (Amendments)	Investment Properties	1 January 2018	香港會計準則第40號(修訂本)	投資物業	二零一八年一月一日
HKFRS 1 (Amendment)	First Time Adoption of HKFRS	1 January 2018	香港財務報告準則第1號(修訂本)	首次採納香港財務報告準則	二零一八年一月一日
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018	香港財務報告準則第2號(修訂本)	分類及計量以股份為基礎之付款交易	二零一八年一月一日
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018	香港財務報告準則第4號(修訂本)	採用香港財務報告準則第4號保險合約時一併應用香港財務報告準則第9號金融工具	二零一八年一月一日
HKFRS 9	Financial Instruments	1 January 2018	香港財務報告準則第9號	金融工具	二零一八年一月一日
HKFRS 15	Revenue from Contracts with Customers	1 January 2018	香港財務報告準則第15號	客戶合同營業額	二零一八年一月一日
HKFRS 16	Leases	1 January 2019	香港財務報告準則第16號	租賃	二零一九年一月一日
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined	香港財務報告準則第10號及香港會計準則第28號(修訂本)	投資者與其聯營公司或合營企業間之資產出售或貢獻	待釐定
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	香港(國際財務報告詮釋委員會)一詮釋第22號	外幣交易及預付代價	二零一八年一月一日
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019	香港(國際財務報告詮釋委員會)一詮釋第23號	所得稅處理的不確定性	二零一九年一月一日

#### 2 編製基準(續)

##### (b) 尚未採納的新訂準則、準則修訂及詮釋

以下新準則、對現有準則的修訂及詮釋已頒布但尚未於二零一七年一月一日開始之財政年度生效且集團並無提早採納。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

#### (b) New standards, amendments to standards and interpretations not yet adopted (Continued)

*HKFRS 9, "Financial Instruments"*

##### Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

##### Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018. The financial assets held by the Group include available-for-sale financial assets for which a fair value through other comprehensive income (FVOCI) election is available and financial assets at fair value through profit or loss will continue to be measured on the same basis under HKFRS 9 and hence there will be no change to the accounting for these assets.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained profits. During the year ended 31 December 2017, HK\$40,296,000 of such fair value change was recognised in FVOCI reserve in relation to the available-for-sale financial assets.

### 2 編製基準 (續)

#### (b) 尚未採納的新訂準則、準則修訂及詮釋 (續)

*香港財務報告準則第9號「金融工具」*

##### 變動的性質

香港財務報告準則第9號闡述財務資產及財務負債的分類、計量及終止確認，引入對沖會計新規則及財務資產的新減值模式。

##### 影響

集團已審閱其財務資產與負債並預期於二零一八年一月一日採納新訂準則將產生下列影響。集團持有之財務資產包括可供出售財務資產，按公平值計入其他全面收益(按公平值計入其他全面收益)選擇可供其使用，按公平值經損益入賬之財務資產將繼續根據香港財務報告準則第9號相同基準計量，因此，就該等資產的會計處理方式將不會產生變動。

因此，集團預期，新指引對財務資產之分類及計量並無影響。然而，出售按公平值計入其他全面收益的財務資產所變現的收益或虧損將不再轉撥至出售損益，而是將線下項目自按公平值計入其他全面收益儲備重新分類至保留盈利。於截至二零一七年十二月三十一日止年度，該公平值變動40,296,000港元於按公平值計入其他全面收益儲備確認與可供出售財務資產有關。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 2 Basis of preparation (Continued)

##### (b) New standards, amendments to standards and interpretations not yet adopted (Continued)

###### HKFRS 9, "Financial Instruments" (Continued)

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 'Revenue from Contracts with Customers', lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect significant increase or decrease in the loss allowance for trade receivables.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

###### Date of adoption by the Group

This standard must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

#### 2 編製基準 (續)

##### (b) 尚未採納的新訂準則、準則修訂及詮釋 (續)

###### 香港財務報告準則第9號「金融工具」(續)

由於新規定僅影響指定按公平值經損益入賬的財務負債之會計處理，而集團並不持有任何該等負債，因此，集團財務負債的會計處理將不會受影響。終止確認的規則已由香港會計準則第39號「金融工具：確認及計量」轉移且並無變動。

新減值模型規定以預期信用虧損（「預期信用虧損」），而非香港會計準則第39號項下僅以已產生信用虧損確認減值撥備。該規定適用於按攤銷成本分類的財務資產、按公平值計入其他全面收益的債務工具、香港財務報告準則第15號「客戶合同營業額」下的合約資產、應收租金、貸款承擔及若干財務擔保合約。根據迄今進行的評估，集團預期貿易應收賬款的虧損撥備不會有大幅增加或減少。

新訂準則亦引入經擴充披露規定及列報方式的改變。預期該等披露規定及改變將會改變集團對其金融工具的披露性質及程度（尤其在採納新訂準則的年度）。

###### 集團採納的日期

該準則必須於二零一八年一月一日或之後開始的財政年度應用。集團將自二零一八年一月一日起追溯應用新規則以及該準則項下所允許的可行權宜處理。二零一七年的比較將不予重列。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

#### (b) New standards, amendments to standards and interpretations not yet adopted (Continued)

*HKFRS 15, "Revenue from Contracts with Customers"*

##### Nature of change

The Hong Kong Institute of Certified Public Accountants has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

##### Impact

The management of the Group has assessed the effects of applying the new standard on the Group's consolidated financial statements and does not expect a significant impact on the recognition of revenue.

##### Date of adoption by the Group

This standard is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained profits as of 1 January 2018 and that comparatives will not be restated.

### 2 編製基準 (續)

#### (b) 尚未採納的新訂準則、準則修訂及詮釋 (續)

*香港財務報告準則第15號「客戶合同營業額」*

##### 變動的性質

香港會計師公會已頒布營業額確認的新訂準則。該準則將取代香港會計準則第18號(涵蓋貨品及服務合約)及香港會計準則第11號(涵蓋建築合約及相關文獻)。

新訂準則乃基於貨品或服務控制權轉移至客戶時確認營業額的原則。該準則允許在採納時採用全面追溯法或修改追溯法。

##### 影響

集團管理層已評估應用新準則對集團綜合財務報表之影響，並預期不會對確認營業額產生重大影響。

##### 集團採納的日期

該新訂準則的採納於二零一八年一月一日或之後開始的財政年度強制生效。集團擬於採納該準則時採用修改追溯法，即表示採納的累積影響(如有)將於二零一八年一月一日在保留溢利確認且該比較將不予重列。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 2 Basis of preparation (Continued)

##### (b) New standards, amendments to standards and interpretations not yet adopted (Continued)

###### HKFRS 16, "Leases"

###### Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

###### Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$63,485,000. The Group estimates those related to payments for short-term or low value leases which will be recognised on a straight-line basis as an expense in profit or loss are insignificant.

The Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

#### 2 編製基準 (續)

##### (b) 尚未採納的新訂準則、準則修訂及詮釋 (續)

###### 香港財務報告準則第16號「租賃」

###### 變動的性質

香港財務報告準則第16號於二零一六年一月頒布。其將致使絕大部分租賃於財務狀況表確認，此乃由於經營租賃與融資租賃之間的區別被移除。根據新訂準則，一項資產(使用租賃項目的權利)及支付租金的財務負債須予確認。唯一的例外情況為短期及低價值租賃。

出租人會計處理將無重大變動。

###### 影響

該準則將主要影響集團經營租賃的會計處理。於報告日期，集團不可撤銷經營租賃承擔為63,485,000港元。集團預期與短期或低價值租賃相關的該等承擔屬不重大，並將以直線法於損益確認為開支。

集團尚未評估須作出何種其他調整(如有)，例如，由於租賃期的釋義變動以及可變租賃付款與續租及終止選擇權的不同處理。因此，尚未能估計於採納新訂準則時必須確認的使用權資產及租賃負債金額以及其將可能如何影響集團的損益與未來現金流量分類。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 2 Basis of preparation (Continued)

#### (b) New standards, amendments to standards and interpretations not yet adopted (Continued)

HKFRS 16, "Leases" (Continued)

##### Date of adoption by the Group

This standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Apart from aforementioned HKFRS 9, HKFRS 15 and HKFRS 16, the Board of Directors ("Board") are in the process of assessing the financial impact of the adoption of the above new standards, amendments to standard and interpretations. The Board will adopt the new standards, amendments to standards and interpretations when they become effective.

### 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 presented, unless otherwise stated.

#### (a) Subsidiaries

##### (i) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

### 2 編製基準 (續)

#### (b) 尚未採納的新訂準則、準則修訂及詮釋 (續)

香港財務報告準則第16號「租賃」(續)

##### 集團採納的日期

該準則於二零一九年一月一日或之後開始的財務年度強制生效。於此階段，集團不擬於其生效日期前採納該準則。集團擬應用簡化過渡法且將不會重列首次採納前年度的比較金額。

除上文所述的香港財務報告準則第9號、香港財務報告準則第15號及香港財務報告準則第16號外，董事局（「董事局」）正評估採納上述新準則、準則修訂及詮釋之財務影響。董事局將於新訂準則、準則修訂及詮釋生效時予以採納。

### 3 主要會計政策概要

於編製此等綜合財務報表時應用之主要會計政策載於下文。除另有說明外，該等政策乃貫徹應用於所有年度。

#### (a) 附屬公司

##### (i) 綜合賬目

附屬公司指集團對其具有控制權的實體（包括結構性實體）。當集團因參與該實體而對可變回報承擔風險或享有權利，並有能力透過其對該實體的權力影響此等回報時，集團即控制該實體。附屬公司在控制權轉移至集團之日起綜合入賬。附屬公司在控制權終止之日起停止綜合入賬。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (a) Subsidiaries (Continued)

##### (i) Consolidation (Continued)

#### (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. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

### 3 主要會計政策概要(續)

#### (a) 附屬公司(續)

##### (i) 綜合賬目(續)

#### (1) 業務合併

集團採用購買法將業務合併入賬。購買一間附屬公司轉讓的對價為被購買方的前擁有人所轉讓資產、所產生的負債及集團發行的股本權益的公平值。所轉讓的代價包括或然代價安排所產生的任何資產和負債的公平值。在業務合併中所購買可識別的資產以及所承擔的負債及或有負債，首先以彼等於購買日期的公平值計量。

集團按逐項收購基準，確認在被收購方的任何非控股權益，而被收購方的非控股權益若屬現時的擁有權權益且賦予持有人在清盤時按比例應佔實體的淨資產，則可按公平值或按現時擁有權權益應佔被收購方可識別淨資產的確認金額比例而計量。非控股權益的所有其他組成部分按收購日期的公平值計量，除非香港財務報告準則規定必須以其他計量基準計算。

收購相關成本於產生時支銷。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (a) Subsidiaries (Continued)

##### (i) Consolidation (Continued)

##### (1) Business combinations (Continued)

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.

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

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

### 3 主要會計政策概要 (續)

#### (a) 附屬公司 (續)

##### (i) 綜合賬目 (續)

##### (1) 業務合併 (續)

倘業務合併分階段進行，收購方先前持有的被收購方股本權益於收購當日的賬面值重新計量為於收購當日的公平值；因相關重新計量而產生的任何盈虧於損益內確認。

所轉讓代價、於被收購方的任何非控股權益金額及任何先前於被收購方的權益於收購日期的公平值高於所收購可辨認資產淨值的公平值時，其差額以商譽列賬。就議價購買而言，如轉讓代價、已確認非控股權益及先前持有的權益總額低於所收購附屬公司資產淨值的公平值，其差額將直接在損益內確認。

集團內公司之間的交易、結餘及交易的未變現收益予以對銷。未變現虧損亦予以對銷。附屬公司報告的金額已按需要作出調整，以確保與集團採用的會計政策一致。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (a) Subsidiaries (Continued)

##### (i) Consolidation (Continued)

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

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount 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, a joint venture or a 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.

### 3 主要會計政策概要(續)

#### (a) 附屬公司(續)

##### (i) 綜合賬目(續)

#### (2) 不會導致失去控制權之附屬 公司所有權權益變動

不會導致失去控制權之非控股權益交易入賬列作權益交易一即以彼等為附屬公司擁有人之身份與擁有人進行交易。任何已付代價公平值與所收購相關應佔附屬公司資產淨值賬面值之差額列作權益。向非控股權益出售所得盈虧亦列作權益。

#### (3) 出售附屬公司

若集團不再擁有控制權，其於該實體之任何保留權益按其於失去控制權當日之公平值重新計算，而賬面值變動則於損益中確認。其後此保留權益將入賬列作聯營公司、合營企業或財務資產，並以公平值為初始之賬面值。此外，過往於其他全面收益內確認與該實體有關之任何金額按猶如集團直接出售有關資產或負債之方式入賬。即先前在其他全面收益內確認之金額重新分類至損益。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (a) Subsidiaries (Continued)

##### (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.

#### (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. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

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.

### 3 主要會計政策概要(續)

#### (a) 附屬公司(續)

##### (ii) 獨立財務報表

於附屬公司投資按成本值扣除減值入賬。成本亦包括直接應佔投資成本。公司按已收及應收股息基準入賬附屬公司之業績。

倘於附屬公司投資所收取之股息超過附屬公司於股息宣派期間之全面收益總額或於獨立財務報表中有關投資之賬面值超過投資對象之淨資產(包括商譽)於綜合財務報表中之賬面值，則於收取該等投資之股息時，須對附屬公司之投資進行減值測試。

#### (b) 聯營公司

聯營公司指集團對其有重大影響力但並無控制權之所有實體，通常同時持有其20%至50%有表決權股份。於聯營公司投資以權益法核算。投資以權益法初步按成本確認，增加或減少賬面值以確認收購日期後投資方應佔被投資方之溢利或虧損。集團於聯營公司投資包括收購時確定之商譽。收購於一間聯營公司的擁有權權益後，聯營公司成本與集團分佔聯營公司的可識別資產及負債之公平淨值之間的差額入賬列作商譽。

倘於聯營公司所有權權益減少但重大影響力獲保留，則先前於其他全面收益已確認之金額中僅有一定份額重新分類至損益(如適用)。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 3 Summary of significant accounting policies (Continued)

##### (b) Associates (Continued)

The Group's share of post-acquisition profit or loss is recognised in the 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 of investments accounted for using equity method in the 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.

Gain or losses on dilution of equity interest in associates are recognised in the profit or loss.

#### 3 主要會計政策概要(續)

##### (b) 聯營公司(續)

集團應佔收購後溢利或虧損之份額於損益中確認，其應佔收購後其他全面收入變動則於其他全面收入中確認，並對投資賬面值作出相應調整。當集團應佔聯營公司虧損等於或超過其於該聯營公司所擁有權益(包括任何其他無抵押應收款項)時，集團不再進一步確認虧損，除非其招致法定或推定義務或代表該聯營公司付款。

集團於各報告日確定是否有任何客觀證據顯示於聯營公司投資出現減值。倘若確實如此，集團根據聯營公司可收回金額與其賬面值差額計算減值金額並於損益中將有關變動確認為分佔以權益法入賬之投資溢利。

集團與其聯營公司之間上下游交易產生之溢利及虧損僅以非相關投資者於聯營公司之權益為限於集團財務報表內確認。未變現虧損予以抵銷，表明所轉讓資產已發生減值之交易除外。聯營公司會計政策已按需要變更，以確保與集團所採納政策貫徹一致。

有關聯營公司股權攤薄的損益於損益確認。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (c) Joint arrangement

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangement and determined it to be joint venture. Joint venture is accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investment in joint venture include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in joint venture equals or exceeds its interest in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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

The Group determines at each reporting date whether there is any objective evidence that the interest in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount adjacent to share of profit of investment accounted for using equity method in the profit or loss.

### 3 主要會計政策概要(續)

#### (c) 共同安排

集團已就所有共同安排應用香港財務報告準則第11號。根據香港財務報告準則第11號，於共同安排之投資視乎各投資者之合約權利及責任而分類為合營業務或合營企業。集團已評估其共同安排之性質，並將其共同安排界定為合營企業。合營企業採用權益法入賬。

根據權益會計法，於合營企業的權益乃按成本初步確認，其後予以調整以確認集團應佔收購後的損益及於其他全面收入的變動。集團於合營企業的投資包括收購識別的商譽。收購於一間合營企業的擁有權權益後，合營企業成本與集團分佔合營企業的可識別資產及負債之公平淨值之間的差額入賬列作商譽。當集團分佔合營企業虧損等於或超過其佔合營企業之權益時(包括任何長期權益，而該長期權益實質上構成集團於該合營企業的投資淨額之一部分)，集團不再確認進一步虧損，除非集團代合營企業承擔負債或支付款項。

集團與其合營企業交易的未變現收益與集團於合營企業的權益對銷。未變現虧損亦予以對銷，除非交易時有證據表明所轉讓資產出現減值。合營企業會計政策於需要時作出改變，以確保與集團所採納政策貫徹一致。

集團於各報告日期確定是否有任何客觀證據顯示於合營企業投資出現減值。倘確實如此，則集團以該合營企業可收回金額及其賬面值之差額計算減值金額，並將金額確認於損益表上列於分佔以權益法入賬的投資溢利。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 3 Summary of significant accounting policies (Continued)

##### (d) 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.

##### (e) 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 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 or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated profit or loss.

All other foreign exchange gains and losses are presented in the consolidated profit or loss within 'other gains, net'.

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.

#### 3 主要會計政策概要(續)

##### (d) 分部報告

經營分部的報告方式與提供予主要經營決策制定者之內部報告所使用報告方式一致。負責分配資源及評估經營分部業績的主要經營決策制定者，被認為制定戰略決策的執行董事。

##### (e) 外幣換算

###### (i) 功能及呈報貨幣

集團各實體之財務報表所包括項目，乃按該實體經營所在之主要經濟環境之貨幣（「功能貨幣」）計量。綜合財務報表以公司之功能及集團之呈報貨幣港幣呈列。

###### (ii) 交易及結餘

外幣交易均按交易或項目重新計量日期當時之匯率換算為功能貨幣。因該等交易結算及按年結日之匯率換算以外幣計值之貨幣資產及負債而產生之外幣匯兌損益，均於綜合損益確認。

所有其他匯兌損益在綜合損益內的「其他收益，淨額」中列報。

以外幣列值並分類為可供出售之貨幣證券之公平值變動，乃按有關證券攤銷成本變動及其賬面值其他變動所產生之匯兌差額進行分析。涉及攤銷成本變動之匯兌差額在綜合損益確認，而賬面值之其他變動則在其他全面收益中確認。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (e) Foreign currency translation (Continued)

##### (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 position 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.

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. Currency translation differences arising are recognised in other comprehensive income.

##### (iv) Disposal of foreign operation

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

### 3 主要會計政策概要(續)

#### (e) 外幣換算(續)

##### (iii) 集團公司

集團旗下所有實體(全部均非採用高通脹經濟體系之貨幣)如持有與呈報貨幣不一致之功能貨幣,其業績及財務狀況均按以下方法換算為呈報貨幣:

- 各財務狀況表呈列之資產及負債均按照該財務狀況表日期之收市匯率換算;
- 各損益之收入及開支按照平均匯率換算(除非平均匯率並非交易日期現行匯率的累計影響的合理約數,在此情況下,收支項目按交易日期的匯率換算);及
- 所有產生之匯兌差額均於其他全面收益確認並單獨於權益中的匯兌波動儲備內累計。

因收購海外實體而產生之商譽及公平值調整,均視作為該海外實體之資產及負債處理,並於年末結算日的匯率折算。所產生的匯兌差額在其他收益中確認。

##### (iv) 出售海外業務

於出售海外業務(即出售集團於一項海外業務之全部權益,或涉及失去包含海外業務的附屬公司控制權之出售,或涉及失去包含海外業務之合營公司共同控制權之出售,或涉及失去對包含海外業務之聯營公司重大影響力之出售)時,公司擁有人應佔就有關業務於權益累計之所有匯兌差額重新分類至損益。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 3 Summary of significant accounting policies (Continued)

##### (f) Property, plant and equipment

Property, plant and equipment comprise mainly buildings, plant and machinery, oil and gas properties, pipelines and construction in progress. Accounting policies for oil and gas properties are set out in Note 3(g). All other 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 profit or loss during the year in which they are incurred. Except for oil and gas properties and construction in progress, 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 40 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 date of the statement of financial position. 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 (Note 3(j)).

#### 3 主要會計政策概要(續)

##### (f) 物業、廠房及設備

物業、廠房及設備，主要包括樓宇、廠房及機器、油氣資產、管道及在建工程。油氣資產之會計政策載於附註3(g)。所有其他物業、廠房及設備按歷史成本扣除折舊後入賬。歷史成本包括收購項目直接應佔之開支。

僅當與項目有關之未來經濟利益有可能流入集團及項目成本能可靠計量時，其後成本方會計入資產賬面值或確認為一項獨立資產(如適用)。已更換零件的賬面值已被剔除入賬。所有其他維修及保養費用在產生的財政年度內於損益內支銷。除油氣資產及在建工程外，物業、廠房及設備之折舊乃採用直線法於其估計可使用年限內按成本分配至剩餘價值，年率如下：

樓宇	12.5至40年或按該土地之租約餘期(如適用)
廠房及機器	3至20年
管道	20年
其他	3至20年

資產剩餘價值及可使用年限於各財務狀況表日期檢討，並作出調整(如適用)。倘資產之賬面值超過估計可收回金額，則資產之賬面值即時撇減至可收回金額(附註3(j))。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (f) Property, plant and equipment (Continued)

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within “administrative expenses” in 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.

#### (g) Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells, is capitalised within construction in progress under property, plant and equipment. When development is completed on a specific field, it is transferred to oil and gas properties under property, plant and equipment. No depreciation and depletion is charged during the development phase.

Oil and gas properties are aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves.

Oil and gas properties are depreciated and depleted using the unit-of-production method. Unit-of-production rates are based on total proved plus probable reserves, which are oil, gas and other mineral reserves estimated to be recovered using current operating methods and taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserve.

### 3 主要會計政策概要(續)

#### (f) 物業、廠房及設備(續)

出售收益及虧損乃透過比較所得款項與賬面值釐定，並於損益內確認為「行政開支」。

在建工程指在建資產並以成本減任何累計減值虧損列賬，且不予折舊。成本包括收購或建造之直接或間接增加成本。已完成項目當其可用作既定用途時，由在建工程轉撥至物業、廠房及設備之適當類別。

#### (g) 油氣資產

興建、安裝或完成平台、管道等基建設施及鑽探商業開發井之開支乃撥充作物業、廠房及設備項下之在建工程。當對特定油田完成開發時，其會轉撥至物業、廠房及設備項下之油氣資產。於開發階段概無扣除折舊及損耗。

油氣資產合共為勘探及評估資產以及與探明儲量生產有關的開發開支。

油氣資產按單位生產法折舊及損耗。單位生產率按探明加概算總儲量計算，即從現有設施以現有營運方法去估計可採收之石油及天然氣以及其他礦產儲量及考慮生產該等儲量所需的估計未來開發成本。未來開發成本經考慮儲量產出所需的開發水平而估計。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 3 Summary of significant accounting policies (Continued)

##### (g) Oil and gas properties (Continued)

Proven oil and gas properties 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 of disposal and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

##### (h) Exploration and evaluation assets

Oil and gas exploration and evaluation expenditures are accounted for using the successful efforts method of accounting. Costs are accumulated on a field-by-field basis. Geological, geophysical costs and pre-licence costs are expensed as incurred. Costs directly associated with an exploration well, and exploration and property leasehold acquisition costs, are capitalised within exploration and evaluation assets until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are charged to expense.

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to construction in progress under property, plant and equipment. No depreciation and depletion is charged during the exploration and evaluation phase.

Exploration and evaluation assets are tested for impairment when reclassified to construction in progress, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs of disposal and their value in use.

#### 3 主要會計政策概要(續)

##### (g) 油氣資產(續)

倘出現事件或情況變動顯示可能無法收回其賬面值，則探明油氣資產作減值檢討。減值虧損按資產之賬面值超出其可收回金額之金額予以確認。可收回金額為資產之公平值減出售成本與使用價值之較高者。就評估減值而言，資產乃按可個別識別現金流量之最低級別分組。

##### (h) 勘探及評估資產

石油及天然氣勘探及評估開支使用成果會計法入賬。成本按逐段累計。地質、地理成本及取得牌照前成本於產生時支銷。與探井直接有關的成本，及勘探及物業租賃收購成本於勘探及評估資產內資本化直至儲量釐定得到評估。倘釐定尚未達致商業發現，該等成本自成本扣除。

一旦發現商業儲量時，勘探及評估資產會作減值測試，並轉撥至物業、廠房及設備下的在建工程。於勘探及評估階段概無扣除折舊及損耗。

重新分類至在建工程時，或任何時候有事實及情況表示減值，則勘探及評估資產進行減值測試。減值虧損按勘探及評估資產的賬面值超出其可收回金額時的金額予以確認。可收回金額為勘探及評估資產的公平值減出售成本及其使用價值的較高者。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (i) Intangible assets

##### (i) Goodwill

Goodwill arises on the acquisition of businesses represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

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 the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less cost of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

##### (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 ranging from 30 to 48 years for natural gas supply services.

### 3 主要會計政策概要(續)

#### (i) 無形資產

##### (i) 商譽

商譽於收購附屬公司時產生，即所轉讓的代價、於被收購方的非控股權益及先前於被收購方的股權於收購日期的公平值，超過所收購可識別資產淨值公平值的差額。

就減值測試而言，業務合併所獲得之商譽會分配至預期將受益於合併協同效應之各個現金產生單位（「現金產生單位」）或現金產生單位組別。商譽所分配的各個單位或單位組別為實體內就內部管理目的而監察商譽之最低層次。商譽乃於經營分部層次進行監察。

商譽每年進行減值檢討，或當有事件出現或情況改變顯示可能出現減值時，作出更頻密檢討。含有商譽之現金產生單位賬面值與可收回金額作比較，可收回金額為使用價值與公平值減出售成本兩者中之較高者。任何減值即時確認為開支，且其後不會撥回。

##### (ii) 其他無形資產

其他無形資產主要包括獨家購買權、會所會籍及電腦操作系統。

獨家購買權以歷史成本列賬。獨家購買權為有限使用年期及按成本減累計攤銷列賬。攤銷乃使用直線法按天然氣供應服務之估計使用年期由30年至48年不等分配獨家購買權成本。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 3 Summary of significant accounting policies (Continued)

##### (i) Intangible assets (Continued)

###### (ii) Other intangible assets (Continued)

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 5 to 10 years.

##### (j) 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.

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

#### 3 主要會計政策概要(續)

##### (i) 無形資產(續)

###### (ii) 其他無形資產(續)

於會所會籍之投資乃按歷史成本列賬。於會所會籍之投資具有不確定使用年期及每年進行減值測試，並按成本減任何累計減值虧損列賬且不予攤銷。

電腦操作系統以歷史成本列賬。電腦操作系統為有限使用年期及按成本減累計攤銷列賬。攤銷乃使用直線法按其估計使用年期由5至10年分配電腦操作系統成本。

##### (j) 非財務資產之減值

無限定使用年限之資產(例如商譽或未供使用之無形資產)毋需攤銷，惟須每年進行減值測試。當有事件出現或情況變動顯示賬面值可能無法收回時，將檢討須攤銷資產是否減值。減值虧損按資產之賬面值超出其可收回金額之差額確認。可收回金額為資產之公平值扣除銷售成本及使用價值兩者間之較高者。於評估減值時，資產計入可分開識別現金流量(現金產生單位)的最低層次組別。商譽以外出現減值之非財務資產會於各報告日期獲檢討減值撥回的可能性。

##### (k) 土地使用權

土地使用權指於購入由承租人佔用之物業的長期權益時須一次過先付的數額。經營租賃安排下與集團樓宇有關之土地使用權均以成本列賬及於租賃期內按直線法攤銷並列入損益。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (I) 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 the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise deposits, trade and other receivables, time deposits with maturity over three months and cash and cash equivalents in the statement of financial position.

### 3 主要會計政策概要(續)

#### (I) 財務資產

##### (i) 分類

集團將其財務資產分類為按公平價值經損益入賬之財務資產、貸款及應收款項及可供出售財務資產。分類乃視乎購入財務資產之目的而定。管理層於初步確認其財務資產時釐定分類。

##### (1) 按公平價值經損益入賬之財務資產

按公平價值經損益入賬之財務資產為持作買賣之財務資產。倘若購入之主要目的為於短期內出售，該財務資產則會撥歸此類別。除非指定作對沖用途，否則衍生工具亦分類為持作買賣。倘預計於十二個月內結算，該類別之資產則被分類為流動資產，否則將被分類為非流動資產。

##### (2) 貸款及應收款項

貸款及應收款項指並非活躍市場上具備固定或可予釐定款項之非衍生財務資產。非衍生財務資產計入流動資產，惟結算或預期計入待結算的金額超過報告期末日後十二個月者分類為非流動資產。集團於財務狀況表內之貸款及應收款項由按金、貿易及其他應收款項、超過三個月到期的定期存款及財務狀況表之現金及現金等值項目組成。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (I) Financial assets (Continued)

##### (i) Classification (Continued)

##### (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 those fair value cannot be reliably measured, which are measured at cost. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

### 3 主要會計政策概要(續)

#### (I) 財務資產(續)

##### (i) 分類(續)

##### (3) 可供出售財務資產

可供出售財務資產為非衍生工具，被指定作此類別或並無分類為任何其他類別。除非投資到期管理層有意在本報告期末十二個月內出售該項投資，否則此等資產列在非流動資產內。

##### (ii) 確認及計量

正常途徑買賣之財務資產於交易日期確認，交易日期為集團須購買或出售資產之日期。投資初步按公平值加所有並非按公平值經損益入賬之財務資產之交易成本確認。按公平值經損益入賬之財務資產初步按公平值確認，交易成本則於綜合損益內支銷。財務資產於收取投資現金流之權利屆滿或已轉讓，且擁有權之所有風險及回報已大致轉讓時剔除確認。可供出售財務資產及按公平值經損益入賬之財務資產其後按公平值列賬，於活躍市場上無市場報價及公平值未能可靠計量之權益工具之投資則按成本計量。貸款及應收款項其後以實際利息法按攤銷成本列賬。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (I) 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 profit or loss within “Other gains, net” in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the 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 profit or loss as “gains or losses from investment securities”.

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

### 3 主要會計政策概要(續)

#### (I) 財務資產(續)

##### (ii) 確認及計量(續)

按公平值經損益入賬之財務資產之公平值變動所產生之損益乃於產生期間於損益「其他收益·淨額」內呈列。按公平值經損益入賬之財務資產之股息收入乃於集團之收款權利建立時在損益內確認為「其他收益」之一部分。

分類為可供出售之貨幣及非貨幣證券之公平值變動乃於其他全面收益內確認。

當分類為可供出售之證券出售或減值時，於權益內確認之累積公平值調整於損益內列作「投資證券之損益」。

採用實際利率法計算之可供出售債務證券之利息乃於損益內確認為「財務收益」之一部分。可供出售股本投資之股息乃於集團確立收取付款之權利時於損益內確認為「其他收益」之一部分。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 3 Summary of significant accounting policies (Continued)

##### (m) 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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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;

#### 3 主要會計政策概要(續)

##### (m) 財務資產減值

###### (i) 以攤銷成本列賬之資產

集團於各報告期末評估是否存在客觀憑證證明財務資產或財務資產組別出現減值。只當有客觀憑證證明於首次確認資產後發生一宗或多宗事件導致出現減值(「虧損事件」)，而該宗(或該等)虧損事件對該項或該組財務資產的未來估計之現金流量構成可靠估計的影響，有關財務資產方案出現減值及產生減值虧損。

減值的證據可能包括以下指標：債務人或一組債務人正處於重大財政困難，違約或拖欠利息或本金付款，彼等有可能將進入破產程序或進行其他財務重組，以及當有可觀察數據顯示，估計未來現金流量有可計量的減少，例如欠款變動或與違約相關的經濟狀況。

集團用作釐定存在減值虧損客觀證據的準則包括：

- 發行人或債務人遇上重大財務困難；
- 違反合約，如逾期或拖欠支付利息或本金；
- 集團基於與借入人之財務困難有關的經濟或法律理由而給予借入人在一般情況下放款人不予考慮的優惠條件；

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (m) Impairment of financial assets (Continued)

##### (i) Assets carried at amortised cost (Continued)

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

- 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.

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 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.

### 3 主要會計政策概要 (續)

#### (m) 財務資產減值 (續)

##### (i) 以攤銷成本列賬之資產 (續)

集團用作釐定存在減值虧損客觀證據的準則包括 (續) :

- 借款人將可能破產或進行其他財務重組；
- 因財務困難而導致某項財務資產失去活躍市場；或
- 可觀察的資料顯示某資產組合自初始確認後，其估計未來現金流量有可計量的減少，儘管該減少尚未能在該組別的各種財務資產內確定，有關資料包括：

- (1) 該組合內借款人的付款狀況出現不利變動；
- (2) 與該組合內資產逾期還款相關的全國性或地方經濟狀況。

集團首先評估是否存在減值客觀證據。

就貸款及應收款項類別而言，虧損金額乃按資產賬面值與按財務資產原實際利率貼現的估計未來現金流量現值（不包括尚未產生的未來信貸虧損）間的差額計量。資產賬面值會予以削減，而虧損金額會於損益中確認。如貸款或持至到期日投資存在浮動利率，則計量任何減值虧損的貼現率乃根據合約釐定的現行實際利率。在實際運作上，集團可能採用可觀察的市場價格根據工具的公平值計量減值。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 3 Summary of significant accounting policies (Continued)

##### (m) Impairment of financial assets (Continued)

###### (i) Assets carried at amortised cost (Continued)

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 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, if any such evidence exists, 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 profit or loss – is removed from equity and recognised in 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 profit or loss, the impairment loss is reversed through the profit or loss.

For equity investments, 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 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 profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the income statement on equity instruments are not reversed through the profit or loss.

#### 3 主要會計政策概要(續)

##### (m) 財務資產減值(續)

###### (i) 以攤銷成本列賬之資產(續)

若在較後期間，減值虧損的金額減少，而該減少是可客觀地與確認減值後發生的事件有關連(例如債務人信貸評級改善)，則之前確認的減值虧損的撥回會於損益中確認。

###### (ii) 分類為可供出售之資產

集團於各報告期末評估是否存在客觀證據證明某項財務資產或某一組合財務資產出現減值情況。

就債務證券而言，倘存在任何有關證據，累計虧損(按收購成本與現時公平值的差額，減該財務資產之前在損益確認的任何減值虧損計量)自權益剔除，並在損益確認。倘於其後期間，分類為可供出售的債務工具的公平值增加，而有關增加可客觀地與在損益確認減值虧損後所發生的事件聯繫，則於損益中撥回減值虧損。

就股權投資而言，證券公平值大幅或長期低於其成本亦為資產減值的證據。倘存在任何有關證據，累計虧損(按收購成本與現時公平值的差額，減該財務資產之前在損益確認的任何減值虧損計量)自權益剔除，並在損益確認。在收益表確認的權益工具減值虧損並不會透過損益撥回。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (n) 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 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.

#### (o) Trade and other receivables

Trade receivables are amounts due from customers for sales and distribution of oil and 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. The Group assesses at the end of each reporting period whether there is objective evidence that trade and other receivables are impaired.

#### (p) 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, and other short-term highly liquid investments with original maturities of three months or less.

### 3 主要會計政策概要(續)

#### (n) 存貨

存貨按成本或可變現淨值兩者之較低者入賬。成本按先入先出基準釐定。製成品及在建工程成本包括原料、直接人工、其他直接成本及有關之生產經常費用(按正常經營能力)，以及不包括借貸成本。可變現淨值指於日常業務過程中估計售價減去製造完成所需一切成本及銷售與分銷所產生之一切直接成本。

#### (o) 貿易及其他應收款項

貿易應收賬款為對客戶銷售及輸送天然氣及其他相關產品之款項或於正常業務過程中提供天然氣管道建造及接駁服務之款項。倘貿易及其他應收款項預計於一年或以內(或若更長則在業務正常經營週期內)收回，則歸類為流動資產。否則，於非流動資產中呈列。

貿易及其他應收款項最初按公平值確認，其後則以實際利率法按攤銷成本減減值撥備計算。集團於報告期末評估是否有客觀證據顯示貿易及其他應收款項已減值。

#### (p) 現金及現金等值項目

於綜合現金流量表內，現金及現金等值項目包括手頭現金、銀行活期存款及原定到期日為三個月或以內之其他短期高流通量投資。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 3 Summary of significant accounting policies (Continued)

##### (q) 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.

##### (r) 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 主要會計政策概要(續)

##### (q) 貿易應付賬款

貿易應付賬款為在日常經營活動中從供應商購買商品或服務而應支付款項之責任。如貿易應付賬款之支付日期在一年或以內(如仍在正常經營週期中,則可較長時間),貿易應付賬款被分類為流動負債;否則呈列為非流動負債。

貿易應付賬款初始以公平值確認,其後利用實際利率法按攤銷成本計量。

##### (r) 借貸

借貸初始以公平值確認(扣除所產生的交易成本)。借貸其後以攤銷成本列賬;所得款項(扣除交易成本)及贖回價值之任何差額,以實際利率法於借貸期間在綜合損益內予以確認。

在借貸將很有可能部分或全部提取的情況下,就設立借貸融資支付的費用乃確認為貸款交易成本。在此情況下,該費用將遞延至提取借貸發生時。在並無跡象顯示該借貸將很有可能部分或全部提取的情況下,該費用撥充資本作為流動資金服務的預付款,並於其相關融資期間內予以攤銷。

借貸分類為流動負債,惟集團具有無條件權利可將償還負債的日期遞延至各報告期末後至少十二個月者除外。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (s) 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.

#### (t) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### (u) 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.

### 3 主要會計政策概要(續)

#### (s) 借貸成本

收購、建造或生產合資格資產(即需要長時間才可以達到擬定用途或出售狀態之資產)直接應佔之一般及特定借貸成本計入該等資產的成本,直至資產大致可達到擬定用途或出售狀態時為止。

等待作為合資格資產開支之特別借貸之暫時投資所賺取之投資收入在符合資格可資本化之借貸成本中扣除。

所有其他借貸成本於產生期間在綜合損益內確認。

#### (t) 股本

普通股分類為權益。與發行新股或購股權直接有關的增量成本,於權益列為所得款項的減項(扣除稅項)。

#### (u) 收入確認

收入按已收或應收代價之公平值計量。只要集團預期有經濟利益流入,而收入及成本(如適用)能可靠計量,收入於損益確認如下:

##### (i) 銷售及輸送天然氣

銷售及輸送天然氣將於客戶使用天然氣時確認。以預付I/C卡支付銷售未輸送天然氣之預付款於綜合財務狀況表中作為遞延款項。收入將於貨物交付予客戶之時確認。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 3 Summary of significant accounting policies (Continued)

##### (u) Revenue recognition (Continued)

###### (ii) 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.

###### (iii) Revenue from exploitation and production of crude oil and natural gas

The sales of crude oil is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party and this is generally at the time product enters the pipeline.

###### (iv) Sales of equipment

The equipment sold are mainly the gas meter. 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 equipment sold.

###### (v) Interest income

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

###### (vi) Rental income

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

###### (vii) Royalty income

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

#### 3 主要會計政策概要(續)

##### (u) 收入確認(續)

###### (ii) 天然氣管道建造及接駁費收入

天然氣管道建造及接駁費收入採用完成比例法確認，惟倘在建工程時期較短，則於相關建設工程已完成及接駁服務已提供時確認。

###### (iii) 開採及生產原油及天然氣所得收入

當產品所有權的重大風險及回報被轉嫁至買方時(通常為當法定物權轉嫁予外部人士且通常產品進入管道時)錄得銷售原油及天然氣。

###### (iv) 銷售設備

已售設備主要為燃氣表。於擁有權之重大風險及回報均轉予買家及集團對該等項目已沒有保留一般視為與擁有權相關之管理權或對已售設備之有效控制權後確認銷售設備。

###### (v) 利息收入

利息收入使用實際利率法於應計時確認。

###### (vi) 租金收入

租金收入於租期內按直線基準確認。

###### (vii) 特許權收入

特許權收入按相關協議條款以應計基準確認。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (v) 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\$30,000. 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.

### 3 主要會計政策概要(續)

#### (v) 僱員福利

##### (i) 退休福利成本

根據中華人民共和國之規則和法規，集團之中國僱員參與由中國有關省市政府營辦之若干界定供款退休福利計劃。據此，集團和中國僱員須每月按僱員薪金某個百分比向這些計劃作出供款。

省市政府承諾承擔上述計劃應付所有現有及日後退休中國僱員之退休福利責任。集團除該等每月供款外，並無其他涉及支付僱員退休及其他退休後福利之責任。該等計劃之資產由省級政府管理之獨立管理基金持有，並與集團之資產分開。

集團亦根據強制性公積金計劃條例在香港為所有符合資格參與強制性公積金計劃(「強積金計劃」)之受香港僱用條例管轄之合資格僱員設有界定供款之強積金計劃。根據強積金計劃之規則，集團及僱員向計劃之供款乃按僱員有關收入之百分比計算，惟每月有關收入的最高上限為30,000港元。於綜合損益內扣除的退休福利計劃成本指集團根據強積金計劃之規則向基金支付的供款。集團作出之僱主供款，於向強積金計劃供款時全部歸屬於僱員。強積金計劃資產與集團的資產分開持有，由獨立管理基金管理。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 3 Summary of significant accounting policies (Continued)

##### (v) Employee benefits (Continued)

###### (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 or holding shares for a specified period of time).

#### 3 主要會計政策概要(續)

##### (v) 僱員福利(續)

###### (ii) 僱員應獲權利

僱員應得之年假及長期服務金於應計予僱員時確認。就截至財務狀況表日期因僱員提供服務而應得之年假及長期服務金，將估計有關負債而作出撥備。

僱員應得之病假及產假和父方陪產假直至取假時方予確認。

###### (iii) 以股份為基礎之付款

集團設有多項以權益結算以股份為基礎的報酬計劃，根據該等計劃，實體收取僱員的服務以作為集團權益工具的代價。僱員為換取獲授予購股權或限制性股份而提供服務的公平值確認為費用。將予支銷的總金額從參考授出購股權或限制性股份的公平值後釐定：

- 包括任何市場表現條件(例如，實體之股價)；
- 不包括任何服務及非市場表現歸屬條件(如盈利能力、銷售增長目標以及於特定期間內仍為實體僱員)之影響；及
- 包括任何非歸屬條件之影響(例如，對僱員之要求或在某特定期持有股份)。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (v) 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.

### 3 主要會計政策概要(續)

#### (v) 僱員福利(續)

##### (iii) 以股份為基礎之付款(續)

非市場歸屬條件包括在有關預期可予歸屬之購股權或限制性股份數目之假設內。總支銷金額於歸屬期內確認，即符合所有列明之歸屬條件的期間。於各報告期末，實體根據非市場歸屬條件修訂其估計預期將予歸屬之認股權或限制性股份數目。實體在綜合損益內確認對修訂原估算之影響(如有)，並對權益作出相應調整。

##### 購股權計劃

於購股權獲行使時，公司發行新股份。於購股權獲行使時之已收所得款項於減去所有直接應佔交易成本後撥入股本(面值)及股份溢價。

公司向集團附屬公司的僱員授予權益工具的購股權被視為資本投入。所獲得僱員服務之公平值乃參考授出日期之公平值計量，於歸屬期內確認為增加對附屬公司之投資，並相應計入權益。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 3 Summary of significant accounting policies (Continued)

##### (v) Employee benefits (Continued)

###### (iii) Share-based payments (Continued)

###### Share award scheme

When restricted shares are granted, the fair value of restricted shares are recognised 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 and restricted shares is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

##### (w) Provisions

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

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one 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.

#### 3 主要會計政策概要(續)

##### (v) 僱員福利(續)

###### (iii) 以股份為基礎之付款(續)

###### 股份獎勵計劃

倘授出限制性股份，限制性股份的公平值會確認為開支，並於歸屬期內對權益作出相應調整。

倘集團在市場內購入公司股份，已付代價(包括任何直接應佔增加成本)作為「為獎勵計劃持有的股份」呈列，並從權益總額內扣除。

就有關授出購股權及限制性股份而應付的社會保障供款被視為授出本身的一個組成部分，而其費用被視為以現金結算的交易。

##### (w) 撥備

對環境復原、重組成本及法律索償之撥備於下列情況下予以確認：集團須就過往事件承擔現有的法定或推定責任，而履行該責任很有可能會導致資源外流，並能作出可靠的估計。重組撥備包括終止租約罰款及終止僱員合約所支付之款項。未來經營虧損毋須作出撥備確認。

倘有多項類似責任時，解除該等責任導致資源流出的可能性按責任的類別作整體考慮。即使在同一類別責任內任何一個項目導致資源流出的可能性很低，亦須就此確認撥備。撥備採用稅前利率按照預期需解除責任的支出現值計量，該利率反映當時市場對貨幣時間價值和有關責任固有風險的評估。隨著時間過去而增加的撥備確認為利息費用。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (x) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the 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.

##### (i) Current income tax

The current income tax 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, its associates and joint ventures 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.

##### (ii) Deferred income tax

###### *Inside basis differences*

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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, 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 date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

### 3 主要會計政策概要(續)

#### (x) 當期及遞延所得稅

期內稅項開支包括當期及遞延稅項。稅項於損益確認，惟與於其他全面收益或於權益直接確認之項目有關者除外。在此情況下，稅項亦分別於其他全面收益或於權益直接確認。

##### (i) 當期所得稅

當期所得稅支出根據集團、其聯營公司及合營企業營運及產生應課稅收入所在之國家於財務狀況表日期已通過或實質上通過之稅務法例計算。管理層就適用稅務法例詮釋所規限之情況定期評估報稅表之狀況，並在適用情況下根據預期須向稅務機關支付之稅款設定撥備。

##### (ii) 遞延所得稅

###### *內在基準差異*

遞延所得稅以負債法按資產及負債之稅基與彼等賬面值產生之暫時差額，於綜合財務報表悉內確認。然而，倘稅項負債源自商譽的首次確認，則不會確認遞延稅項負債，倘屬業務合併以外且交易當時並不影響會計或稅務盈虧之交易，則首次確認資產或負債所產生遞延所得稅不予入賬。遞延所得稅以財務狀況表日期已通過或實質上通過之稅率（及稅法）釐定，預計將於有關遞延所得稅資產變現或遞延所得稅負債清償時應用。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 3 Summary of significant accounting policies (Continued)

##### (x) Current and deferred income tax (Continued)

###### (ii) Deferred income tax (Continued)

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.

###### Outside basis differences

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

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint ventures only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

###### (iii) Offsetting

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.

#### 3 主要會計政策概要(續)

##### (x) 當期及遞延所得稅(續)

###### (ii) 遞延所得稅(續)

遞延所得稅資產僅於日後將有應課稅盈利抵銷暫時差異時確認。

###### 外在基準差異

遞延所得稅負債乃按於附屬公司、合營企業及聯營公司之投資所產生之暫時差額作出撥備，但如集團能控制暫時差額之撥回時間，且暫時差額可能不會於可見將來撥回之遞延所得稅負債則除外。

對與附屬公司、聯營公司及合營企業投資相關的可抵扣暫時性差異，確認遞延所得稅資產，僅在未來很可能撥回暫時性差異為限，且有足夠應課稅溢利可用來抵銷暫時差異。

###### (iii) 抵銷

當有法定可執行權利可將當期稅項資產與當期稅務負債抵銷，而遞延所得稅資產及負債涉及同一稅務機關向應課稅實體或不同應課稅實體徵收之所得稅，並有意按淨額結算餘款，則可將遞延所得稅資產與負債抵銷。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 3 Summary of significant accounting policies (Continued)

#### (y) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payment made under operating leases, net of any incentives received from the lessor are charged to profit or loss on a straight-line basis over the period of the lease.

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

#### (z) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the profit or loss on a straight-line basis over the expected lives of the related assets.

### 3 主要會計政策概要(續)

#### (y) 租賃

凡所有權的絕大部分風險和回報由出租人保留的租賃，均列作經營租賃。根據經營租賃(扣除從出租人獲取的任何優惠)作出的付款按租期以直線法於損益內扣除。

集團擁有所有權絕大部分風險及回報的物業、廠房及設備租賃分類為融資租賃。融資租賃於租期開始時按租賃物業公平值與最低租賃付款現值兩者中之較低者資本化。

#### (z) 政府補助

當能合理確定將收到政府的補助，而集團將遵守所有附帶條件時，政府補助按其公平值確認。

與成本有關的政府補助將被遞延，並於與其擬定補償的成本配對在所需期間內於損益中確認。

與物業、廠房及設備有關的政府補助列入非流動負債作為遞延政府補助，並按直線法於相關資產預計年限計入損益。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 4 Financial risk management

#### 4 財務風險管理

##### 4.1 Financial instruments by categories

##### 4.1 按類別劃分之金融工具

			Available- for-sale financial assets	Financial assets at fair value through profit or loss 按公平值 經損益入賬 之財務資產	Loans and receivables 貸款及 應收款項	Financial liabilities at amortised cost 按攤銷成本 計量之 財務負債
	Note 附註	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	
As at 31 December 2017	於二零一七年 十二月三十一日					
Available-for-sale financial assets	21	596,360	-	-	-	
Deposits, trade and other receivables		-	-	1,859,370	-	
Financial assets at fair value through profit or loss	24	-	48,842	-	-	
Time deposits, bank balances and cash	25	-	-	2,338,978	-	
Trade and other payables		-	-	-	1,420,394	
Borrowings	28	-	-	-	749,258	
Senior notes	29	-	-	-	4,970,240	
		<b>596,360</b>	<b>48,842</b>	<b>4,198,348</b>	<b>7,139,892</b>	
As at 31 December 2016	於二零一六年 十二月三十一日					
Available-for-sale financial assets	21	638,262	-	-	-	
Deposits, trade and other receivables		-	-	1,726,189	-	
Financial assets at fair value through profit or loss	24	-	47,448	-	-	
Time deposits, bank balances and cash	25	-	-	1,858,653	-	
Trade and other payables		-	-	-	1,302,258	
Borrowings	28	-	-	-	360,907	
Senior notes	29	-	-	-	5,006,417	
		<b>638,262</b>	<b>47,448</b>	<b>3,584,842</b>	<b>6,669,582</b>	

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 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.

##### (a) Market risk

###### (i) Currency risk

The Group is exposed to currency risk arising from various currency exposures, primarily with respect to United States dollars ("US\$"), Canadian dollars ("CAD") and 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 supplies denominated in the same currency.

Management has set up a policy to require group companies to manage their foreign exchange risk against functional currency. It mainly includes managing the exposures arise from sales and purchases made by the relevant group companies in currencies other than their own functional currencies. The Group also manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures. The Group has not used any forward foreign exchange contracts to hedge its exposure.

Prices for oil and natural gas in Canada are determined in global markets and generally denominated in US\$. Oil prices obtained by the Group are influenced by both United States and Canadian demand and the corresponding North American supply. The exchange rate effect cannot be quantified but generally an increase in the value of CAD as compared to US\$ will reduce the prices received by the Group for its petroleum and natural gas sales.

### 4 財務風險管理 (續)

#### 4.2 財務風險因素

集團活動面臨多種財務風險：市場風險（包括貨幣風險、價格風險及利率風險）、信貸風險及日常業務過程及金融工具產生之流動資金風險。管理層管理及監控該等風險，以保證及時有效地實施適當措施。

##### (a) 市場風險

###### (i) 貨幣風險

集團面臨因持有不同貨幣（以美元（「美元」）、加拿大元（「加元」）及人民幣為主）產生的貨幣風險。貨幣風險由未來商業交易、確認資產及負債及國外業務淨投資而產生。此外，人民幣兌換為外幣須受中國政府頒布之外匯管制規則及法規所規限。此貨幣風險主要透過採購以相同貨幣計值的供應而進行管理。

管理層已制訂政策，要求集團公司管理各自功能貨幣的外匯風險。其主要包括管理相關集團公司以其自身功能貨幣以外之貨幣買賣產生的風險。集團亦通過定期審閱集團匯兌淨額管理其外匯風險。集團概無使用任何遠期外匯合約對沖其風險。

加拿大石油及天然氣價格於全球市場中釐定且一般以美元列值。集團獲得的石油價格受美國及加拿大需求以及相應北美供應的影響。匯率影響不可被量化，但一般加元兌美元升值將降低集團就其石油及天然氣銷售所取得的價格。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 4.2 Financial risk factors (Continued)

##### (a) Market risk (Continued)

###### (i) Currency risk (Continued)

As US\$ is pegged with HK\$ under the Linked Exchange Rate System, the Group has minimal exposure to currency risk arising from US\$. Accordingly, no sensitivity analysis is performed. As at 31 December 2017, if Renminbi had weakened/strengthened by 5% against HK\$, with all other variables held constant, post-tax profit for the year would have been HK\$113,263,000 (2016: HK\$95,266,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of Renminbi denominated cash and cash equivalents.

###### (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 exchanges of Hong Kong and other countries. 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.

### 4 財務風險管理 (續)

#### 4.2 財務風險因素 (續)

##### (a) 市場風險 (續)

###### (i) 貨幣風險 (續)

因根據聯繫匯率制度美元與港元掛鈎，故集團承受由美元產生之貨幣風險較少。因此，並無作敏感性分析。於二零一七年十二月三十一日，在其他因素保持不變的情況下，倘人民幣兌港元貶值／升值5%，年內除稅後溢利將減少／增加113,263,000港元（二零一六年：95,266,000港元），主要由於換算以人民幣計值之現金及現金等值項目的匯兌虧損／收益所致。

###### (ii) 價格風險

集團就分類為可供出售財務資產及按公平值經損益入賬之財務資產之股本投資（除持有之策略性非上市債券及股本證券外）全部為上市投資）面臨股本價格變動風險。集團大部分上市投資在香港聯交所及其他國家上市。決定購入或賣出買賣證券的基礎是每日監察個別證券與指數及其他行業指標的相對表現，以及集團對流動資金的需求。作為可供出售投資組合持有的上市投資乃按長期增長潛力挑選，並定期監察其表現是否符合預期。該投資組合已按照集團制定的限制在行業分佈方面符合分散原則。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 4.2 Financial risk factors (Continued)

##### (a) Market risk (Continued)

##### (ii) Price risk (Continued)

As at 31 December 2017, debt and equity investments classified as financial assets at fair value through profit or loss amounted to HK\$48,842,000 (2016: HK\$47,448,000). Price risk arises on account of debt and equity investments classified as financial assets at fair value through profit or loss is not material to the Group as a whole.

Commodity price risk is the risk that fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas in Canada are impacted by the relationship between CAD and US\$ as well as world economic events that dictate the levels of supply and demand.

##### (iii) Interest rate risk

As the Group has no significant interest-bearing assets, except for short-term bank deposits, loan to an associate and loans to third parties, 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 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 and senior notes. 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 borrowings and senior notes are set out in Notes 28 and 29 respectively.

### 4 財務風險管理 (續)

#### 4.2 財務風險因素 (續)

##### (a) 市場風險 (續)

##### (ii) 價格風險 (續)

於二零一七年十二月三十一日，分類為按公平值經損益入賬的財務資產的債務及股本投資達48,842,000港元(二零一六年：47,448,000港元)。分類為按公平值經損益入賬的財務資產的重大債務及股本投資賬項產生之價格風險總體而言對集團並不重大。

商品價格風險指公平值或未來現金流會因商品價格變動而波動的風險。加拿大石油及天然氣商品價格受加元及美元關係以及決定供求情況的全球經濟事件的影響。

##### (iii) 利率風險

由於集團除短期銀行存款、貸款予一間聯營公司及貸款予第三方外，並無重大計息資產，集團收入及經營現金流量大部分不受市場利率變動影響。由於預期銀行存款利息並無重大變動，管理層預期利率變動對計息資產並無重大影響。

集團利率風險由借貸及優先票據產生。按浮息取得之借貸使集團面臨現金流量利率風險。定息借貸則使集團面臨公平值利率風險。

集團借貸及優先票據之詳情分別載於附註28及29。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 4 Financial risk management (Continued)

##### 4.2 Financial risk factors (Continued)

###### (a) Market risk (Continued)

###### (iii) Interest rate risk (Continued)

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

At 31 December 2017, 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 post tax profit for the year by approximately HK\$2,913,000 (2016: HK\$1,683,000). The above sensitivity analysis has been determined assuming that the change in interest rates had occurred at the date of the statement of financial position 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 2016.

###### (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.

#### 4 財務風險管理 (續)

##### 4.2 財務風險因素 (續)

###### (a) 市場風險 (續)

###### (iii) 利率風險 (續)

由於利率風險並不重大，集團並無使用任何利率掉期對沖其利率風險承擔。為管控現金流量利率風險，集團在有盈餘資金時會償還有關借貸。

於二零一七年十二月三十一日，估計浮息借貸之利率普遍上升或下跌100個基點，而所有其他變數保持不變，則集團年內除稅後溢利將分別減少／增加約2,913,000港元(二零一六年：1,683,000港元)。上述敏感度分析乃假設利率變動於財務狀況表日期發生及一直應用於該日存在的金融工具的利率風險。上升或下跌100個基點指管理層評估利率於年內直至下一全年財務狀況表日期期間的可能合理變動。二零一六年的分析按同一基準進行。

###### (b) 信貸風險

集團之信貸風險主要由貿易及其他應收款項、歸類為可供出售財務資產及按公平值經損益入賬之財務資產的債務證券，所面對之最高風險相等於該等金融工具之賬面值。管理層已制定現成之信貸政策，並對該等信貸風險持續監控。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 4.2 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

As at 31 December 2017 and 2016, all of the Group's bank deposits are deposited in major financial institutions located in the PRC, Canada 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 2017 and 2016 were as follows:

State-owned or listed banks	國有或上市銀行
Other banks	其他銀行

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and excludes cash on hand of HK\$3,286,000 and HK\$1,646,000, as at 31 December 2017 and 2016 respectively. Credit risk also arises from outstanding trade and other receivables from customers and a number of counter parties.

The management considers the credit risk on loans to an associate and third parties after considering the financial conditions of the counter parties. Management has performed assessment over the recoverability of the balances and management does not expect any losses from non-performance by these counter parties.

### 4 財務風險管理 (續)

#### 4.2 財務風險因素 (續)

##### (b) 信貸風險 (續)

於二零一七年及二零一六年十二月三十一日，集團所有銀行存款均存入位於中國、加拿大及香港之主要金融機構，管理層認為該等機構信貸質量高且並無重大信貸風險。於二零一七年及二零一六年十二月三十一日，集團之銀行存款如下：

	2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
State-owned or listed banks	<b>1,801,522</b>	1,590,103
Other banks	<b>535,390</b>	265,264
	<b>2,336,912</b>	1,855,367

信貸風險按集團基準管理。信貸風險來自現金及現金等值項目、銀行存款，不包括於二零一七年及二零一六年十二月三十一日分別為3,286,000港元及1,646,000港元之手頭現金。信貸風險亦來自應收客戶及多名對手方的未償清貿易及其他應收款項。

經考慮對手方之財務狀況，管理層認為貸款予一間聯營公司及第三方之信貸風險甚微。管理層已就該等結餘之可收回性作出評估，且管理層預期不會因該等對手方違約而產生任何虧損。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 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 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 date of the statement of financial position of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the statement of financial position date) and the earliest date the Group can be required to pay:

#### 4 財務風險管理 (續)

##### 4.2 財務風險因素 (續)

###### (b) 信貸風險 (續)

集團一般要求客戶預付墊款。在除銷的情況下，為管理貿易及其他應收款項產生的信貸風險，集團已訂有政策，以保證銷售乃向具有適當信用記錄的客戶作出及集團對客戶進行定期信用評估，一般毋須客戶就未清償結餘提供抵押。根據未清償結餘的預期可收回情況及收回時間，集團已就應收款項作出減值撥備，而實際虧損符合管理層預期。

集團持有的債務工具一般僅為於在認可證券交易所掛牌買賣的流通證券，惟為長遠策略性目的而進行者除外。鑒於投資對手方具有高信貸評級，管理層預期不會有任何投資對手方無法履行責任。

集團並無提供任何其他可致使集團承擔信貸風險之擔保。

###### (c) 流動資金風險

集團內個別經營實體負責彼等本身的現金管理，包括現金盈餘的短期投資及籌集貸款以彌補預期現金需求，當借貸超過若干預定權限水平時，須獲公司董事局批准方可作實。集團政策為定期監控現時及預期流動資金需求，以保證保持足夠現金儲備及隨時變現的有價證券以及充足之主要金融機構之承諾資金額度，以符合短期及較長期的流動資金需要。

下表詳述集團財務負債於財務狀況表日期的剩餘合約到期日，乃根據合約未折現現金流量（包括使用合約利率計算的利息付款或如屬浮息，按財務狀況表日期的現行利率計算）及集團可能須支付的最早日期為依據：

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

### 4 財務風險管理 (續)

#### 4.2 Financial risk factors (Continued)

#### 4.2 財務風險因素 (續)

##### (c) Liquidity risk (Continued)

##### (c) 流動資金風險 (續)

Group		Total Total carrying amount	contractual undiscounted cash flow 合約未折現 現金流量總計	Repayable on demand 須按 要求 償還	Less than		
					1 year or on demand 1年內或 按 要求 支付	Between 1 to 2 years 1至2年	Between 2 to 5 years 2至5年
		HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元
As at 31 December 2017	於二零一七年 十二月三十一日						
Trade and other payables	貿易及其他應付款項	1,420,394	1,420,394	1,420,394	-	-	-
Borrowings	借貸	749,258	782,595	-	715,005	12,240	55,350
Senior notes (Note)	優先票據(附註)	4,970,240	5,771,121	-	-	2,952,817	2,818,304
		<b>7,139,892</b>	<b>7,974,110</b>	<b>1,420,394</b>	<b>715,005</b>	<b>2,965,057</b>	<b>2,873,654</b>
As at 31 December 2016	於二零一六年 十二月三十一日						
Trade and other payables	貿易及其他應付款項	1,302,258	1,302,258	1,302,258	-	-	-
Borrowings	借貸	360,907	373,829	-	373,829	-	-
Senior notes (Note)	優先票據(附註)	5,006,417	5,037,500	-	-	2,712,500	2,325,000
		<b>6,669,582</b>	<b>6,713,587</b>	<b>1,302,258</b>	<b>373,829</b>	<b>2,712,500</b>	<b>2,325,000</b>

Note:

The Group complied with senior notes covenant and did not trigger the callable terms.

附註：

集團遵守優先票據契約及並無觸發隨時通知償還條款。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 4 Financial risk management (Continued)

##### 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.

The Group monitors capital on the basis of available cash and cash equivalents and current ratio as shown in and derived from the consolidated statement of financial position. The table below analyses the Group's capital structure:

Cash and cash equivalents (HK\$'000)	現金及現金等值項目 (千港元)
Current ratio (Current assets divided by current liabilities)	流動比率(流動資產 除以流動負債)

The Group's strategy is to maintain the current ratio above 1.00 and sufficient cash and cash equivalents to support the operations and development of its business in the long term.

#### 4 財務風險管理(續)

##### 4.3 資本風險管理

集團之資本管理主要目標為保障集團按持續基準經營之能力，以持續為股東帶來回報及為其他權益關涉者帶來利益，並保持最優資本架構以減少資本成本。

集團積極定期檢討及管理資本架構，並經考慮集團之日後資金需求及資本效益、當前及預期盈利能力及預期營運現金流量、預期資本開支及預期策略投資機會而確保優化資本架構及股東回報。為保持或調整資本架構，集團或會調整支予股東之股息金額，回購公司股份，向股東回報資本，發行新股或銷售資產以減少債務。

集團根據綜合財務狀況表所示及計算所得之可用現金及現金等值項目及流動比率監控資本。下表為集團資本結構之分析：

	2017 二零一七年	2016 二零一六年
Cash and cash equivalents (HK\$'000)	2,290,447	1,833,483
Current ratio (Current assets divided by current liabilities)	1.08	1.21

集團之策略是將流動比率保持在1.00以上，並且維持足夠之現金及現金等值項目，以支持其業務的長遠營運及發展。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 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.

### 4 財務風險管理 (續)

#### 4.4 公平值估計

##### (i) 以公平值列賬之金融工具

下表呈列於財務狀況表日期在香港財務報告準則第7號「金融工具：披露」所界定之公平值三個層次中，以公平值列賬之金融工具之賬面值，而各金融工具之公平值以對該公平值計量屬重大之最低層次輸入數據而整體分類。

所界定之層次如下：

- 第一層次(最高層次)：以可識別金融工具活躍市場所報價(未經調整)計量公平值。
- 第二層次：以類似金融工具活躍市場報價，或以估值技術(其中所有重大輸入數據乃直接或間接以可觀察數據為本)計量公平值。
- 第三層次(最低層次)：以估值技術(其中重大輸入數據乃並非可觀察市場數據為本)計量公平值。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 4 Financial risk management (Continued)

##### 4.4 Fair value estimation (Continued)

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

		Level 1	Level 2	Level 3	Total
		第一層次	第二層次	第三層次	總計
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		千港元	千港元	千港元	千港元
As at 31 December 2017	於二零一七年十二月三十一日				
Available-for-sale financial assets:	可供出售財務資產：				
- Listed equity investments	- 上市股本投資	136,733	-	-	136,733
- Listed debt instruments	- 上市債務工具	459,177	-	-	459,177
- Unlisted debt instruments	- 非上市債務工具	-	450	-	450
Financial assets at fair value through profit or loss:	按公平值經損益入賬之財務資產：				
- Listed debt instruments	- 上市債務工具	20,822	-	-	20,822
- Unlisted debt instruments	- 非上市債務工具	-	28,020	-	28,020
		<b>616,732</b>	<b>28,470</b>	<b>-</b>	<b>645,202</b>
As at 31 December 2016	於二零一六年十二月三十一日				
Available-for-sale financial assets:	可供出售財務資產：				
- Listed equity investments	- 上市股本投資	918	-	-	918
- Listed debt instruments	- 上市債務工具	636,962	-	-	636,962
- Unlisted debt instruments	- 非上市債務工具	-	382	-	382
Financial assets at fair value through profit or loss:	按公平值經損益入賬之財務資產：				
- Listed debt instruments	- 上市債務工具	20,029	-	-	20,029
- Unlisted debt instruments	- 非上市債務工具	-	27,419	-	27,419
		<b>657,909</b>	<b>27,801</b>	<b>-</b>	<b>685,710</b>

#### 4 財務風險管理 (續)

##### 4.4 公平值估計 (續)

(i) 以公平值列賬之金融工具 (續)

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 4 Financial risk management (Continued)

#### 4.4 Fair value estimation (Continued)

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

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

##### (a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily Hong Kong and Dow Jones equity and debt investments classified as trading securities or available-for-sale.

##### (b) Financial instruments in level 2

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. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

### 4 財務風險管理 (續)

#### 4.4 公平值估計 (續)

##### (i) 以公平值列賬之金融工具 (續)

於本年度，第一層次及第二層次之間之工具概無轉撥。

##### (a) 第一層次金融工具

於交投活躍市場買賣之金融工具之公平值根據財務狀況表日期之市場報價計算。交投活躍市場乃指可輕易地及定期從交易所、經銷商、經紀人、行業集團、報價服務或規管機構取得報價之市場，而有關報價是在經常進行之真實公平交易之基礎上呈現。集團所持財務資產所用之市場報價為當時買入價。該等工具會被列為第一層次。被列為第一層次之工具主要包括分類為交易證券或可供出售證券的香港及道瓊斯指數證券。

##### (b) 第二層次金融工具

沒有在活躍市場買賣之金融工具(例如場外衍生工具)的公平值利用估值技術釐定。估值技術儘量利用可觀察市場數據(如有)，儘量少依賴實體的特定估計。如計量一金融工具的公平值所需的所有重大輸入數據為可觀察數據，則該金融工具列入第二層次。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 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 financial instruments, including non-current assets carried at cost or amortised cost are not materially different from their fair values as at 31 December 2017 and 2016.

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 date of the statement of financial position. 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 borrowings. 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).

#### 4 財務風險管理 (續)

##### 4.4 公平值估計 (續)

(ii) *以非公平值列賬之金融工具之公平值*

集團的金融工具(包括以成本或攤銷成本列賬之非流動資產)之賬面值, 與其於二零一七年及二零一六年十二月三十一日之公平值並無重大差別。

於活躍市場買賣之金融工具(例如持作買賣用途之證券及可供出售之證券)之公平值為財務狀況表日期之市場價格。集團所持財務資產所用之市價為當時買入價(即第一層次—最高層次)。非活躍市場買賣之金融工具(例如櫃檯交易衍生工具)之公平值乃使用估值技術釐定。

集團使用多種方法, 並按各財務狀況表日期當時之市況作出假設。長期債項乃使用同類工具之市場價或交易商之報價。釐定其餘金融工具之公平值時則使用其他技術, 例如預計折現現金流量。

賬面值減即期應收賬款及即期應付賬款之減值撥備乃公平值之合理約數。按現行市率計算之估計折現現金流量乃用以釐定該等金融工具之公平值(即第三層次—最低層次)。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 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) Estimate of impairment of loan receivable from and interest in an associate

The Group tests at least annually whether loan receivable from and interest in an associate suffered any impairment. Business valuation was performed and management 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 commodity price growth, future production profile, and discount rate. 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.

Specific assumptions and estimates involved in the cash flow projections are set out in Note 20.

### 5 重大會計估計及判斷

集團的管理人員於應用影響根據香港財務報告準則編撰的綜合財務報表所載資產、負債、收入及開支的會計政策時作出假設、估計及判斷。相關假設、估計及判斷乃基於過往經驗及相信於當時情況屬合理的其他因素作出。雖然管理人員會不斷檢討彼等之判斷、估計及假設，但實際結果甚少於估計相同。

有關估計及判斷定期予以評估，並以過往經驗及其他因素為基準，包括對相信於有關情況下屬合理的未來事項的預期。

下文所述事項就理解編製集團綜合財務報表所涉估計及判斷而言，尤為重要。

#### (a) 應收一間聯營公司貸款及於該聯營公司的權益減值之估計

集團至少每年測試應收一間聯營公司貸款及於該聯營公司的權益是否發生減值。倘出現有情況或情況變動顯示賬面值未必可收回，則會進行業務估值且管理層會對可能減值作出檢討。釐定資產是否減值及其減值幅度涉及管理層對商品價格增長、未來生產概況及貼現率等之估計及判斷。然而，減值檢討及計算乃以與集團業務計劃一致之假設為基準。若干假設之有利變動能讓集團於該等年度避免減值任何資產之需要，而不利變動則可能導致資產減值。

現金流量預測所涉及的特定假設及估計載於附註20。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 5 Critical accounting estimates and judgements (Continued)

##### (b) 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 and crude oil. 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.

The Group relied on experts to assess the geological prospects for the discovery of oil in the oilfield and estimated the value of oil to be produced in the future at a suitable discount rate in order to calculate the present value. For drilling costs and other exploration and evaluation assets, the Group determined whether the related well costs are expensed if it is determined that such economic viability is not attained after performing further feasibility studies. Judgement is required by the Board to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

#### 5 重大會計估計及判斷(續)

##### (b) 非財務資產減值估計

集團至少每年測試商譽有否減值。當事件或情況變化顯示賬面值可能無法收回時，物業、廠房及設備以及商譽亦予以檢討是否可能減值。確定資產是否減值及減值之金額涉及管理層之估計及判斷，例如天然氣及原油之未來價格。然而，減值檢討及計算乃根據與集團之業務計劃一致之假設而作出。若干假設之有利變動或會令集團避免於該等年度對任何資產進行減值，而不利變動或會使資產減值。

集團依賴專家對油田中發現石油的地質評估及按適當折現率估計未來將生產的石油價值，以計算現值。就鑽井成本及其他勘探及評估資產而言，倘確定於進一步進行可行性研究後無法實現經濟可行性，集團釐定有關油井支出是否支銷。董事須作出判斷以釐定現金流量預測所採納的主要假設，而主要假設變動可重大影響該等現金流量預測，從而影響減值檢討的結果。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 5 Critical accounting estimates and judgements (Continued)

#### (c) Estimation of useful lives and residual values of property, plant and equipment under the segment of “sales and distribution of natural gas and other related products”

The Group's management determines the estimated useful lives and residual values for the Group's property, plant and equipment in the segment of “Sales and distribution of natural gas and other related products”. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment and land use right 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.

#### (d) Estimate of petroleum reserve under the segment of “exploitation and production of crude oil and natural gas”

Estimates of petroleum reserves are key elements in the Group's investment decision-making process. They are also an important element in testing for impairment. Changes in total proved plus probable petroleum reserves will affect unit-of-production depreciation and depletion recorded in the Group's consolidated financial statements for property, plant and equipment related to oil and gas production activities. A reduction in proved plus probable reserves will increase depreciation and depletion charges. Petroleum reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

### 5 重大會計估計及判斷(續)

#### (c) 物業、廠房及設備之使用年期及剩餘價值估計

集團管理層釐定集團於「銷售及輸送天然氣及其他相關產品」分部內的物業、廠房及設備之估計可使用年期及剩餘價值。此估計乃基於對類似性質及功能的物業、廠房及設備之實際可使用年期及剩餘價值的歷史經驗而作出。此估計可因天然氣行業的技術進步及創新而大幅轉變。如剩餘價值與先前估計有差別，管理層將調整折舊費用，或撇銷或撇減技術上過時或被廢棄或出售的非策略性資產。實際剩餘價值可能與估計剩餘價值不同。定期回顧可能導致可折舊年期及剩餘價值轉變並因此於未來期間出現折舊。

#### (d) 「開採及生產原油及天然氣」分部石油儲量之估計

石油儲量之估計對集團之投資決策過程至關重要，亦是減值測試之重要因素。探明加概算石油總儲量之變化將影響於集團綜合財務報表就與石油及天然氣生產活動相關之物業、廠房及設備所入賬之單位產量折舊及損耗。探明加概算儲量之減少將增加折舊及損耗金額。石油儲量估計可根據新資料作出向上或向下修訂，例如，來自開發鑽探及生產活動或來自經濟因素之變化，包括產品價格、合同條款或開發計劃等。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 6 Revenue and segment information

The Group's principal activities are the sales and distribution of natural gas, crude oil and other related products and provision of construction and connection services of gas pipelines in the PRC, and the exploitation and production of crude oil and natural gas in Canada. Revenue for the year comprises the following:

#### 6 營業額及分部資料

集團主要從事銷售及分銷天然氣、原油及其他相關產品及於中國提供燃氣管道建造及接駁服務，以及在加拿大開採及生產原油及天然氣。年內營業額包括以下各項：

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Sales and distribution of natural gas and other related products	銷售及輸送天然氣及其他相關產品	6,773,775	5,424,144
Gas pipeline connection and construction services income	燃氣管道接駁及建造服務收入	524,680	721,041
Revenue from exploitation and production of crude oil and natural gas	來自開採及生產原油及天然氣之營業額	352,825	301,267
		<b>7,651,280</b>	<b>6,446,452</b>

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 6 Revenue and segment information (Continued)

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, gas pipeline construction and connection; and exploitation and production of crude oil and natural gas.

The Group has presented the following three reportable segments for the year ended 31 December 2017:

- sales and distribution of natural gas and other related products
- gas pipeline construction and connection
- exploitation and production of crude oil and natural gas

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, net, interest income, finance costs, share of losses of investments accounted for using the equity method, reversal of impairment losses on oil and gas properties under property, plant and equipment, written off of exploration and evaluation assets, losses on disposals of exploration and evaluation assets and other unallocated corporate expenses, which is consistent with these in the consolidated financial statements. Meanwhile, the Group does not allocate assets and liabilities to its segments and report the sales from external customers by geographical market, as the executive directors do not use these information to allocate resources to or evaluate the performance of operating segment. Therefore, the Group does not report a measure of segment assets and liabilities for each reportable segment and a measure of sales by geographical market.

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 2017 and 2016 is set out below.

### 6 營業額及分部資料(續)

集團根據定期向執行董事匯報供資源分配及表現評估之內部財務資料識別其經營分部及編製分部資料，並更多側重於銷售天然氣、燃氣管道建造及接駁以及開採及生產原油及天然氣。

於截至二零一七年十二月三十一日止年度，集團已呈列以下三個可報告經營分部：

- 銷售及輸送天然氣及其他相關產品
- 燃氣管道建造及接駁
- 開採及生產原油及天然氣

沒有彙總經營分部以組成上述報告分部。

執行董事根據除稅前溢利就業務分部之表現進行評估，而並無分配其他收益淨額、利息收入、財務費用、分佔使用權益法入賬之投資虧損、物業、廠房及設備項下油氣資產減值虧損撥回撥、勘探及評估資產沖銷、出售勘探及評估資產的虧損以及其他未分配企業開支，與綜合財務報表所述者一致。與此同時，集團並無分配資產及負債予其分部及呈報來自地區市場外部客戶的銷售額，因為執行董事並無使用該資料分配資源或評估其經營分部表現。因此，集團並無就各可報告分部呈報分部資產及分部負債之計量及按地區市場銷售額之計量。

截至二零一七年及二零一六年十二月三十一日止年度，向執行董事提供以用資源分配及分部表現評估有關集團報告分部之資料載列如下。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 6 Revenue and segment information (Continued)

#### 6 營業額及分部資料(續)

For the year ended 31 December 2017:

截至二零一七年十二月三十一日止年度：

		Sales and distribution of natural gas and other related products 銷售及輸送天然氣及其他相關產品 HK\$'000 千港元	Gas pipeline construction and connection 燃氣管道建造及接駁 HK\$'000 千港元	Exploitation and production of crude oil and natural gas 開採及生產原油及天然氣 HK\$'000 千港元	Group 集團 HK\$'000 千港元
<b>Segment revenue and results</b>	<b>分部收入及業績</b>				
Sales to external customers	外部客戶銷售額	6,773,775	524,680	352,825	7,651,280
Segment results	分部業績	664,093	242,982	76,842	983,917
Interest income	財務收入				101,741
Other gains, net	其他收益·淨額				22,901
Finance costs	財務費用				(203,677)
Reversal of impairment losses on oil and gas properties under property, plant and equipment	物業、廠房及設備項下油氣資產減值虧損回撥	-	-	4,402	4,402
Written off of exploration and evaluation assets	勘探及評估資產沖銷	-	-	(2,357)	(2,357)
Share of losses of investments accounted for using the equity method	分佔使用權益法入賬之投資虧損				(2,356)
Unallocated corporate expenses	未分配企業開支				(93,105)
Profit before taxation	除稅前溢利				811,466
Taxation	稅項				(188,527)
Profit for the year	年內溢利				622,939

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 6 Revenue and segment information (Continued)

### 6 營業額及分部資料 (續)

For the year ended 31 December 2016:

截至二零一六年十二月三十一日止年度：

		Sales and distribution of natural gas and other related products 銷售及輸送 天然氣及其他 相關產品 HK\$'000 千港元	Gas pipeline construction and connection 燃氣管道 建造及接駁 HK\$'000 千港元	Exploitation and production of crude oil and natural gas 開採及 生產原油 及天然氣 HK\$'000 千港元	Group 集團 HK\$'000 千港元
<b>Segment revenue and results</b>	<b>分部收入及業績</b>				
Sales to external customers	外部客戶銷售額	5,424,144	721,041	301,267	6,446,452
Segment results	分部業績	<u>512,863</u>	<u>353,804</u>	<u>31,108</u>	897,775
Interest income	財務收入				83,310
Other gains, net	其他收益，淨額				137,780
Finance costs	財務費用				(201,946)
Reversal of impairment losses on oil and gas properties under property, plant and equipment	物業、廠房及設備項下 油氣資產減值虧損撥回	-	-	52,003	52,003
Written off of exploration and evaluation asset	勘探及評估資產沖銷	-	-	(11,745)	(11,745)
Losses on disposals of exploration and evaluation assets	出售勘探及評估資產的虧損	-	-	(1,909)	(1,909)
Share of losses of investments accounted for using the equity method	分佔使用權益法入賬之 投資虧損				(15,651)
Unallocated corporate expenses	未分配企業開支				(97,488)
Profit before taxation	除稅前溢利				842,129
Taxation	稅項				(184,461)
Profit for the year	年內溢利				<u>657,668</u>

No external customers of the Group contributed over 10.0% of the Group's revenue for the years ended 31 December 2017 and 2016.

截至二零一七年及二零一六年十二月三十一日止年度，集團沒有外部客戶於集團之收入中貢獻超過10.0%。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 6 Revenue and segment information (Continued)

#### 6 營業額及分部資料(續)

Analysis of the Group's assets by geographical market for the years ended 31 December 2017 and 2016 is set out below:

截至二零一七年及二零一六年十二月三十一日止年度，集團按地區市場劃分之資產之分析載列如下：

		2017 二零一七年		2016 二零一六年	
		Total assets	Additions to non-current assets 添置 非流動資產	Total assets	Additions to non-current assets 添置 非流動資產
		HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元
Hong Kong	香港	137,351	-	371,483	-
Mainland China	中國內地	12,018,750	1,020,397	10,000,284	910,722
Canada	加拿大	2,419,335	232,466	2,226,787	130,598
Total	合計	14,575,436	1,252,863	12,598,554	1,041,320
Unallocated	未分配				
Investments accounted for using the equity method	使用權益法入賬之投資	321,167		300,065	
Deferred tax assets	遞延稅項資產	4,796		19,510	
Available-for-sale financial assets	可供出售財務資產	596,360		638,262	
Financial assets at fair value through profit and loss	按公平值經損益入賬之 財務資產	48,842		47,448	
Total assets	總資產	15,546,601		13,603,839	

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 7 Other income

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Government subsidies	政府補貼	14,737	13,183
Service income	服務收入	5,733	4,880
Dividend income	股息收入	3,056	-
Rental income	租金收入	1,822	3,875
Others	其他	4,914	4,797
		<b>30,262</b>	<b>26,735</b>

### 7 其他收入

### 8 Other gains, net

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Fair value gains on financial assets at fair value through profit or loss	按公平值經損益入賬的財務資產的公平值收益	1,394	902
Losses on disposals of financial assets at fair value through profit or loss	出售按公平值經損益入賬的財務資產虧損	-	(3)
Gains on disposals of available-for-sale financial assets	出售可供出售財務資產收益	17,748	1,879
Gains on disposals of an associate/ a subsidiary (Note 34)	出售一間聯營公司/一間附屬公司收益(附註34)	3,759	124,199
Gains on bargain purchases (Note 33)	議價收購收益(附註33)	-	10,803
		<b>22,901</b>	<b>137,780</b>

### 8 其他收益，淨額

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 9 Operating profit

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

#### 9 經營溢利

經營溢利已扣除/(計入)以下各項：

	2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Employee benefit expenses (Note 11)	333,359	310,230
Minimum lease payments under operating leases for leasehold land and buildings	13,494	16,883
Cost of inventories recognised as expense		
– Purchase of inventories	5,415,724	4,461,966
– Change of inventories during the year	53,863	(10,897)
Auditor's remuneration	2,300	2,300
Depreciation and depletion of property, plant and equipment (Note 16)	428,491	415,992
Amortisation of land use rights (Note 18)	8,503	8,587
Amortisation of intangible assets (Note 19)	2,521	2,685
Losses on disposals of property, plant and equipment	1,652	4,698
Losses on disposals of exploration and evaluation assets	–	1,909
Net exchange gains	(28)	(448)
Write off of exploration and evaluation assets (Note 17)	2,357	11,745

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 10 Finance income and costs

### 10 財務收入及費用

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Finance income from:	財務收入來自：		
Interest income on bank deposits	銀行存款的利息收入	30,218	14,206
Interest income on debt securities	債務證券的利息收入	29,704	29,287
Loan to an associate (Note 23(c))	貸款予一間聯營公司(附註 23(c))	40,898	36,513
Loans to third parties (Note 23(d))	貸款予第三方(附註 23(d))	921	3,304
		<b>101,741</b>	83,310
Finance costs from:	財務費用來自：		
Interest expense on:	利息費用：		
Bank borrowings	銀行借貸	(23,578)	(19,686)
Other borrowings	其他借貸	(2,494)	(13,645)
Senior notes	優先票據	(274,968)	(272,904)
Accretion of assets retirement obligation (Note 31)	資產報廢承擔添加(附註 31)	(2,611)	(2,295)
Less: Amounts capitalised (Note 16(iii))	減：資本化金額(附註 16(iii))	99,974	106,584
		<b>(203,677)</b>	(201,946)
Net finance costs	財務費用淨額	<b>(101,936)</b>	(118,636)

### 11 Employee benefit expenses, including directors' emoluments

### 11 僱員福利開支，包括董事酬金

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Salaries, wages and bonuses	薪金、工資及獎金	293,359	266,015
Pension costs – defined contribution plans	退休金成本 — 界定供款計劃	35,256	38,976
Share option	購股權	3,753	3,441
Share awards	股份獎勵	991	1,798
		<b>333,359</b>	310,230

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 11 Employee benefit expenses, including directors' emoluments (Continued)

##### (a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 1 (2016: 1) director whose emolument is reflected in the analysis presented in Note 12(a). The emoluments paid or payable to the remaining 4 (2016: 4) individuals during the year are as follows:

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Salaries, allowances and benefits in kind	薪金、津貼及實物利益	10,022	8,686
Equity-settled share-based payments	以權益結算以股份為基礎的付款	7,859	6,133
Retirement benefits scheme contributions	退休福利計劃供款	18	18
		<b>17,899</b>	<b>14,837</b>

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

		Number of employees 僱員人數	
		2017 二零一七年	2016 二零一六年
HK\$3,000,001 to HK\$4,000,000	3,000,001 港元至 4,000,000 港元	-	4
HK\$4,000,001 to HK\$5,000,000	4,000,001 港元至 5,000,000 港元	4	-

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 2017 and 2016.

#### 11 僱員福利開支，包括董事酬金 (續)

##### (a) 五名最高薪酬人士

集團年內五名最高酬金之人士包括1名董事(二零一六年：1名)，其酬金已載於附註12(a)呈列的分析。年內已付或應付予其餘4名(二零一六年：4名)人士的酬金如下：

屬以下酬金範圍之僱員人數如下：

截至二零一七年及二零一六年十二月三十一日止財政年度，集團並無支付或應付任何酬金予董事及上述最高薪酬之僱員，作為招攬彼等加盟集團或作為彼等離職之補償。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 11 Employee benefit expenses, including directors' emoluments (Continued)

#### (b) Senior management's emoluments

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

HK\$0 to HK\$1,000,000	0港元至1,000,000港元
HK\$1,000,001 to HK\$2,000,000	1,000,001港元至2,000,000港元
HK\$2,000,001 to HK\$3,000,000	2,000,001港元至3,000,000港元
HK\$3,000,001 to HK\$4,000,000	3,000,001港元至4,000,000港元
HK\$4,000,001 to HK\$5,000,000	4,000,001港元至5,000,000港元

### 11 僱員福利開支，包括董事酬金 (續)

#### (b) 高級管理層成員薪酬

屬以下酬金範圍的已付高級管理層成員薪酬詳情：

#### Number of employees 僱員人數

2017 二零一七年	2016 二零一六年
7	7
2	2
–	1
2	7
6	–

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

12 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules)

12 董事利益及權益(香港公司條例(第622章)第383條、公司(披露董事利益資料)規則(第622G章)及香港上市規則要求披露)

#### (a) Directors' emoluments

Details of remuneration of directors for the year ended 31 December 2017 were as follows:

#### (a) 董事酬金

截至二零一七年十二月三十一日止年度之董事酬金詳情如下：

		Fees	Salaries, allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Total
		袍金	薪金、津貼及實物利益	僱主對退休福利計劃的供款	總額
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		千港元	千港元	千港元	千港元
<b>Executive directors:</b>	<b>執行董事：</b>				
Xu Tie-liang (Chief Executive Officer)	許鉄良 (行政總裁)	120	10,348	18	10,486
Cheung Shing	張成	120	-	-	120
Guan Yijun	關懿君	120	1,170	18	1,308
Zhu Yuan	朱遠	120	-	-	120
<b>Independent non-executive directors:</b>	<b>獨立非執行董事：</b>				
Shi Xun-zhi (resigned on May 18, 2017)	史訓知(於二零一七年五月十八日辭任)	45	-	-	45
Li Yun-long	李雲龍	120	-	-	120
Wang Guang-tian	王廣田	120	-	-	120
Yang Jie (appointed on May 18, 2017)	楊傑(於二零一七年五月十八日獲委任)	75	-	-	75
<b>Total</b>	<b>總計</b>	<b>840</b>	<b>11,518</b>	<b>36</b>	<b>12,394</b>

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

12 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (Continued)

12 董事利益及權益(香港公司條例(第622章)第383條、公司(披露董事利益資料)規則(第622G章)及香港上市規則要求披露)(續)

(a) Directors' emoluments (Continued)

(a) 董事酬金(續)

Details of remuneration of directors for the year ended 31 December 2016 were as follows:

截至二零一六年十二月三十一日止年度之董事酬金詳情如下：

	Fees	Salaries, allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Total
	袍金	薪金、津貼及實物利益	僱主對退休福利計劃的供款	總額
	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元
<b>Executive directors:</b>				
<b>執行董事：</b>				
Xu Tie-liang (Chief Executive Officer)	120	9,617	18	9,755
Cheung Shing	120	-	-	120
Guan Yijun	120	1,170	18	1,308
Zhu Yuan	120	-	-	120
<b>Independent non-executive directors:</b>				
<b>獨立非執行董事：</b>				
Shi Xun-zhi	120	-	-	120
Li Yun-long	120	-	-	120
Wang Guang-tian	120	-	-	120
<b>Total</b>	<b>840</b>	<b>10,787</b>	<b>36</b>	<b>11,663</b>

No directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors of the Company as an accepting office as director or as a compensation for loss of office as director.

概無公司董事放棄任何酬金，集團亦無向任何公司董事支付酬金，作為接受董事職位之獎勵或離任董事職位之補償。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 12 Benefits and interests of directors (disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (Continued)

##### (b) Directors' retirement benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking (2016: Nil).

##### (c) Directors' termination benefits

No payment was made to directors as compensation for the early termination of the appointment during the year (2016: Nil).

##### (d) Consideration provided to third parties for making available directors' services

No payment was made to the former employer of directors for making available the services of them as a director of the Company (2016: Nil).

##### (e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

There are no loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors during the year (2016: Nil).

##### (f) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2016: Nil).

#### 12 董事利益及權益 (香港公司條例 (第 622 章) 第 383 條、公司 (披露董事利益資料) 規則 (第 622G 章) 及香港上市規則要求披露) (續)

##### (b) 董事退休福利

董事並無就其有關管理公司或其附屬公司事務之其他服務獲支付或應收退休福利 (二零一六年：無)。

##### (c) 董事離職福利

年內，並無向董事作出提前終止任命的補償 (二零一六年：無)。

##### (d) 就獲取董事服務向第三方支付代價

並無就獲取董事作為公司董事提供的服務而向其前僱主作出付款 (二零一六年：無)。

##### (e) 有關以董事、該等董事的受控制法團及關連實體為受益人的貸款、準貸款及其他交易的資料

年內，概無以董事、或該等董事之受控制法團及關連實體為受益人之貸款、準貸款及其他交易 (二零一六年：無)。

##### (f) 董事於交易、安排或合約的重大權益

公司概無於年終或年內任何時間訂有任何公司董事於當中直接或間接擁有任何重大權益且與集團業務有關之重大交易、安排及合約 (二零一六年：無)。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 13 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 (2016: 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% (2016: 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% (2016: 15%).

Taxation on overseas (other than Hong Kong and PRC) profits has been calculated on the estimated assessable profit for the year at the applicable rates of taxation prevailing in the jurisdictions in which the Group operates.

### 13 稅項

由於集團於本年度並無賺取任何須繳納香港利得稅之應課稅溢利，故並無為香港利得稅作撥備(二零一六年：無)。

根據相關中國企業所得稅法、條例及實施細則，於中國內地的附屬公司按25%(二零一六年：25%)之稅率繳納中國企業所得稅。若干附屬公司享有稅務優惠及寬免，據此，該等附屬公司之溢利以優惠所得稅稅率15%(二零一六年：15%)納稅。

海外(除香港及中國外)溢利乃以集團經營所在司法權區適用現行稅率按年內估計應課稅溢利計算稅項。

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Current tax:	當期稅項：		
PRC corporate income tax	中國企業所得稅	163,592	176,172
Overseas taxation	海外稅項	-	1,009
Under provision in prior years	過往年度撥備不足	3,957	9,432
		<b>167,549</b>	186,613
Deferred tax (Note 30)	遞延稅項(附註30)	<b>20,978</b>	(2,152)
Taxation	稅項	<b>188,527</b>	184,461

There is no tax impact relating to components of other comprehensive income for the year ended 31 December 2017 (2016: Nil).

截至二零一七年十二月三十一日止年度，並無有關其他全面收益組成部分之稅務影響(二零一六年：無)。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 13 Taxation (Continued)

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

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Profit before taxation	除稅前溢利	811,466	842,129
Tax calculated at the applicable rates in the tax jurisdictions concerned	按有關稅務司法權區之適用稅率計算的稅項	228,038	203,865
Tax effect of income not subject to taxation	毋須課稅收入的稅務影響	(36,092)	(56,758)
Tax effect of expenses not deductible for tax purpose	不可減免開支的稅務影響	13,172	43,816
Tax effect of tax concessions	稅收減免的稅務影響	(27,327)	(15,894)
Unrecognised tax losses	未確認稅項虧損	6,779	-
Under provision in prior years	過往年度撥備不足	3,957	9,432
Taxation	稅項	<b>188,527</b>	<b>184,461</b>

The weighted average applicable tax rate is 28.1% (2016: 24.2%). The increase is caused by a change in the profitability of the Group's subsidiaries in the respective jurisdictions.

#### 13 稅項 (續)

集團除稅前溢利之稅項與使用適用集團溢利之加權平均稅率產生之理論金額差異如下：

適用加權平均稅率為28.1% (二零一六年：24.2%)，稅率上升是由於集團附屬公司於各自的司法管轄區之盈利變動所致。

#### 14 Dividend

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Proposed final dividend of HK cent 0.35 (2016: HK cent 0.50) per ordinary share	擬派末期股息每股普通股0.35港仙 (二零一六年：0.50港仙)	<b>20,390</b>	<b>29,128</b>

#### 14 股息

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 14 Dividend (Continued)

A final dividend relating to the year ended 31 December 2016 amounted to HK\$29,128,000 was fully paid on 16 June 2017.

The Board proposed a distribution out of the contributed surplus account of the Company of HK cent 0.35 per ordinary share for the year ended 31 December 2017 on 27 March 2018 (2016: HK cent 0.50) amounting to a total of approximately HK\$20,390,000 at the forthcoming annual general meeting to be held on 12 June 2018. This proposed distribution is not reflected as a dividend payable as of 31 December 2017, but will be recorded as a distribution of contributed surplus for the year ending 31 December 2018.

### 15 Earnings per share

#### (a) Basic

The calculation of basic earnings per share is based on the Group's profit attributable to owners of the Company of approximately HK\$250,467,000 (2016: HK\$311,791,000) and weighted average number of ordinary shares in issue less shares held under share award scheme during the year of approximately 5,148,640,000 shares (2016: 5,212,795,000 shares).

#### (b) Diluted

Diluted earnings per share for the year ended 31 December 2017 is calculated based on the profit attributable to owners of the Company of approximately HK\$250,467,000 (2016: HK\$311,791,000), and the weighted average number of ordinary shares of approximately 5,156,235,000 (2016: 5,228,843,000) 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 6,075,000 shares (2016: 14,903,000 shares) and the effect of awarded shares of approximately 1,520,000 shares (2016: 1,145,000 shares) deemed to be issued at no consideration if all outstanding share options granted had been exercised.

### 14 股息(續)

截至二零一六年十二月三十一日止年度之末期股息29,128,000港元已於二零一七年六月十六日悉數支付。

董事局於二零一八年六月十二日舉行的應屆股東週年大會上建議於二零一八年三月二十七日以公司實繳盈餘賬派付截至二零一七年十二月三十一日止年度之股息每股普通股0.35港仙(二零一六年: 0.50港仙), 總額約為20,390,000港元。建議分派並未反映為於二零一七年十二月三十一日之應付股息, 但將於截至二零一八年十二月三十一日止年度入賬作為以實繳盈餘賬派付。

### 15 每股盈利

#### (a) 基本

於計算每股基本盈利時乃基於公司擁有人應佔集團溢利約250,467,000港元(二零一六年: 311,791,000港元)及年內已發行普通股加權平均數(減去年內根據股份獎勵計劃所持股份)約5,148,640,000股(二零一六年: 5,212,795,000股)。

#### (b) 攤薄

於截至二零一七年十二月三十一日止年度, 於計算每股攤薄盈利時乃基於公司擁有人應佔溢利約250,467,000港元(二零一六年: 311,791,000港元)及年內已發行普通股加權平均數約5,156,235,000股(二零一六年: 5,228,843,000股)即已發行普通股加權平均數減去根據股份獎勵計劃所持股份加上假設所有未行使購股權獲行使而被視為以零代價發行之潛在攤薄普通股加權平均數約6,075,000股(二零一六年: 14,903,000股)及獎勵股份約1,520,000股(二零一六年: 1,145,000股)之影響。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 16 Property, plant and equipment

#### 16 物業、廠房及設備

		(Note (v)) Buildings (附註(v)) 樓宇 HK\$'000 千港元	Plant and machinery 廠房及機器 HK\$'000 千港元	Oil and gas properties 油氣資產 HK\$'000 千港元	Pipelines 管道 HK\$'000 千港元	(Note (i)) Others (附註(i)) 其他 HK\$'000 千港元	(Note (iii)) Construction in progress (附註(iii)) 在建工程 HK\$'000 千港元	Total 總計 HK\$'000 千港元
<b>As at 1 January 2016</b>	<b>於二零一六年一月一日</b>							
Cost	成本	671,133	913,644	3,123,650	2,564,223	440,124	1,271,066	8,983,840
Accumulated depreciation depletion and impairment	累計折舊、損耗及減值	(124,577)	(289,978)	(1,280,205)	(504,407)	(249,132)	-	(2,448,299)
Net book value	賬面淨值	546,556	623,666	1,843,445	2,059,816	190,992	1,271,066	6,535,541
<b>Year ended 31 December 2016</b>	<b>截至二零一六年十二月三十一日止年度</b>							
At 1 January 2016	於二零一六年一月一日	546,556	623,666	1,843,445	2,059,816	190,992	1,271,066	6,535,541
Currency realignment	貨幣調整	(41,133)	(43,049)	64,881	(140,368)	(10,378)	(73,479)	(243,526)
Acquisition of businesses (Note 33)	收購業務(附註33)	-	-	58,947	-	-	-	58,947
Additions	添置	79,255	10,208	86,377	1,340	7,692	606,661	791,533
Transfers	轉撥	58,019	86,662	-	326,060	2,504	(473,245)	-
Transfer from exploration and evaluation assets (Note 17)	轉撥自動探及 評估資產(附註17)	-	-	30,579	-	-	-	30,579
Disposals/written-off	出售/沖銷	(1,089)	(1,945)	-	(50,884)	(13,746)	-	(67,664)
Disposal of a subsidiary (Note 34(b))	出售一間附屬公司(附註34(b))	(13,230)	(7,677)	-	(86,369)	(1,654)	(7,499)	(116,429)
Depreciation and depletion for the year (Note (ii))	年內折舊及損耗(附註(ii))	(30,601)	(58,280)	(171,530)	(116,668)	(38,913)	-	(415,992)
Reversal of impairment losses (Note (iv))	減值虧損回撥(附註(iv))	-	-	52,003	-	-	-	52,003
At 31 December 2016	於二零一六年十二月三十一日	597,777	609,585	1,964,702	1,992,927	136,497	1,323,504	6,624,992
<b>As at 31 December 2016</b>	<b>於二零一六年十二月三十一日</b>							
Cost	成本	741,328	921,251	3,407,931	2,559,323	333,958	1,323,504	9,287,295
Accumulated depreciation, depletion and impairment	累計折舊、損耗及減值	(143,551)	(311,666)	(1,443,229)	(566,396)	(197,461)	-	(2,662,303)
Net book value	賬面淨值	597,777	609,585	1,964,702	1,992,927	136,497	1,323,504	6,624,992

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 16 Property, plant and equipment (Continued)

### 16 物業、廠房及設備(續)

		(Note (v)) Buildings (附註(v))	Plant and machinery 廠房及機器	Oil and gas properties 油氣資產	Pipelines 管道	(Note (i)) Others (附註(i))	(Note (iii)) Construction in progress (附註(iii))	Total 總計
		HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元
<b>Year ended 31 December 2017</b>	<b>截至二零一七年 十二月三十一日止年度</b>							
At 1 January 2017	於二零一七年一月一日	597,777	609,585	1,964,702	1,992,927	136,497	1,323,504	6,624,992
Currency realignment	貨幣調整	14,202	11,733	97,946	157,558	33,824	74,233	389,496
Additions	添置	12,515	26,136	225,676	22,065	14,851	833,944	1,135,187
Transfers	轉撥	60,587	109,295	-	566,996	2,989	(739,867)	-
Transfer from exploration and evaluation assets (Note 17)	轉撥自勘探及評估資產 (附註17)	-	-	14,320	-	-	-	14,320
Disposals/written-off	出售/沖銷	(832)	(1,923)	-	(2,915)	(9,017)	-	(14,687)
Depreciation and depletion for the year (Note (ii))	年內折舊及損耗(附註(ii))	(29,372)	(74,382)	(169,524)	(123,299)	(31,914)	-	(428,491)
Reversal of impairment losses (Note (iv))	減值虧損回撥(附註(iv))	-	-	4,402	-	-	-	4,402
<b>At 31 December 2017</b>	<b>於二零一七年十二月三十一日</b>	<b>654,877</b>	<b>680,444</b>	<b>2,137,522</b>	<b>2,613,332</b>	<b>147,230</b>	<b>1,491,814</b>	<b>7,725,219</b>
As at 31 December 2017	於二零一七年十二月三十一日							
Cost	成本	836,175	1,095,468	3,830,865	3,378,691	397,775	1,491,814	11,030,788
Accumulated depreciation, depletion and impairment	累計折舊、損耗及減值	(181,298)	(415,024)	(1,693,343)	(765,359)	(250,545)	-	(3,305,569)
Net book value	賬面淨值	<b>654,877</b>	<b>680,444</b>	<b>2,137,522</b>	<b>2,613,332</b>	<b>147,230</b>	<b>1,491,814</b>	<b>7,725,219</b>

Notes:

- (i) Others mainly represent motor vehicles, furniture, fixtures and equipment, and tool and moulds with net book values amounting to approximately HK\$42,085,000 (2016: HK\$57,947,000), HK\$38,764,000 (2016: HK\$39,675,000) and HK\$66,381,000 (2016: HK\$38,875,000) respectively.
- (ii) Depreciation and depletion of approximately HK\$406,998,000 (2016: HK\$395,831,000), HK\$1,253,000 (2016: HK\$1,386,000) and HK\$20,240,000 (2016: HK\$18,775,000) have been charged in cost of sales, selling and distribution costs and administrative expenses respectively.

附註:

- (i) 其他主要指汽車、傢俬、裝置及設備及工具以及模具，賬面淨值分別約為42,085,000港元(二零一六年: 57,947,000港元)、38,764,000港元(二零一六年: 39,675,000港元)及66,381,000港元(二零一六年: 38,875,000港元)。
- (ii) 折舊及損耗約406,998,000港元(二零一六年: 395,831,000港元)、1,253,000港元(二零一六年: 1,386,000港元)及20,240,000港元(二零一六年: 18,775,000港元)分別於銷售成本、銷售及輸送成本及行政開支中扣除。

中油燃氣集團有限公司 2017年年報

143

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 16 Property, plant and equipment (Continued)

Notes: (Continued)

- (iii) During the year, the Group has capitalised borrowing costs amounting to HK\$99,974,000 (2016: HK\$106,584,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 5.4% (2016: 5.4%).
- (iv) The recoverable amount of oil and gas properties is determined as the value in use using a discounted cash flow method and is assessed at the Cash Generating Units ("CGUs") level.

The Group regularly assesses market commodity prices, costs to carry out planned drilling programs, drilling results, and reservoir performance to determine if there are any indicators of impairment of the Group's assets. As at 31 December 2016, forward benchmark commodity prices in 2016 were relatively consistent with prices in 2015, and the Group reserves increased from 2015 to 2016 due to both drilling success and positive well performance. Capital expenditures to carry out the Group's drilling program were generally lower in 2016 due to reduced levels of industry activity. As at 31 December 2016, the Group determined that there were no indicators of impairment 2 out of 3 CGUs. Due to significant oil and gas reserve additions in the remaining CGU in 2016, there were indicators of a reversal of impairment so an impairment test of that CGU was performed at 31 December 2016.

As at 31 December 2016, the Group determined that the value-in-use of the CGU amounting to approximately HK\$1,454,308,000 exceeded its carrying amount amounting to approximately HK\$1,402,305,000. Accordingly, an impairment reversal of HK\$52,003,000 was recognised during the year ended 31 December 2016.

As at 31 December 2017, although forward benchmark commodity prices beyond 5 years were generally lower than prices in 2016, the Group's oil and gas reserves increased from 2016 to 2017 due to both drilling success and positive well performance. Capital expenditure to carry out the Group's drilling program increased in 2017 were consistent with costs in 2016. As at 31 December 2017, the Group determined that there were indicators of impairment for 2 out of 3 CGUs. In addition, due to significant reserve additions in the remaining CGU in 2017, there was indicator of a reversal of impairment for that CGU. As a result, impairment tests were performed on all three CGUs at 31 December 2017.

As at 31 December 2017, the Group determined that the values in use of these CGUs amounting to approximately HK\$2,001,458,000 exceeded their carrying amounts amounting to approximately HK\$1,997,056,000. Accordingly, a reversal of impairment loss of approximately HK\$4,402,000 was recognised during the year ended 31 December 2017.

#### 16 物業、廠房及設備(續)

附註：(續)

- (iii) 年內，集團就合資格資產資本化借貸成本 99,974,000 港元（二零一六年：106,584,000 港元）。借貸成本按其一般借貸的加權平均比率 5.4%（二零一六年：5.4%）資本化。
- (iv) 油氣資產的可收回金額採用貼現現金流量法按使用價值釐定，並在現金產生單位（「現金產生單位」）層級進行評估。

為確定集團的資產是否存在任何減值跡象，集團定期對市場商品價格、規劃鑽井程序、鑽井結果及儲集性能進行評估。於二零一六年十二月三十一日，二零一六年遠期基準原油價與二零一五年保持相對一致，而集團的儲備由於鑽井成功及油井表現正面而於二零一五年至二零一六年有所增加。集團用於開展鑽井程序的資本支出因產業活動水平降低而總體較低。於二零一六年十二月三十一日，集團確定 3 個現金產生單位中有 2 個並無任何減值跡象。由於其餘現金產生單位於二零一六年有大量油氣增儲，存在減值撥回跡象，故於二零一六年十二月三十一日進行現金產生單位減值測試。

於二零一六年十二月三十一日，集團釐定現金產生單位的使用價值約 1,454,308,000 港元，超出其賬面值約 1,402,305,000 港元。因此，於截至二零一六年十二月三十一日止年度內確認減值撥回 52,003,000 港元。

於二零一七年十二月三十一日，超過五年的遠期基準原油價一般低於二零一六年的價格，集團油氣儲備由於鑽井成功及油井表現正面而於二零一六年至二零一七年有所增加。集團用於開展鑽井程序的資本支出於二零一七年有所增加，與二零一六年支出保持一致。於二零一七年十二月三十一日，集團確定 3 個現金產生單位中有兩個產生減值跡象。此外，由於其餘現金產生單位於二零一七年有大量油氣增儲，現金產生單位存在減值撥回跡象。因此，於二零一七年十二月三十一日對所有三個現金產生單位進行減值測試。

於二零一七年十二月三十一日，集團釐定現金產生單位的使用價值約 2,001,458,000 港元，超出其賬面值約 1,997,056,000 港元。因此，於截至二零一七年十二月三十一日止年度內確認減值虧損撥回 4,402,000 港元。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 16 Property, plant and equipment (Continued)

Notes: (Continued)

(iv) (Continued)

The fair value measurement of the Group's oil and gas properties is designated Level 3 on the fair value hierarchy.

The key assumptions for the calculation are those regarding the discount rates and expected changes in future oil prices. The expected future oil prices for the next five years ranged from US\$57.5 to US\$71.2 per barrel (2016: US\$55.0 to US\$71.0 per barrel). Forecast benchmark crude oil price assumptions tended to be stable because short-term increases or decreases in prices were not considered indicative of long-term price levels, but were nonetheless subject to change. The Group used a pre-tax discount rates ranging from 8% to 20% (2016: 8% to 20%) to discount future cash flows from the Group's CGU(s). These rates differed based upon classification of reserve type, commodity type, timing of future development expenditures and operating burdens.

(v) During the year ended 31 December 2016, the Group acquired a building amounted to approximately HK\$72,945,000 with lease terms of 40 years. The estimated useful lives of buildings changed from 25 years to 40 years as mentioned in Note 3(f).

### 17 Exploration and evaluation assets

### 16 物業、廠房及設備(續)

附註：(續)

(iv) (續)

集團的油氣資產的公平值計量指定為公平值層次的第三層。

該計算方法的主要假設為折現率及日後油價預期變化。未來五年的日後預期油價介乎每桶油當量57.5美元至71.2美元(二零一六年：每桶油當量55.0美元至71.0美元)。預測基準原油價趨於穩定，由於價格短期上升或下跌並不視為長期價格水平的指標，但仍會變動。集團使用介乎8%至20%(二零一六年：8%至20%)的除稅前折現率折現集團現金產生單位的未來現金流量。該等利率基於儲量類型、商品類型、未來開發支出的時間及經營負擔而變化。

(v) 於截至二零一六年十二月三十一日止年度，集團收購一幢金額約為72,945,000港元之樓宇，租期為40年。樓宇的估計可使用年限如附註3(f)所述由25年改為40年。

### 17 勘探及評估資產

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Cost	成本		
At 1 January	於一月一日	213,548	249,139
Currency realignment	貨幣調整	11,528	9,665
Additions	添置	6,790	-
Disposals	出售	-	(2,932)
Written off (Note 9)	沖銷(附註9)	(2,357)	(11,745)
Transfer to oil and gas properties under property, plant and equipment (Note 16)	轉撥至物業、廠房及設備項下油氣資產(附註16)	(14,320)	(30,579)
At 31 December	於十二月三十一日	<b>215,189</b>	213,548

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 17 Exploration and evaluation assets (Continued)

Exploration and evaluation assets represent the Group's costs of acquiring licenses and interests in undeveloped lands in West Central Alberta, Canada, which are pending the determination of proved or probable oil and gas reserves. The costs are accumulated in cost centers by well, field, or exploration area pending determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting mineral resource is considered to be determined when proved reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved reserves have been discovered.

#### 17 勘探及評估資產(續)

勘探及評估資產指集團於加拿大阿爾伯塔省中西部未開發土地的許可證及權益收購成本，須待釐定已探明及待探明油氣儲量。有關成本透過油井、油田或勘探區域於成本中心累積，待釐定技術及商業可行性。

當釐定存在探明儲量時，開採礦產資源的技術及商業可行性被認為已確定。至少每年對各勘探許可證或油田進行檢討，確保是否已發現探明儲量。

#### 18 Land use rights

#### 18 土地使用權

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Net book value	賬面淨值		
At 1 January	於一月一日	<b>393,344</b>	314,013
Currency realignment	貨幣調整	<b>27,211</b>	(23,792)
Additions	添置	<b>44,406</b>	113,708
Disposal of a subsidiary (Note 34(b))	出售一間附屬公司(附註34(b))	-	(1,998)
Amortisation for the year (Note 9)	年內攤銷(附註9)	<b>(8,503)</b>	(8,587)
At 31 December	於十二月三十一日	<b>456,458</b>	393,344

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 19 Intangible assets

### 19 無形資產

		Goodwill 商譽	Other intangible assets 其他無形資產	Total 總計
		HK\$'000 千港元	HK\$'000 千港元	HK\$'000 千港元
<b>As at 1 January 2016</b>	於二零一六年一月一日			
Cost	成本	1,019,653	41,751	1,061,404
Accumulated amortisation	累計攤銷	–	(5,728)	(5,728)
Net book value	賬面淨值	<u>1,019,653</u>	<u>36,023</u>	<u>1,055,676</u>
<b>Year ended 31 December 2016</b>	截至二零一六年 十二月三十一日止年度			
At 1 January 2016	於二零一六年一月一日	1,019,653	36,023	1,055,676
Currency realignment	貨幣調整	(25,753)	(3,947)	(29,700)
Additions	添置	–	1,154	1,154
Disposal of a subsidiary (Note 34(b))	出售一間附屬公司 (附註 34(b))	(22,154)	–	(22,154)
Amortisation for the year (Note 9)	年內攤銷(附註 9)	–	(2,685)	(2,685)
At 31 December 2016	於二零一六年十二月三十一日	<u>971,746</u>	<u>30,545</u>	<u>1,002,291</u>
<b>As at 31 December 2016</b>	於二零一六年十二月三十一日			
Cost	成本	971,746	38,958	1,010,704
Accumulated amortisation	累計攤銷	–	(8,413)	(8,413)
Net book value	賬面淨值	<u>971,746</u>	<u>30,545</u>	<u>1,002,291</u>
<b>Year ended 31 December 2017</b>	截至二零一七年 十二月三十一日止年度			
At 1 January 2017	於二零一七年一月一日	<b>971,746</b>	<b>30,545</b>	<b>1,002,291</b>
Currency realignment	貨幣調整	<b>25,753</b>	<b>2,105</b>	<b>27,858</b>
Additions	添置	–	<b>7,696</b>	<b>7,696</b>
Amortisation for the year (Note 9)	年內攤銷(附註 9)	–	<b>(2,521)</b>	<b>(2,521)</b>
At 31 December 2017	於二零一七年十二月三十一日	<u><b>997,499</b></u>	<u><b>37,825</b></u>	<u><b>1,035,324</b></u>
<b>As at 31 December 2017</b>	於二零一七年十二月三十一日			
Cost	成本	<b>997,499</b>	<b>48,586</b>	<b>1,046,085</b>
Accumulated amortisation	累計攤銷	–	<b>(10,761)</b>	<b>(10,761)</b>
Net book value	賬面淨值	<u><b>997,499</b></u>	<u><b>37,825</b></u>	<u><b>1,035,324</b></u>

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 19 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 13.4% (2016: 11.5%) 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 3.0% (2016: 3.0%) 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 2.6% (2016: 3.0%) per annum, which is based on industry growth forecasts. The Board considered no impairment loss is necessary as at 31 December 2017.

In sales and distribution of natural gas and other related products business, the recoverable amount calculated based on value in use exceeded carrying value by HK\$1,587,584,000 (2016: HK\$1,431,395,000).

Since the carrying amounts of the CGUs are not sensitive to the changes in assumption, no sensitivity analysis is disclosed.

#### 19 無形資產 (續)

附註：

商譽分配到按銷售及輸送天然氣及其他相關產品業務所識別的一組現金生產單位(亦是一個經營分部，為集團為內部管理目的而對商譽實施監控的最低層次)。

該組現金生產單位之可收回金額乃按照使用價值而計算。使用價值之關鍵假設涉及年內折現率、增長率及售價及直接成本之預期變動。管理層使用反應當前市場評估貨幣時間價值及該組現金生產單位特定風險之稅前利率估計折現率13.4%(二零一六年：11.5%)。未來五年3.0%(二零一六年：3.0%)之增長率乃基於工業增長預測。售價及直接成本變動乃基於對市場未來變動之過往慣例及預期。

使用價值計算乃根據管理層准許的未來五年內最近之財務預算而作出的現金流量預測衍生而來。超過5年的現金流量使用是每年2.6%(二零一六年：3.0%)的增長率推斷，此乃基於工業增長預測。董事局認為於二零一六年十二月三十一日，並無必要的減值虧損。

在銷售及輸送天然氣及其他相關產品業務當中，根據使用價值計算的可收回金額超出賬面值的數額為1,587,584,000港元(二零一六年：1,431,395,000港元)。

由於現金生產單位的賬面值對假設變動並不敏感，故並無披露任何敏感度分析。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 20 Investments accounted for using the equity method

### 20 使用權益法入賬之投資

The amounts recognised in the consolidated statement of financial position are as follows:

於綜合財務狀況表確認之金額如下：

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Associates	聯營公司	296,732	273,444
Joint venture	合營企業	24,435	26,621
At 31 December	於十二月三十一日	<b>321,167</b>	<b>300,065</b>

The amounts recognised in the consolidated profit or loss are as follows:

於綜合損益表確認之金額如下：

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Associates	聯營公司	1,330	139
Joint venture	合營企業	(3,686)	(15,790)
For the year ended 31 December	截至十二月三十一日止年度	<b>(2,356)</b>	<b>(15,651)</b>

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 20 Investments accounted for using the equity method (Continued)

##### Interests in associates

Nature of investments in associates, which are unlisted limited liability companies, as at 31 December 2017:

Name	Registered capital	Country of establishment	Principal activities	Percentage of interest held indirectly
名稱	註冊資本	成立之國家	主要業務	間接持有權益百分比
青海中油潔神能源有限公司 (「潔神能源」)	RMB20,000,000 人民幣 20,000,000 元	PRC 中國	Trading of natural gas 天然氣買賣	49%
Sino Director Limited	US\$10,000 10,000 美元	BVI 英屬維爾京群島	Investment holding 投資控股	25%
青海中油超飛信息技術有限公司	RMB1,000,000 人民幣 1,000,000 元	PRC 中國	Provision of IT services 提供 IT 服務	50%
江蘇豐港天然氣有限公司	RMB80,000,000 人民幣 80,000,000 元	PRC 中國	Trading of natural gas 天然氣買賣	20%

As at 31 December 2017, the Group invested HK\$257,250,000 in Sino Director Limited with 25% equity interests as an associate. The subsidiary of Sino Director Limited is the beneficial owner of the mining rights granted by the local government authority of the PRC. Sino Director Limited and its subsidiaries are collectively regarded as the "Sino Director Group".

A business valuation was performed for the underlying assets of the Sino Director Group. The recoverable amount is determined based on fair value less costs of disposal using discounted cash flow method. The key assumptions are discount rates, forecasted production volume and forecasted commodity prices. Management estimates a discount rate of 11.2% (2016: 12.8%) using a pre-tax rates that reflects current market assessment of time value and the specific risks relating to the Sino Director Group.

#### 20 使用權益法入賬之投資(續)

##### 於聯營公司權益

於二零一七年十二月三十一日，於聯營公司(為非上市有限公司)投資之性質：

於二零一七年十二月三十一日，集團已向 Sino Director Limited 投資 257,250,000 港元，持有該聯營公司的 25% 股權。Sino Director Limited 之附屬公司為於中國當地相關部門所授出開採許可權証之實益擁有人。Sino Director Limited 及其附屬公司統稱為「Sino Director 集團」。

已就 Sino Director 集團的相關資產進行業務估值。可收回金額乃使用折現現金流量法根據公平值減出售成本釐定。可收回金額計算之關鍵假設為折現率、預測產量及預測商品價格。管理層使用反映當前市場對時間價值評估之稅前利率及 Sino Director 集團相關特定風險估計折現率 11.2% (二零一六年：12.8%)。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 20 Investments accounted for using the equity method (Continued)

#### Interests in associates (Continued)

The commodity price growth rate of 3.0% (2016: 3.0%) used in the calculations is based on inflation growth forecasts. The Board considered no impairment loss on the Group's total investment in associate is necessary as at 31 December 2017.

As at 31 December 2017, the Group determined that the recoverable amount of the Sino Director Group amounting to approximately HK\$586,250,000 (2016: HK\$593,775,000) exceeded its carrying value amounting to approximately HK\$257,250,000 (2016: HK\$257,250,000).

The recoverable amount of the investment in Sino Director Limited would equal its carrying amount if (1) the commodity price growth rate decreased to -2.9%, (2) the estimated future production volume dropped by 74.8%; or (3) the pre-tax discount rate increased to 21%. Management has considered and assessed reasonably possible changes for other key assumptions and not identified any instances that could cause the carrying amount of the investment in Sino Director Limited to exceed its recoverable amount.

None of these entities are currently considered material to the Group. The aggregated summarised financial information for associates which accounted for using the equity method was (1) total assets amounting to HK\$1,327,939,000 (2016: HK\$968,046,000); (2) total liabilities amounting to HK\$968,098,000 (2016: HK\$734,256,000); (3) total revenue amounting to HK\$48,594,000 (2016: HK\$61,616,000); and (4) total profit for the year amounting to HK\$3,804,000 (2016: loss for the year amounting to HK\$1,398,000).

There are no contingent liabilities relating to the Group's interests in the associates.

### 20 使用權益法入賬之投資 (續)

#### 於聯營公司權益 (續)

計算中採用的商品價格增長率3.0% (二零一六年：3.0%) 乃基於通脹增長預測。於二零一七年十二月三十一日，董事局認為集團於聯營公司的投資並無必要的減值虧損。

於二零一七年十二月三十一日，集團釐定Sino Director集團的可收回金額約為586,250,000港元(二零一六年：593,775,000港元)，高於其賬面值約257,250,000港元(二零一六年：257,250,000港元)。

倘(1)商品價格增長率減少至-2.9%，(2)估計未來產量下降74.8%；或(3)除稅前折現率增加至21%，則於Sino Director Limited投資的可收回金額將等於其賬面值。管理層已考慮及評估其他關鍵假設可能產生的合理變動，但並未發現任何可能導致於Sino Director Limited投資的賬面值超過其可收回金額之事項。

當前概無該等實體被認為對集團屬重大。使用權益法入賬的聯營公司財務資料概述為(1)總資產為1,327,939,000港元(二零一六年：968,046,000港元)；(2)總負債為968,098,000港元(二零一六年：734,256,000港元)；(3)總營業額為48,594,000港元(二零一六年：61,616,000港元)；及(4)年內總溢利為3,804,000港元(二零一六年：年內虧損為1,398,000港元)。

並無與集團於聯營公司權益有關之或然負債。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 20 Investments accounted for using the equity method (Continued)

#### 20 使用權益法入賬之投資(續)

##### Interest in a joint venture

##### 於合營企業權益

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Share of net assets:	應佔資產淨值：		
At 1 January	於一月一日	26,621	42,846
Currency realignment	貨幣調整	1,500	(435)
Share of loss of a joint venture	應佔一間合營企業虧損	<b>(3,686)</b>	(15,790)
At 31 December	於十二月三十一日	<b>24,435</b>	26,621

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 20 Investments accounted for using the equity method (Continued)

### 20 使用權益法入賬之投資 (續)

Nature of investment in a joint venture, which is an unlisted limited liability company, as at 31 December 2017:

於二零一七年十二月三十一日，於合營企業（為私營有限公司）投資之性質：

Name	Registered capital	Country of establishment	Principal activities	Percentage of interest held indirectly
名稱	註冊資本	成立之國家	主要業務	間接持有權益百分比
山西國興煤層氣輸配有限公司	RMB100,000,000 人民幣 100,000,000 元	PRC 中國	Trading of coalbed methane 煤層氣買賣	35%

The joint venture is currently considered not material to the Group. The summarised financial information for the joint venture which accounted for using the equity method was (1) assets amounting to HK\$531,483,000 (2016: HK\$445,714,000); (2) liabilities amounting to HK\$464,881,000 (2016: HK\$369,654,000); (3) revenue amounting to HK\$113,856,000 (2016: HK\$131,818,000); and (4) loss for the year amounting to HK\$10,531,000 (2016: HK\$45,114,000).

當前概無該等合營企業被認為對集團屬重大。使用權益法入賬的合營企業財務資料概述為(1)資產為531,483,000港元(二零一六年：445,714,000港元)；(2)負債為464,881,000港元(二零一六年：369,654,000港元)；(3)營業額為113,856,000港元(二零一六年：131,818,000港元)；及(4)年內虧損為10,531,000港元(二零一六年：45,114,000港元)。

There are no contingent liabilities relating to the Group's interest in the joint venture.

並無與集團於合營企業權益有關之或然負債。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 21 Available-for-sale financial assets

#### 21 可供出售財務資產

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Equity securities:	股本證券：		
– listed outside Hong Kong	– 香港以外上市	118,961	2
– listed in Hong Kong	– 香港上市	17,772	916
Debt securities:	債務證券：		
– listed in Hong Kong	– 香港上市	89,476	576,713
– listed outside Hong Kong	– 香港以外上市	369,701	60,249
– unlisted	– 非上市	450	382
		<b>596,360</b>	<b>638,262</b>

At the date of the statement of financial position, all the listed equity and debt securities are stated at fair values.

於本財務狀況表日期，所有上市股本及債務證券均以公平值列賬。

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

可供出售財務資產賬面值以以下貨幣計值：

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
US\$	美元	469,879	555,743
Others	其他	126,481	82,519
		<b>596,360</b>	<b>638,262</b>

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.

於財務狀況表日期之最高信貸風險為分類為可供出售債務證券之賬面值。

At 31 December 2017 and 2016, the available-for-sale financial assets are pledged as a security for the Group's unutilised banking facilities (Note 35).

於二零一七年及二零一六年十二月三十一日，可供出售財務資產予以質押，作為集團未動用銀行融資的抵押(附註35)。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 22 Inventories

### 22 存貨

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Raw materials	原料	105,078	36,376
Work-in-progress	在建工程	69,226	90,521
Finished goods and natural gas	製成品及天然氣	70,134	63,676
		<b>244,438</b>	<b>190,573</b>

### 23 Deposits, trade and other receivables

### 23 按金、貿易及其他應收款項

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Trade receivables (Note (b))	貿易應收賬款(附註(b))	784,363	796,330
Loan to an associate (Note (c))	貸款予聯營公司(附註(c))	637,251	479,062
Loans to third parties (Note (d))	貸款予第三方(附註(d))	24,000	53,852
		<b>1,445,614</b>	<b>1,329,244</b>
Prepaid construction costs	預付建設成本	108,341	158,625
Prepayment for acquisition of land use rights	收購土地使用權預付款	35,003	61,524
Prepaid natural gas costs	預付天然氣成本	258,733	145,413
Prepaid material and equipment costs	預付材料及設備成本	182,263	127,159
Interest receivables	應收利息	215,594	183,345
Other prepayments	其他預付款	109,787	90,240
Other receivables	其他應收款	198,162	213,600
		<b>2,553,497</b>	<b>2,309,150</b>
Less: Non-current portion	減：非流動部分	<b>(956,763)</b>	<b>(792,258)</b>
Current portion	流動部分	<b>1,596,734</b>	<b>1,516,892</b>

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 23 Deposits, trade and other receivables (Continued)

Notes:

- (a) The Board considers that the carrying amounts of deposits, trade and other receivables approximate their fair values as the impact of discounting is not significant.
- (b) At each date of the statement of financial position, 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.

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 based on invoice date is as follows:

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Up to 3 months	三個月以內	730,625	712,716
3 to 6 months	三個月至六個月	30,363	25,333
Over 6 months	六個月以上	23,375	58,281
Total	合計	<b>784,363</b>	<b>796,330</b>

As at 31 December 2017, trade receivables of approximately HK\$53,738,000 (2016: HK\$83,614,000) 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.

#### 23 按金、貿易及其他應收款項 (續)

附註：

- (a) 由於折讓影響並不重大，董事局認為，按金、貿易及其他應收款項之賬面值與其公平值相若。
- (b) 於每個財務狀況表日期，集團貿易應收款減值撥備將根據其客戶的信貸歷史（如財務困難或拖欠付款）及現行市場條件個別釐定。因此，確認個別減值撥備。

集團給予貿易客戶之平均信貸期介乎 60 日至 90 日之間，並且不斷監控其尚未償還之貿易應收款項。集團高級管理層定期審閱逾期未還之結餘。

根據發票日期的貿易應收款項之賬齡分析如下：

	2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Up to 3 months	730,625	712,716
3 to 6 months	30,363	25,333
Over 6 months	23,375	58,281
Total	<b>784,363</b>	<b>796,330</b>

於二零一七年十二月三十一日，已逾期但未減值的貿易應收款項約 53,738,000 港元（二零一六年：83,614,000 港元）與近期並無違約記錄的數個獨立客戶有關。根據過往經驗，管理層認為，就該等結餘並無必要作減值撥備，乃由於信貸質量並無重大變動及結餘仍視為可全數收回。集團並無持有抵押品或其他超過該等結餘之信貸改善。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 23 Deposits, trade and other receivables (Continued)

Notes: (Continued)

- (c) On 23 September 2011, the Group entered into a loan agreement for the construction of assets with Sino Director Limited, an associate, with interest bearing at 6.2% per annum. As at 31 December 2017, the Group loan to Sino Director Limited amounted to approximately HK\$637,251,000 (2016: HK\$479,062,000). The outstanding interest amounted to approximately HK\$198,713,000 (2016: HK\$157,815,000) with interest bearing at 6.8% per annum and repayable on demand.

For the year ended 31 December 2017, the interest income arising from this arrangement amounted to HK\$40,898,000 (2016: HK\$36,513,000) (Note 10).

- (d) Loans to third parties comprised of the followings:

On 1 December 2015, the Group entered into a three year loan agreement with a third party amounting to RMB25,000,000. As at 31 December 2016, the balance was approximately RMB28,000,000 (approximately HK\$31,452,000). It is unsecured, interest bearing at 8.0% per annum. During the year ended 31 December 2017, the balance has been fully settled.

The remaining balance represented a loan to another 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 three equal installments by 31 December 2019.

For the year ended 31 December 2017, the interest income arising from these loans to third parties amounted to approximately HK\$921,000 (2016: HK\$3,304,000) (Note 10).

### 23 按金、貿易及其他應收款項 (續)

附註：(續)

- (c) 於二零一一年九月二十三日，集團與聯營公司Sino Director Limited訂立貸款協議(關於資產建設)，按6.2%之年利率計息。於二零一七年十二月三十一日，集團向Sino Director Limited貸款約637,251,000港元(二零一六年：479,062,000港元)。未還利息約為198,713,000港元(二零一六年：157,815,000港元)，年利率為6.8%及須按要求償還。

截至二零一七年十二月三十一日止年度，此項安排的利息收入為40,898,000港元(二零一六年：36,513,000港元)(附註10)。

- (d) 貸款予第三方包括下列事項：

於二零一五年十二月一日，集團與一名第三方訂立金額為人民幣25,000,000元的三年期貸款協議。於二零一六年十二月三十一日，餘額約為人民幣28,000,000元(約31,452,000港元)。貸款為無抵押，按年利率8.0%計息。於截至二零一七年十二月三十一日止年度，餘額已悉數結清。

餘下餘額為貸款予另一名第三方以支援該第三方購置天然氣車輛。該項對第三方貸款乃無抵押，按年利率4.0%計息並於二零一九年十二月三十一日前以每年一期、分三期償還。

截至二零一七年十二月三十一日止年度，第三方貸款產生的利息收入約為921,000港元(二零一六年：3,304,000港元)(附註10)。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 23 Deposits, trade and other receivables

(Continued)

(e) The carrying amounts of the deposits, trade and other receivables are denominated in the following currencies:

Renminbi	人民幣
CAD	加元
Others	其他

2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
2,427,060	2,201,565
48,140	42,088
78,297	65,497
<b>2,553,497</b>	<b>2,309,150</b>

#### 24 Financial assets at fair value through profit or loss

Debt securities:	債務證券：
- listed outside Hong Kong	- 香港以外上市
- unlisted	- 非上市

二零一七年 HK\$'000 千港元	二零一六年 HK\$'000 千港元
20,822	20,029
28,020	27,419
<b>48,842</b>	<b>47,448</b>

The carrying amounts of the financial assets at fair value through profit or loss are denominated in US\$.

The maximum exposure to credit risk at the statement of financial position date is the carrying value of debt securities classified as financial assets at fair value through profit or loss.

The financial assets at fair value through profit or loss are pledged as a security for the Group's unutilised banking facilities (Note 35).

#### 23 按金、貿易及其他應收款項

(續)

(e) 按金、貿易及其他應收賬款之賬面值以以下貨幣計值：

#### 24 按公平值經損益入賬之財務資產

2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
20,822	20,029
28,020	27,419
<b>48,842</b>	<b>47,448</b>

按公平值經損益入賬之財務資產之賬面值以美元計值。

於財務狀況表日期的最大信貸風險為分類為按公平值經損益入賬的債務證券的賬面值。

按公平值經損益入賬的財務資產予以質押，作為集團未動用銀行融資的抵押(附註35)。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 25 Time deposits, bank balances and cash

### 25 定期存款、銀行結餘及現金

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Cash at banks and on hand	銀行及手頭現金	2,299,083	1,787,576
Short-term bank deposits	短期銀行存款	39,895	71,077
		<b>2,338,978</b>	1,858,653
Less: Time deposits with maturity over three months	減：存款期超過三個月的定期存款	<b>(48,531)</b>	(25,170)
Cash and cash equivalents	現金及現金等值項目	<b>2,290,447</b>	1,833,483

The interest rates for short-term bank deposits was approximately from 1.5% to 1.95% (2016: 1.1% to 3.9%) per annum. The deposits have a maturity of ranging from 90 to 365 days.

Included in bank deposits, bank balances and cash are amounts of approximately HK\$2,311,901,000 or RMB1,926,584,000 (2016: HK\$1,558,078,000 or RMB1,391,141,000) 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.

短期銀行存款的年利率介乎約1.5%至1.95%（二零一六年：1.1%至3.9%）。存款期介乎90日至365日。

銀行存款、銀行結餘及現金約2,311,901,000港元或人民幣1,926,584,000元（二零一六年：1,558,078,000港元或人民幣1,391,141,000元）均以人民幣計值，並存於中國內地的銀行。該等人民幣計值結餘兌換成外幣及從中國內地匯出資金須遵守中國政府頒布的外匯管理規章制度。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 25 Time deposits, bank balances and cash (Continued)

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

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Renminbi	人民幣	2,313,282	1,560,786
US\$	美元	17,438	174,993
HK\$	港元	7,667	122,337
Others	其他	591	537
		<b>2,338,978</b>	<b>1,858,653</b>

#### 26 Trade and other payables

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Trade payables	貿易應付賬款	447,956	570,343
Consideration payables	應付代價	6,000	18,000
Construction cost payables	應付建設成本	415,775	286,823
Interest payable	應付利息	59,775	47,284
Dividends payable to non-controlling interests	應付非控股權益股息	125,828	114,387
Salaries payables	應付薪金	15,540	12,819
Other taxes payable	其他應付稅項	11,294	48,510
Other payables and accruals	其他應付款項及應計費用	349,565	229,581
		<b>1,431,733</b>	<b>1,327,747</b>

#### 25 定期存款、銀行結餘及現金 (續)

定期存款、銀行結餘及現金之賬面值以下列貨幣計值：

#### 26 貿易及其他應付款項

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 26 Trade and other payables (Continued)

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

The ageing analysis of trade payables based on invoice date is as follows:

Up to 3 months	三個月以內
3 to 6 months	三個月至六個月
Over 6 months	六個月以上
Total	合計

The carrying amounts of trade and other payables are denominated in the following currencies:

Renminbi	人民幣
HK\$	港元
CAD	加元

### 26 貿易及其他應付款項(續)

董事局認為，貿易及其他應付款項之賬面值與其公平值相若。

根據發票日期的貿易應付賬款之賬齡分析如下：

2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
358,365	470,508
40,316	37,871
49,275	61,964
<b>447,956</b>	<b>570,343</b>

貿易及其他應付款項的賬面值以下列貨幣計值：

2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
1,300,293	1,201,994
52,041	53,567
79,399	72,186
<b>1,431,733</b>	<b>1,327,747</b>

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 27 Receipt in advance

#### 27 預收款項

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Receipt in advance for sales of natural gas and other related products	銷售天然氣及其他相關產品之預收款項	1,366,236	1,040,468
Receipt in advance for connections of gas pipelines	燃氣管道接駁之預收款項	217,767	115,727
		<b>1,584,003</b>	<b>1,156,195</b>

As at 31 December 2017, included in receipt in advance for sales of natural gas was the amount received from customers using I/C cards amounting to approximately HK\$883,205,000 (2016: HK\$637,431,000), in which the movements are as follows:

於二零一七年十二月三十一日，銷售天然氣的預收款項內包括已收使用I/C卡客戶的款項約883,205,000港元(二零一六年：637,431,000港元)，預收款項之變動如下：

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
At 1 January	於一月一日	637,431	606,255
Currency realignment	貨幣調整	52,372	(48,186)
Payments received in advance	已收預收款項	4,154,799	3,178,678
Redemption during the year	年內贖回	(3,961,397)	(3,099,316)
At 31 December	於十二月三十一日	<b>883,205</b>	<b>637,431</b>

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 28 Borrowings

### 28 借貸

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Bank borrowings, unsecured	銀行借貸—無抵押	653,258	263,872
Other borrowings, unsecured	其他借貸—無抵押	96,000	97,035
		<b>749,258</b>	360,907
Less: amounts due within one year classified under current liabilities	減：分類為流動負債 於一年內到期之款項	<b>(689,258)</b>	(360,907)
Non-current portion	非流動部分	<b>60,000</b>	—

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

借貸的賬面值以下列貨幣計值，並以下列利率列賬：

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Renminbi	人民幣	492,000	125,036
CAD	加元	257,258	235,871
		<b>749,258</b>	360,907
At fixed rates	固定利率	<b>354,000</b>	125,036
At floating rates	浮動利率	<b>395,258</b>	235,871
		<b>749,258</b>	360,907
Weighted average effective interest rates (per annum):	加權平均實際年利率：		
– Bank borrowings	– 銀行借貸	4.3%	5.7%
– Other borrowings	– 其他借貸	6.4%	4.2%

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 29 Senior notes

#### 29 優先票據

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
US\$ denominated senior notes	以美元計值之優先票據	<b>4,970,240</b>	5,006,417

On 25 April 2013, the Company issued senior notes, with an aggregate nominal value of US\$350,000,000 (equivalent to HK\$2,713,000,000) at par value (the "Senior Notes A"), which bear interest at 5.25% per annum and the interest is payable semi-annually in arrears. The net proceeds after deducting the direct issuance costs, amounted to approximately US\$344,000,000 (equivalent to HK\$2,666,000,000). The Senior Notes A will mature on 25 April 2018 and are listed on the Hong Kong Stock Exchange.

於二零一三年四月二十五日，公司按面值發行賬面總值為350,000,000美元（相等於2,713,000,000港元）的優先票據（「優先票據A」），按每年5.25%計息且利息每半年支付。扣除直接發行費用後之所得款項淨額為約344,000,000美元（相等於2,666,000,000港元）。優先票據A將於二零一八年四月二十五日到期及於香港聯交所上市。

On 11 November 2014, the Company issued another senior notes, with an aggregate nominal value of US\$300,000,000 (equivalent to HK\$2,325,000,000) at par value (the "Senior Notes B"), which bear interest at 5.00% per annum and the interest is payable semiannually in arrears. The net proceeds after deducting the direct issuance costs, amounted to approximately US\$296,900,000 (equivalent to HK\$2,300,975,000). The Senior Notes B will mature on 7 May 2020 and are listed on the Hong Kong Stock Exchange.

於二零一四年十一月十一日，公司按面值發行賬面總值為300,000,000美元（相等於2,325,000,000港元）的額外優先票據（「優先票據B」），按每年5.00%計息且利息每半年支付。扣除直接發行費用後之所得款項淨額為約296,900,000美元（相等於2,300,975,000港元）。優先票據B將於二零二零年五月七日期及於香港聯交所上市。

On 11 April 2017, the Company issued senior notes, with an aggregate nominal value of US\$350,000,000 (equivalent to HK\$2,712,500,000) at par value (the "Senior Notes C"), which bear interest at 4.625% per annum and the interest is payable semi-annually in arrears. The net proceeds after deducting the direct issuance costs, amounted to approximately US\$346,556,000 (equivalent to HK\$2,685,809,000). The Senior Note C will mature on 20 April 2022 and are listed on the Hong Kong Stock Exchange.

於二零一七年四月十一日，公司按面值發行賬面總值為350,000,000美元（相等於2,712,500,000港元）的優先票據（「優先票據C」），按每年4.625%計息且利息每半年支付。扣除直接發行費用後之所得款項淨額為約346,556,000美元（相等於2,685,809,000港元）。優先票據C將於二零二二年四月二十日期及於香港聯交所上市。

On 21 May 2017, the Company redeemed in full the outstanding aggregate principal amount of US\$350,000,000 of Senior Notes A before their maturity at a total redemption price of US\$354,594,000 (equivalent to HK\$2,748,104,000), representing 101.3125% of the principal amount, by using the net proceeds from the offering of Senior Notes C.

於二零一七年五月二十一日，公司於到期日前透過動用發售優先票據C所得款項淨額悉數贖回優先票據A未償還本金總額350,000,000美元，總贖回價354,594,000美元（相等於2,748,104,000港元），為本金總額的101.3125%。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 29 Senior notes (Continued)

As at 31 December 2017, the fair value of the senior notes amounted to approximately HK\$5,082,411,000 (2016: HK\$5,106,281,000). The effective interest is 5.20% (2016: 5.46%). The fair value of the senior notes traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The senior notes are within level 1 of the fair value hierarchy.

### 30 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using the tax rates enacted or substantively enacted by the statement of financial position date.

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 related to the same fiscal authority.

### 29 優先票據(續)

於二零一七年十二月三十一日，優先票據之公平值約為5,082,411,000港元(二零一六年：5,106,281,000港元)。實際利率為5.20%(二零一六年：5.46%)。於交投活躍市場買賣之優先票據之公平值根據財務狀況表日之市場報價計算。交投活躍市場乃指可輕易地及定期從交易所、經銷商、經紀人、行業集團、報價服務或規管機構取得報價之市場，而有關報價是在經常進行之真實公平市場交易之基礎上呈現。該等優先票據被列為公平值第一層次。

### 30 遞延所得稅

遞延所得稅採用負債法就暫時差額按財務狀況表日期已頒布或實質頒布之稅率全數計算。

當有法定可執行權利可將當期稅項資產與當期稅務負債抵銷，而遞延所得稅涉及同一財務機關時，則可將遞延所得稅資產與負債抵銷。

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Deferred tax assets	遞延所得稅資產	(4,796)	(19,510)
Deferred tax liabilities	遞延所得稅負債	260,359	240,801
Deferred tax liabilities (net)	遞延所得稅負債(淨額)	<b>255,563</b>	221,291

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 30 Deferred income tax (Continued)

The net movements in the deferred income tax account are as follows:

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
At 1 January	於一月一日	221,291	214,965
Currency realignment	貨幣調整	13,294	8,478
Charged/(credited) to consolidated profit and loss (Note 13)	於綜合損益內扣除/(計入) (附註13)	20,978	(2,152)
At 31 December	於十二月三十一日	<b>255,563</b>	221,291

#### 30 遞延所得稅(續)

遞延所得稅賬戶之變動淨額如下：

The movements in deferred income tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

年內遞延所得稅資產及負債(與同一稅務司法權區之結餘抵銷前)之變動如下：

#### Deferred income tax assets

#### 遞延所得稅資產

		Asset retirement obligation 資產報廢承擔		Tax losses 稅項虧損		Total 合計	
		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元	2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
At 1 January	於一月一日	(29,354)	(26,550)	(94,135)	(39,419)	(123,489)	(65,969)
Credited to consolidated profit or loss	計入綜合損益	(4,121)	(1,888)	(4,782)	(50,440)	(8,903)	(52,328)
Currency alignment	貨幣調整	(1,711)	(916)	(4,155)	(4,276)	(5,866)	(5,192)
At 31 December	於十二月三十一日	<b>(35,186)</b>	(29,354)	<b>(103,072)</b>	(94,135)	<b>(138,258)</b>	(123,489)

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 30 Deferred income tax (Continued)

### 30 遞延所得稅 (續)

#### Deferred income tax liabilities

#### 遞延所得稅負債

		Accelerated tax depreciation and depletion		Others		Total	
		加速稅項折舊及損耗		其他		合計	
		2017	2016	2017	2016	2017	2016
		二零一七年	二零一六年	二零一七年	二零一六年	二零一七年	二零一六年
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		千港元	千港元	千港元	千港元	千港元	千港元
At 1 January	於一月一日	309,226	249,856	35,554	31,078	344,780	280,934
Charged to consolidated profit or loss	計入綜合損益	29,881	45,460	-	4,716	29,881	50,176
Currency alignment	貨幣調整	19,147	13,910	13	(240)	19,160	13,670
At 31 December	於十二月三十一日	358,254	309,226	35,567	35,554	393,821	344,780

During 2017, deferred income tax liabilities to the extent of approximately HK\$2,496,000 (2016: HK\$1,240,000) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries because the Board considers 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 totaled approximately HK\$1,472,230,000 (2016: HK\$1,160,467,000) as at 31 December 2017 and HK\$7,396,000 (2016: HK\$7,396,000) has been recognised as deferred tax liability for the withholding tax.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2017, the Group had unrecognised tax losses of approximately HK\$108,963,000 (2016: HK\$76,424,000) to carry forward against future taxable income. All the tax losses will be expired within the next 5 years.

於二零一七年，遞延所得稅負債約2,496,000港元(二零一六年：1,240,000港元)並無確認為預扣稅及其他稅項，此款項用於支付某些附屬公司之未匯出盈利；因為董事局認為撥回暫時差額時間由集團控制且此暫時差額有可能將不會在可見未來撥回。於二零一七年十二月三十一日，未匯出盈利合共約為1,472,230,000港元(二零一六年：1,160,467,000港元)及7,396,000港元(二零一六年：7,396,000港元)已就預扣稅確認為遞延稅項負債。

遞延所得稅資產以相關的稅務利益透過可從未來應課稅盈利變現為上限，為稅務虧損結轉而確認。於二零一七年十二月三十一日，集團之未確認稅項虧損約108,963,000港元(二零一六年：76,424,000港元)以結轉與未來應課稅收入對銷。所有稅項虧損將於下個五年內屆滿。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 31 Assets retirement obligation

The movements in assets retirement obligation are as below:

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
At 1 January	於一月一日	108,723	98,326
Currency realignment	貨幣調整	2,619	3,400
Acquisition of businesses (Note 33)	收購業務(附註33)	-	4,065
Accretion (Note 10)	添加(附註10)	2,611	2,295
Site restoration expenditure	場地恢復支出	(7,507)	(8,207)
Change in estimates and discount rate	估計及折現率變動	16,084	-
Provision for the year	年內撥備	7,781	8,844
At 31 December	於十二月三十一日	<b>130,311</b>	<b>108,723</b>

Note:

In accordance with the relevant rules and regulations in Canada, the Group is obliged to accrue the cost for land reclamation and site closures for the Group's ownership interest in oil and natural gas assets including well sites and gathering systems. The provision for asset retirement obligation has been determined by the directors based on their best estimates in accordance with the relevant rules and regulations.

#### 31 資產報廢承擔

資產報廢承擔之變動如下：

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
At 1 January	於一月一日	108,723	98,326
Currency realignment	貨幣調整	2,619	3,400
Acquisition of businesses (Note 33)	收購業務(附註33)	-	4,065
Accretion (Note 10)	添加(附註10)	2,611	2,295
Site restoration expenditure	場地恢復支出	(7,507)	(8,207)
Change in estimates and discount rate	估計及折現率變動	16,084	-
Provision for the year	年內撥備	7,781	8,844
At 31 December	於十二月三十一日	<b>130,311</b>	<b>108,723</b>

附註：

根據加拿大有關規則及法規，集團有責任就集團於石油及天然氣資產(包括油井及集氣系統)的土地開墾及關閉場地支付成本。有關資產報廢承擔的撥備已由董事以彼等最佳估計為基礎根據有關規則及法規釐定。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 32 Share capital, share option and share award schemes

### 32 股本及購股權／獎勵計劃

#### (a) Share capital

#### (a) 股本

		Number of shares 股份數目 '000 千股	Amount 金額 HK\$'000 千港元
Ordinary shares of HK\$0.01 each	每股0.01港元之普通股		
Authorised shares	法定股份		
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	於二零一六年一月一日、 二零一六年十二月三十一日、 二零一七年一月一日及 二零一七年十二月三十一日	125,000,000	1,250,000
Issued and fully paid	已發行及繳足		
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	於二零一六年一月一日、 二零一六年十二月三十一日、 二零一七年一月一日及 二零一七年十二月三十一日	5,825,684	58,257

#### (b) Share option scheme

#### (b) 購股權計劃

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

Under the 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 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.

根據股東於二零一一年十一月二十三日通過之決議案，公司採納購股權計劃（「購股權計劃」）。

根據購股權計劃，董事局可酌情提呈購股權予任何合資格參與者。合資格參與者為公司或其附屬公司之僱員、行政人員或高級職員（包括公司或其附屬公司之執行及非執行董事），以及任何將會或曾經為公司或其附屬公司提供服務之供應商、專家顧問或顧問。

根據購股權計劃及原有購股權計劃提出之購股權涉及之股份數目上限為公司不時之已發行股份之10%。

於任何十二個月期間，每位合資格參與者之配額上限不得超過購股權提呈之日已發行股份數目之1%。

中油燃氣集團有限公司 2017年年報

169

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 32 Share capital, share option and share award schemes (Continued)

##### (b) Share option scheme (Continued)

The offer of a grant of options may be accepted within 21 days after the date of the offer, with a consideration of HK\$1 for the grant thereof. Exercise period in respect of the options granted shall be determined by the Board and in any event such period of time shall not exceed a period of 10 years commencing on the date upon which such option is deemed to be granted and accepted.

The exercise price in relation to each option offered to an eligible participant under the 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 Share Option Scheme was valid for 10 years from 23 November 2011.

On 22 January 2016, in order to motivate and reward the Company's staff, 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. The share options shall be exercisable in the following periods:

- 30% of the share options are exercisable on 22 January 2018;
- 30% of the share options are exercisable on 22 January 2019; and
- the remaining share options are exercisable on 22 January 2020

#### 32 股本及購股權／獎勵計劃(續)

##### (b) 購股權計劃(續)

獲授購股權之人士可於購股權提呈之日起計21日內繳付1港元之代價後接納獲提呈授予之購股權。購股權之行使期限由董事局決定，而在任何情況下，有關期限不得超逾有關購股權被視為授出及獲接納之日起計十年。

董事局全權酌情就根據該購股權計劃提呈予合資格參與者之每份購股釐定行使價，惟在任何情況下該價格不得低於以下之最高者：(a)購股權提呈當日股份於聯交所每日報價中所列之正式收市價，(b)在緊接提呈購股權當日前五個營業日股份於聯交所每日報價中所列之正式收市價平均數；及(c)股份面值。

購股權計劃從二零一一年十一月二十三日起有效期為期十年。

於二零一六年一月二十二日，為激勵及獎勵公司員工，公司已向其若干合資格參與者授出可認購合共100,000,000股公司股本中每股面值0.01港元之普通股的購股權。購股權可於下列期間行使：

- 30%的購股權於二零一八年一月二十二日可予行使；
- 30%的購股權於二零一九年一月二十二日可予行使；及
- 其餘購股權於二零二零年一月二十二日可予行使

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 32 Share capital, share option and share award schemes (Continued)

### 32 股本及購股權／獎勵計劃(續)

#### (b) Share option scheme (Continued)

#### (b) 購股權計劃(續)

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

(i) 購股權的數目及加權平均行使價如下：

		2017 二零一七年		2016 二零一六年	
		Exercise price HK\$	Number of option '000	Exercise price HK\$	Number of option '000
		行使價 港元	購股權 數目 千份	行使價 港元	購股權 數目 千份
Outstanding at 1 January	於一月一日尚未行使	0.46	100,000	-	-
Granted during the year	年內授出	-	-	0.46	100,000
Outstanding at 31 December	於十二月三十一日 尚未行使	0.46	100,000	0.46	100,000

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 32 Share capital, share option and share award schemes (Continued)

#### 32 股本及購股權／獎勵計劃(續)

##### (b) Share option scheme (Continued)

##### (b) 購股權計劃(續)

(ii) The following table discloses details of the Company's share options held by employees as at 31 December 2017:

(ii) 下表披露僱員於截至二零一七年十二月三十一日止年度所持公司購股權之詳情：

	Date of grant	Exercise price per share	Exercise period	Outstanding at 31 December 2017
	授出日期	每股行使價 HK\$ 港元	行使期	於二零一七年十二月三十一日 尚未行使
Employees 僱員	22 January 2016 二零一六年一月二十二日	0.46	22 January 2016 to 22 January 2019 二零一六年一月二十二日至 二零一九年一月二十二日	30,000
	22 January 2016 二零一六年一月二十二日	0.46	22 January 2016 to 22 January 2020 二零一六年一月二十二日至 二零二零年一月二十二日	30,000
	22 January 2016 二零一六年一月二十二日	0.46	22 January 2016 to 22 January 2021 二零一六年一月二十二日至 二零二一年一月二十二日	40,000
Total	總計			<u>100,000</u>

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 32 Share capital, share option and share award schemes (Continued)

#### (b) Share option scheme (Continued)

The fair value of the options granted during the year ended 31 December 2016 determined using the binomial option pricing model was approximately HK\$0.127, HK\$0.148 and HK\$0.171 per share respectively. The significant inputs into the model were share price of HK\$0.455 as at the grant date, exercise price as shown above, volatility of 40.99%, 40.97% and 42.56%, expected life of options of eight, seven and six years, and annual risk-free interest rate of 0.993%, 1.056% and 1.184% respectively. The volatility measured at the standard deviation of expected share price returns is based on the historical volatility of the Company's share price over a period of eight, seven and six years before the date when the options were granted.

#### (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(c)) 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 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.

### 32 股本及購股權／獎勵計劃(續)

#### (b) 購股權計劃(續)

採用二項式期權定價模式，於截至二零一六年十二月三十一日止年度授出的購股權已釐定公平值分別約為每股0.127港元、0.148港元及0.171港元。輸入模式內的重大數據為於授出日期之估價0.455港元、上表所示行使價、分別為40.99%、40.97%及42.56%之波幅、購股權分別為八年、七年及六年之預計年期以及分別為0.993%、1.056%及1.184%之無風險利率。按預期股價回報的標準差計量的波幅乃是基於公司於購股權授出日期之前八年、七年及六年期間之歷史波幅。

#### (c) 股份獎勵計劃

於二零一一年十一月四日，董事局已批准採納一項購股權計劃(「限制性股份獎勵計劃」)作為獎勵以嘉許集團合資格僱員之貢獻，為集團持續經營及發展為激勵以挽留僱員，為集團進一步發展吸納合適人才。

根據限制性股份獎勵計劃有關規則(「計劃規則」)，股份來自(i)公司認購或購買並隨後送交予公司委托的受托人(附註39(c))之股份；或(ii)由受託人以公司自公司資金安排支付予受託人之現金認購或購買並為有關經合資格承授人以信託方式持有之股份(「限制性股份」)，直至該等股份根據計劃規則歸屬於有關合資格承授人為止。董事局會根據計劃規則實施限制性股份獎勵計劃，包括向受託人提供所需資金，以購入或認購最多佔公司不時之已發行股本10%之股份。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 32 Share capital, share option and share award schemes (Continued)

##### (c) Share award scheme (Continued)

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 Share Option Scheme. All options granted under the Share Option Scheme continue to be valid and exercisable subject to and in accordance with the terms of the 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.

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 as instructed by the Board.

#### 32 股本及購股權／獎勵計劃(續)

##### (c) 股份獎勵計劃(續)

根據限制性股份獎勵計劃，限制性股份可以零代價授予公司合資格承授人或公司任何一家附屬公司，但受限於董事局根據限制性股份獎勵計劃授出限制性股份時決定的若干條件(包括但不限於，禁售期)。限制性股份獎勵計劃將從採納日起生效，為期十年。

限制性股份獎勵計劃與購股權計劃並行。根據購股權計劃授出的所有購股權將繼續有效及可行使，惟須分別遵守及依照購股權計劃的條款。

根據計劃規則，董事局可不時按其絕對酌情權及彼等認為適用參與限制性獎勵計劃的不同因素挑選合資格承授人，並釐定將授出之限制性股份數目。董事局須就受託人即將購入之股份，以公司之資源向受託人支付購入價及相關費用。

受託人將以信託方式代合資格承授人持有相關限制性股份，直至彼等獲歸屬。待相關合資格承授人達成董事局於作出獎勵時所特定之一切歸屬條件，將有權獲得限制性股份，受託人將轉讓該有關限制性股份予承授人。

在歸屬前不再受僱於集團之受獎人，未歸屬股份即予沒收。沒收股份由限制性股份獎勵計劃受託人持有，而受託人根據董事局指示獎勵該等股份予受獎人。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 32 Share capital, share option and share award schemes (Continued)

### 32 股本及購股權／獎勵計劃(續)

#### (c) Share award scheme (Continued)

#### (c) 股份獎勵計劃(續)

During the year ended 31 December 2017, 1,680,000 (2016: 1,980,000) restricted shares have been awarded to the directors and employees for their services rendered to the Group, and all of them are immediately vested.

截至二零一七年十二月三十一日止年度，已就董事及僱員向集團提供的服務獎勵1,680,000股(二零一六年：1,980,000股)限制性股份予彼等，且所有該等股份均即時歸屬。

#### Details of the Awarded Shares awarded during the year

#### 年內授出獎勵股份的詳情

For the year ended 31 December 2017:

截至二零一七年十二月三十一日止年度：

Date of award 授出日期	Number of shares awarded 授出股份數目	Fair value per share 股份公平值 HK\$ 港元	Vesting period 歸屬期
-----------------------	---------------------------------------	------------------------------------------------	-----------------------

Employees

僱員

13 April 2017 二零一七年四月十三日	1,680,000	0.59	Vested immediately on 13 April 2017 於二零一七年四月十三日即時歸屬
-----------------------------	-----------	------	--------------------------------------------------------

For the year ended 31 December 2016:

截至二零一六年十二月三十一日止年度：

Date of award 授出日期	Number of shares awarded 授出股份數目	Fair value per share 股份公平值 HK\$ 港元	Vesting period 歸屬期
-----------------------	---------------------------------------	------------------------------------------------	-----------------------

Directors of the Company

公司董事

12 May 2016 二零一六年五月十二日	900,000	0.54	Vested immediately on 12 May 2016 於二零一六年五月十二日即時歸屬
---------------------------	---------	------	------------------------------------------------------

Employees

僱員

21 April 2016 二零一六年四月二十一日	1,080,000	0.55	Vested immediately on 21 April 2016 於二零一六年四月二十一日即時歸屬
------------------------------	-----------	------	---------------------------------------------------------

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 32 Share capital, share option and share award schemes (Continued)

##### (c) Share award scheme (Continued)

###### Details of the Awarded Shares awarded during the year (Continued)

Movement in the number of shares awarded for the years ended 31 December 2017 and 2016 were as follows:

		Number of Awarded Shares 獎勵股份數目	
		2017 二零一七年	2016 二零一六年
Outstanding at 1 January	於一月一日尚未行使	1,520,000	2,050,000
Awarded	已授出	1,680,000	1,980,000
Vested	已歸屬	(1,680,000)	(2,510,000)
Outstanding at 31 December	於十二月三十一日尚未行使	1,520,000	1,520,000

During the year ended 31 December 2017, the Trustee acquired under the Award Scheme 181,260,000 (2016: 57,340,000) ordinary shares of the Company through purchases on the open market with a price range of HK\$0.52 (2016: HK\$0.46) to HK\$0.83 (2016: HK\$0.59) per share at a total cost (including related transaction costs) of HK\$104,257,000 (2016: HK\$31,875,000) which was credited to shares held for share award scheme account of the Company as an equity component of the Company. As at 31 December 2017, the total number of shares in the reserve was 817,209,221 (2016: 637,629,221).

#### 32 股本及購股權／獎勵計劃(續)

##### (c) 股份獎勵計劃(續)

###### 年內授出獎勵股份之詳情(續)

已授出股份數目於截至二零一七年及二零一六年十二月三十一日止年度之變動如下：

		Number of Awarded Shares 獎勵股份數目	
		2017 二零一七年	2016 二零一六年
Outstanding at 1 January	於一月一日尚未行使	1,520,000	2,050,000
Awarded	已授出	1,680,000	1,980,000
Vested	已歸屬	(1,680,000)	(2,510,000)
Outstanding at 31 December	於十二月三十一日尚未行使	1,520,000	1,520,000

於截至二零一七年十二月三十一日止年度，受託人根據獎勵計劃按介乎每股0.52港元(二零一六年：0.46港元)至0.83港元(二零一六年：0.59港元)的價格在公開市場購入公司181,260,000(二零一六年：57,340,000股)普通股，總成本(包括相關交易成本)為104,257,000港元(二零一六年：31,875,000港元)，已計入公司就股份獎勵計劃持有的股份賬目，作為公司的股本部分。於二零一七年十二月三十一日，儲備股份總數為817,209,221股(二零一六年：637,629,221股)。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 33 Acquisition of businesses

Effective from 9 August 2016, the Group acquired 100% interests in Baytex Energy Partnership ("Baytex") from an independent third party at a consideration of CAD7,471,000 (approximately HK\$44,079,000). During the year ended 31 December 2016, the above acquisition was completed and the Group commenced to account for the business combination from the effective date when the Group gained control over Baytex. On the date of acquisition agreement, no license was obtained by Baytex for some of the completed oil and gas properties. Therefore, no consideration and value were assigned to these properties. At the effective acquisition date, the Group applied a license for the properties with the government and used in production. The gain on bargain purchase amounted to approximately HK\$10,803,000 was attributable to these properties. Details of net assets acquired and gain on bargain purchase are as follows:

		HK\$'000 千港元
Total cash consideration	總現金代價	44,079
Recognised amounts of identifiable assets acquired and liabilities assumed	所收購可識別資產及所承擔負債的已確認金額	
Property, plant and equipment (Note 16)	物業、廠房及設備(附註16)	58,947
Asset retirement obligation (Note 31)	資產報廢承擔(附註31)	(4,065)
Total identifiable net assets	可辨識淨資產總值	54,882
Gain on bargain purchase (Note 8)	議價收購收益(附註8)	(10,803)

The acquired business contributed revenues of HK\$5,310,000 and net profit of HK\$3,340,000 since the date of acquisition to 31 December 2016, 18 the acquisition has occurred on 1 January 2016, consolidated pro-forma revenue and profit for the year ended 31 December 2016 would have been HK\$7,670,000 and HK\$5,310,000 respectively.

### 33. 收購業務

自二零一六年八月九日起，集團自一名獨立第三方收購 Baytex Energy Partnership (「Baytex」) 的全部開採權益，代價為 7,471,000 加元(約 44,079,000 港元)。於截至二零一六年十二月三十一日止年度，上述收購事項已完成且集團自生效日期(即集團獲得對 Baytex 的控制權時)開始將業務合併入賬。於收購協議日期，Baytex 並未就若干已完工油氣資產取得任何牌照。因此，該等物業無任何指定代價或價值。於有效收購日期，集團就該等物業向政府申請牌照並用於生產。因該等物業而錄得溢價收購收益約 10,803,000 港元。已收購資產淨值及議價收購收益詳情如下：

自收購日期至二零一六年十二月三十一日，所收購業務貢獻營業額 5,310,000 港元及純利 3,340,000 港元，收購事項已於二零一六年一月一日進行，截至二零一六年十二月三十一日止年度綜合備考營業額及溢利分別為 7,670,000 港元及 5,310,000 港元。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 34 Disposals of an associate/a subsidiary

- (a) On 15 March 2017, a subsidiary of the Company, in which 75% equity interest held by the Company, entered into a sales and purchase agreement with independent third parties, pursuant to which the independent third parties agreed to purchase, and the subsidiary agreed to sell its entire 30% equity interests in an associate total cash consideration of RMB6,000,000 (approximately HK\$6,960,000). The transaction was completed on 15 March 2017 resulting in recognition of a gain on disposal of approximately HK\$3,759,000.
- (b) On 13 January 2016, a subsidiary of the Company, with 51% equity interests held by the Group, entered into a sales and purchase agreement with an independent third party, pursuant to which the independent third party agreed to purchase, and the subsidiary agreed to sell its entire 60% equity interests (30.6% effective interests) in 銀川中油精誠燃氣有限公司 (“銀川中油”) at cash consideration of RMB234,000,000 (approximately HK\$280,800,000).

The Group received the total consideration of RMB234,000,000 (approximately HK\$280,800,000) during the year ended 31 December 2016. On 17 March 2016, the Group has completed the disposal of 銀川中油 and recognised a gain on disposal of approximately HK\$124,199,000.

#### 34 出售一間聯營公司／一間附屬公司

- (a) 於二零一七年三月十五日，公司一間附屬公司(公司持有75%的股權)與一名獨立第三方訂立一份買賣協議，據此，獨立第三方同意購買，及附屬公司同意出售其於一間聯營公司30%之股權，總現金代價為人民幣6,000,000元(約6,960,000港元)。該交易已於二零一七年三月十五日完成，導致確認出售收益約3,759,000港元。
- (b) 於二零一六年一月十三日，公司的一間附屬公司(集團擁有其51%股權)與一名獨立第三方訂立買賣協議，據此，獨立第三方同意購買按現金代價人民幣234,000,000元(約280,800,000港元)購買於銀川中油精誠燃氣有限公司(「銀川中油」)擁有的全部60%股權(30.6%的實際權益)，而公司同意按上述代價出售上述股權。

截至二零一六年十二月三十一日止年度，集團收取總代價人民幣234,000,000元(約280,800,000港元)。於二零一六年三月十七日，集團已完成出售銀川中油並確認出售收益約124,199,000港元。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 34 Disposals of an associate/a subsidiary (Continued)

(b) The following table summarises the consideration received for the disposal of a subsidiary and the amounts of the identifiable assets and liabilities disposed of at the disposal date: (Continued)

### 34 出售一間聯營公司／一間附屬公司(續)

(b) 下表概述因出售一間附屬公司而收取的代價以及於出售日期之已出售可識別資產及負債金額：(續)

		HK\$'000 千港元
Cash consideration received	已收現金代價	280,800
Less: Assets and liabilities disposed of:	減：已出售資產及負債：	
– Property, plant and equipment (Note 16)	– 物業、廠房及設備(附註16)	116,429
– Land use rights (Note 18)	– 土地使用權(附註18)	1,998
– Intangible assets (Note 19)	– 無形資產(附註19)	22,154
– Inventories	– 存貨	23,252
– Deposits, trade and other receivables	– 按金、貿易及其他應收款項	55,253
– Cash and cash equivalents	– 現金及現金等值項目	43,764
– Trade and other payables	– 貿易及其他應付款項	(8,219)
– Receipt in advance	– 預收款項	(15,645)
– Non-controlling interests	– 非控股權益	(86,841)
Net asset value	資產淨值	152,145
Less: Release of exchange reserve upon disposal of a subsidiary	減：於出售一間附屬公司後匯兌儲備回撥	4,456
Gain on disposal of a subsidiary (Note 8)	出售一間附屬公司收益(附註8)	124,199

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 34 Disposals of an associate/a subsidiary (Continued)

- (b) The following table summarises the consideration received for the disposal of a subsidiary and the amounts of the identifiable assets and liabilities disposed of at the disposal date: (Continued)

An analysis of the cash flows in respect of the disposal of a subsidiary is as follows:

		HK\$'000 千港元
Cash consideration received	已收現金代價	280,800
Less: Cash and cash equivalents included in the disposal of a subsidiary	減：出售一間附屬公司已計入的現金及現金等值項目	(48,020)
Net inflow of cash and cash equivalents included in cash flows from investing activities	計入投資活動現金流量的現金及現金等值項目流入淨額	<u>232,780</u>

#### 35 Banking facilities

As at 31 December 2017, the Group had aggregate banking facilities of approximately HK\$5,080,546,000 (2016: HK\$4,660,600,000), of which approximately HK\$4,427,288,000 (2016: HK\$4,360,888,000) was unutilised. The Group's unused banking facilities to the extent of HK\$775,000,000 (2016: HK\$774,999,000) are secured by certain financial assets (Notes 21 and 24).

#### 34 出售一間聯營公司／一間附屬公司 (續)

- (b) 下表概述因出售一間附屬公司而收取的代價以及於出售日期之已出售可識別資產及負債金額：(續)

關於出售一間接附屬公司的相關現金流量分析如下：

#### 35 銀行融資

於二零一七年十二月三十一日，集團銀行借貸之銀行融資總額約為5,080,546,000港元（二零一六年：4,660,600,000港元），其中約4,427,288,000港元（二零一六年：4,360,888,000港元）尚未動用。集團為數775,000,000港元（二零一六年：774,999,000港元）的銀行融資以若干財務資產為抵押（附註21和24）。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 36 Cash flow information

#### Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt 債務淨額	
Cash and cash equivalents	現金及現金等值項目
Liquid investments (i)	流動投資 (i)
Borrowings – repayable within one year	借貸 – 應於一年內償還
Borrowings – repayable after one year	借貸 – 應於一年後償還
Senior notes – repayable after one year	優先票據 – 應於一年後償還
Net debt	債務淨額
Cash and liquid investments	現金及流動投資
Gross debt – fixed interest rates	債務總額 – 固定利率
Gross debt – variable interest rates	債務總額 – 浮動利率
Net debt	債務淨額

### 36 現金流量資料

#### 債務淨額對賬

本節載列各所示期間債務淨額的分析及債務淨額的變動。

2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
2,290,447	1,833,483
48,842	47,448
(689,258)	(360,907)
(60,000)	–
(4,970,240)	(5,006,417)
<b>(3,380,209)</b>	<b>(3,486,393)</b>
2,339,289	1,880,931
(5,324,240)	(5,131,453)
(395,258)	(235,871)
<b>(3,380,209)</b>	<b>(3,486,393)</b>

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 36 Cash flow information (Continued)

#### 36 現金流量資料(續)

##### Net debt reconciliation (Continued)

##### 債務淨額對賬(續)

		Other assets 其他資產		Liabilities from financing activities 融資活動產生的負債			Total 總計
		Cash and equivalents 現金及現金 等值項目 HK\$'000 千港元	Liquid invest- ments (i) 流動投資(i) HK\$'000 千港元	Borrowings due within 1 year 於一年內 到期的借貸 HK\$'000 千港元	Borrowings due after 1 year 於一年後 到期的借貸 HK\$'000 千港元	Senior notes due, after 1 year 於一年後到期 的優先票據 HK\$'000 千港元	
<b>Net debt as at</b>	於二零一六年一月一日						
<b>1 January 2016</b>	之債務淨額	2,303,704	50,271	(972,774)	–	(4,992,169)	(3,610,968)
Cash flows	現金流量	(359,253)	(3,725)	600,715	–	–	237,737
Finance costs	財務費用	–	–	–	–	(14,248)	(14,248)
Unrealised gain credited to profit or loss	計入損益的未變現收益	–	902	–	–	–	902
Foreign exchange adjustments	外匯調整	(110,968)	–	11,152	–	–	(99,816)
<b>Net debt as at</b>	於二零一六年十二月						
<b>31 December 2016</b>	三十一日之債務淨額	1,833,483	47,448	(360,907)	–	(5,006,417)	(3,486,393)
Cash flows	現金流量	329,654	–	(296,866)	(57,950)	62,295	37,133
Finance costs	財務費用	–	–	–	–	(26,118)	(26,118)
Unrealised gain credited to profit or loss	計入損益的未變現收益	–	1,394	–	–	–	1,394
Foreign exchange adjustments	外匯調整	127,310	–	(31,485)	(2,050)	–	93,775
<b>Net debt as at</b>	於二零一七年十二月						
<b>31 December 2017</b>	三十一日之債務淨額	2,290,447	48,842	(689,258)	(60,000)	(4,970,240)	(3,380,209)

(i) Liquid investments comprise current investments that are traded in an active market, being the group's financial assets held at fair value through profit or loss.

(i) 流動投資包括於活躍市場買賣的流動投資，即集團按公平值經損益入賬之財務資產。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 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 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Land and buildings expiring:	於下列期限到期的土地及樓宇：		
Within one year	一年內	13,831	13,541
After one year but within five years	一年後但五年內	22,731	28,987
After five years	五年後	26,923	31,894
		63,485	74,422

#### (b) Capital commitments

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

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Contracted but not provided for:	已訂約但未撥備：		
Property, plant and equipment	物業、廠房及設備	199,091	185,818

### 37 承擔

#### (a) 經營租賃

集團根據經營租賃安排租賃其部分辦公物業。租賃物業的租期經磋商介乎1年至20年之間不等。

於二零一七年十二月三十一日，集團根據不可撤銷經營租賃到期應付的未來最低租賃付款總額如下：

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Land and buildings expiring:	於下列期限到期的土地及樓宇：		
Within one year	一年內	13,831	13,541
After one year but within five years	一年後但五年內	22,731	28,987
After five years	五年後	26,923	31,894
		63,485	74,422

#### (b) 資本承擔

集團於財務狀況表日期有以下未撥備的未履行資本承擔：

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Contracted but not provided for:	已訂約但未撥備：		
Property, plant and equipment	物業、廠房及設備	199,091	185,818

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 38 Related party transactions

As at 31 December 2017, 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 24.5%. The remaining 75.5% 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.

##### 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 12.

#### 38 關連人士交易

於二零一七年十二月三十一日，公司由中泰國際集團有限公司（「中泰國際」）（於英屬維爾京群島（「英屬維爾京群島」）註冊成立的公司，由公司主席及執行董事許鈇良先生全資實益擁有）間接擁有約24.5%。公司其餘75.5%股份被廣泛持有。許鈇良先生及公司其他董事均為公司主要管理人員而被視為公司的關連人士。

##### 與主要管理人員的交易

公司董事被視為集團主要管理人員。主要管理人員之酬金乃由薪酬委員會經考慮個別人士之表現及市場趨勢後釐定。付予該等人士之酬金詳情載於附註12。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 39 Particulars of the principal subsidiaries and controlled structured entities

### 39 主要附屬公司及受控制結構實體之詳情

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

(a) 主要附屬公司詳情如下：

Name 名稱	Place of incorporation/ establishment and kind of legal entity 註冊成立/成立地點 及法律實體類型	Nominal value of issued share capital/ registered capital 已發行 股本面值/ 註冊資本	Percentage of equity attributable to the Company 公司應佔 股權百分比		Principal activities 主要業務
			Directly 直接	Indirectly 間接	
Profaith Group Limited	BVI, Wholly foreign-owned enterprise 英屬維爾京群島，外商獨資企業	US\$1 1美元	100.0%	–	Investment holding 投資控股
All Praise Investment Limited	BVI, Wholly foreign-owned enterprise 英屬維爾京群島，外商獨資企業	US\$1 1美元	100.0%	–	Investment holding 投資控股
China Oil And Gas Group Limited	BVI, Wholly foreign-owned enterprise 英屬維爾京群島，外商獨資企業	US\$1 1美元	100.0%	–	Investment holding 投資控股
China Oil And Gas Management Limited 中油燃氣管理有限公司	Hong Kong, Wholly foreign-owned enterprise 香港，外商獨資企業	HK\$1 1港元	–	100.0%	Investment holding 投資控股
Alta Financial Holdings Limited 恒泰金融集團有限公司	BVI, Wholly foreign-owned enterprise 英屬維爾京群島，外商獨資企業	US\$1,000 1,000美元	–	100.0%	Investment holding 投資控股
Zhongda Industrial Group Inc 中大工業集團有限公司	BVI, Wholly foreign-owned enterprise 英屬維爾京群島，外商獨資企業	US\$10,000 10,000美元	–	100.0%	Investment holding 投資控股
China Oil And Gas Group (Asia) Limited 中油燃氣集團(亞洲)有限公司	Hong Kong, Wholly foreign-owned enterprise 香港，外商獨資企業	HK\$1 1港元	–	100.0%	Investment holding 投資控股
Hong Kong China Oil And Gas Group Limited 香港中油燃氣集團有限公司	Hong Kong, Wholly foreign-owned enterprise 香港，外商獨資企業	HK\$1 1港元	–	100.0%	Investment holding 投資控股

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 39 Particulars of the principal subsidiaries and controlled structured entities (Continued)

#### 39 主要附屬公司及受控制結構實體之詳情 (續)

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

(a) 主要附屬公司詳情如下：(續)

Name 名稱	Place of incorporation/ establishment and kind of legal entity 註冊成立/成立地點 及法律實體類型	Nominal value of issued share capital/ registered capital 已發行 股本面值/ 註冊資本	Percentage of equity attributable to the Company 公司應佔 股權百分比		Principal activities 主要業務
			Directly 直接	Indirectly 間接	
Accelstar Pacific Limited	BVI, Wholly foreign-owned enterprise 英屬維爾京群島，外商獨資企業	US\$50,000 50,000 美元	-	100.0%	Investment holding 投資控股
Plentigreat Holdings Limited	BVI, Wholly foreign-owned enterprise 英屬維爾京群島，外商獨資企業	US\$10,000 10,000 美元	-	100.0%	Investment holding 投資控股
Vast China Group Limited	BVI, Wholly foreign-owned enterprise 英屬維爾京群島，外商獨資企業	US\$1 1 美元	-	100.0%	Investment holding 投資控股
Sino Invent Holdings Limited	BVI, Wholly foreign-owned enterprise 英屬維爾京群島，外商獨資企業	US\$1 1 美元	-	100.0%	Investment holding 投資控股
中油中泰燃氣投資集團有限公司 ("CCNG")	PRC, Wholly foreign-owned enterprise	RMB1,000,000,000	-	51.0%	Investment holding and trading of natural gas
中油中泰燃氣投資集團有限公司 ("中油中泰")	中國，外商獨資企業	人民幣 1,000,000,000 元			投資控股及天然氣買賣
西寧中油燃氣有限責任公司	PRC, Limited liability company  中國，有限責任公司	RMB65,874,000  人民幣 65,874,000 元	-	40.8%(i)	Trading of natural gas, gas pipeline construction and operation of natural gas stations 天然氣買賣、天然氣管道建造 及天然氣站經營
青海宏利燃氣管道安裝工程 有限責任公司	PRC, Limited liability company  中國，有限責任公司	RMB44,000,000  人民幣 44,000,000 元	-	40.8%(i)	Gas pipeline construction 天然氣管道建造

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 39 Particulars of the principal subsidiaries and controlled structured entities (Continued)

### 39 主要附屬公司及受控制結構實體之詳情(續)

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

(a) 主要附屬公司詳情如下：(續)

Name 名稱	Place of incorporation/ establishment and kind of legal entity 註冊成立/成立地點 及法律實體類型	Nominal value of issued share capital/ registered capital 已發行 股本面值/ 註冊資本	Percentage of equity attributable to the Company 公司應佔 股權百分比		Principal activities 主要業務
			Directly 直接	Indirectly 間接	
青海中油壓縮天然氣銷售有限公司	PRC, Limited liability company 中國·有限責任公司	RMB20,800,000 人民幣20,800,000元	-	40.8%(i)	Trading of natural gas 天然氣買賣
西寧中油商貿有限公司	PRC, Limited liability company 中國·有限責任公司	RMB900,000 人民幣900,000元	-	40.8%(i)	Trading of natural gas-related equipment 天然氣相關設備買賣
醴陵中油燃氣有限責任公司	PRC, Limited liability company 中國·有限責任公司	RMB100,000,000 人民幣100,000,000元	-	30.6%(i)	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道 建造
濱州中油燃氣有限責任公司	PRC, Limited liability company 中國·有限責任公司	RMB50,000,000 人民幣50,000,000元	-	40.8%(i)	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道 建造
惠民中油燃氣有限責任公司	PRC, Limited liability company 中國·有限責任公司	RMB25,000,000 人民幣25,000,000元	-	50.5%	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道 建造
湖南中油燃氣有限責任公司	PRC, Limited liability company 中國·有限責任公司	RMB45,000,000 人民幣45,000,000元	-	30.6%(i)	Natural gas transmission through pipeline 管道天然氣輸送
泰州中油燃氣有限責任公司	PRC, Limited liability company 中國·有限責任公司	RMB15,000,000 人民幣15,000,000元	-	51.0%	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道 建造
潮州中油燃氣有限公司	PRC, Limited liability company 中國·有限責任公司	RMB30,000,000 人民幣30,000,000元	-	51.0%	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道 建造

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 39 Particulars of the principal subsidiaries and controlled structured entities (Continued)

#### 39 主要附屬公司及受控制結構實體之詳情 (續)

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

(a) 主要附屬公司詳情如下：(續)

Name 名稱	Place of incorporation/ establishment and kind of legal entity 註冊成立／成立地點 及法律實體類型	Nominal value of issued share capital/ registered capital 已發行 股本面值／ 註冊資本	Percentage of equity attributable to the Company 公司應佔 股權百分比		Principal activities 主要業務
			Directly 直接	Indirectly 間接	
潮安縣華明燃氣有限公司	PRC, Limited liability company 中國·有限責任公司	RMB12,000,000 人民幣12,000,000元	-	40.8%(i)	Trading of natural gas 天然氣買賣
中油中泰物流(珠海)有限公司	PRC, Limited liability company 中國·有限責任公司	RMB75,000,000 人民幣75,000,000元	-	80.4%	Transportation services 運輸服務
青海中油管道燃氣有限公司	PRC, Limited liability company 中國·有限責任公司	RMB20,000,000 人民幣20,000,000元	-	51.0%	Natural gas transmission through pipeline 管道天然氣運輸
泰州中油管輸天然氣有限公司	PRC, Limited liability company 中國·有限責任公司	RMB111,000,000 人民幣111,000,000元	-	45.5%(i)	Gas pipeline design and construction, natural gas transmission through pipeline 天然氣管道設計及建造， 管道天然氣輸送
鄒平中油燃氣有限責任公司	PRC, Limited liability company 中國·有限責任公司	RMB20,000,000 人民幣20,000,000元	-	35.7%(i)	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道 建造
中油中泰(深圳)新能源有限公司	PRC, Limited liability company 中國·有限責任公司	RMB71,000,000 人民幣71,000,000元	-	51.0%	Investment holding 投資控股
仙桃市天然氣有限責任公司	PRC, Limited liability company 中國·有限責任公司	RMB67,910,000 人民幣67,910,000元	-	35.7%(i)	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道 建造
仙桃市潔能天然氣有限公司	PRC, Limited liability company 中國·有限責任公司	RMB2,000,000 人民幣2,000,000元	-	35.7%(i)	Trading of natural gas 天然氣買賣
武漢東方市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

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 39 Particulars of the principal subsidiaries and controlled structured entities (Continued)

### 39 主要附屬公司及受控制結構實體之詳情(續)

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

(a) 主要附屬公司詳情如下：(續)

Name 名稱	Place of incorporation/ establishment and kind of legal entity 註冊成立/成立地點 及法律實體類型	Nominal value of issued share capital/ registered capital 已發行 股本面值/ 註冊資本	Percentage of equity attributable to the Company 公司應佔 股權百分比		Principal activities 主要業務
			Directly 直接	Indirectly 間接	
	中國，有限責任公司	人民幣 75,000,000 元			天然氣買賣及天然氣管道 建造
西寧中油中泰管道燃氣有限公司	PRC, Limited liability company 中國，有限責任公司	RMB50,000,000 人民幣 50,000,000 元	-	40.8%(i)	Gas pipeline design and construction 天然氣管道設計及建造
南京潔寧燃氣有限公司	PRC, Wholly foreign-owned enterprise 中國，外商獨資企業	HK\$187,500,000 187,500,000 港元	-	100.0%	Investment holding, construction of natural gas stations and trading of natural gas 投資控股，天然氣站建造 及天然氣買賣
安徽中油燃氣有限公司	PRC, Sino-foreign equity joint venture 中國，中外合資合營企業	RMB18,000,000 人民幣 18,000,000 元	-	80.4%	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道 建造
中油燃氣投資集團有限公司 (前稱中油燃氣(廣東)投資 有限公司)	PRC, Wholly foreign-owned enterprise 中國，外商獨資企業	US\$75,000,000 75,000,000 美元	-	100.0%	Investment holding 投資控股
恒泰國際融資租賃有限公司	PRC, Limited liability company 中國，有限責任公司	US\$26,981,000 26,981,000 美元	-	100.0%	Provision for finance 提供融資
揚州中油燃氣有限責任公司	PRC, Sino-foreign equity joint venture 中國，中外合資合營企業	RMB40,000,000 人民幣 40,000,000 元	-	38.8%(ii)	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道 建造
青海中油甘河工業園區燃氣 有限公司	PRC, Sino-foreign equity joint venture 中國，中外合資合營企業	RMB26,000,000 人民幣 26,000,000 元	-	60.4%	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道 建造

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 39 Particulars of the principal subsidiaries and controlled structured entities (Continued)

#### 39 主要附屬公司及受控制結構實體之詳情 (續)

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

(a) 主要附屬公司詳情如下：(續)

Name 名稱	Place of incorporation/ establishment and kind of legal entity 註冊成立／成立地點 及法律實體類型	Nominal value of issued share capital/ registered capital 已發行 股本面值／ 註冊資本	Percentage of equity attributable to the Company 公司應佔 股權百分比		Principal activities 主要業務
			Directly 直接	Indirectly 間接	
南通中油燃氣有限責任公司	PRC, Sino-foreign equity joint venture 中國·中外合資合營企業	RMB15,000,000 人民幣 15,000,000 元	-	75.0%	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道 建造
萍鄉市燃氣公司	PRC, Sino-foreign equity joint venture 中國·中外合資合營企業	RMB284,400,000 人民幣 284,400,000 元	-	51.0%	Trading of natural gas and gas pipeline construction 天然氣買賣及天然氣管道 建造
Baccalieu Energy Inc.	Canada 加拿大	CAD 141,040,000 141,040,000 加元	-	100.0%	Exploitation and distribution of crude oil and natural gas 開採及分銷原油及天然氣

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, Hong Kong China Oil and Gas Group Limited ("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.

附註：

- (i) 集團透過擁有 51.0% 權益的附屬公司中油中泰持有該等附屬公司控股權益。因此，集團擁有該等實體的控制權，而該等實體被視為公司的附屬公司。
- (ii) 集團透過中油中泰及全資附屬公司香港中油燃氣集團有限公司（「香港中油燃氣」）持有該附屬公司控股權益。因此，集團擁有該實體控制權，而該實體被視為公司的附屬公司。
- (iii) 董事認為，上表所列公司附屬公司主要影響本年度業績或佔集團資產淨值重大部分。董事認為，提供其他附屬公司之詳情會導致篇幅冗長。

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 39 Particulars of the principal subsidiaries and controlled structured entities (Continued)

(b) Set out below are the summarised consolidated financial information of CCNG and its subsidiaries that have non-controlling interests that are material to the Group. The information below is the amount before inter-company eliminations:

### 39 主要附屬公司及受控制結構實體之詳情(續)

(b) 下表載列中油中泰及其附屬公司(擁有對集團而言屬重大之非控股權益)綜合財務資料概要。下述資料為公司間對銷前之金額：

		2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Total assets	總資產	7,947,199	8,361,900
Total liabilities	總負債	(3,705,442)	(4,880,836)
Net assets	資產淨值	4,241,757	3,481,064
Revenue	營業額	6,268,785	5,126,691
Profit for the year	年內溢利	425,740	456,831
Other comprehensive gain/(loss)	其他全面收益/(虧損)	267,881	(266,990)
Total comprehensive income	全面收益總額	693,621	189,841
Dividend paid to non-controlling interests	支付股息予非控股權益	26,638	59,427

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 39 Particulars of the principal subsidiaries and controlled structured entities (Continued)

(b) Set out below are the summarised consolidated financial information of CCNG and its subsidiaries that have non-controlling interests that are material to the Group. The information below is the amount before inter-company eliminations: (Continued)

#### 39 主要附屬公司及受控制結構實體之詳情 (續)

(b) 下表載列中油中泰及其附屬公司(擁有對集團而言屬重大之非控股權益)綜合財務資料概要。下述資料為公司間對銷前之金額。(續)

		CCNG 中油中泰 2017 二零一七年 HK\$'000 千港元	CCNG 中油中泰 2016 二零一六年 HK\$'000 千港元
Net cash generated from operating activities	經營業務產生之現金淨額	986,390	880,631
Net cash used in investing activities	投資活動所用之現金淨額	(481,667)	(96,940)
Net cash used in financing activities	融資活動所用之現金淨額	(200,713)	(924,844)
Net increase/(decrease) in cash and cash equivalents	現金及現金等值項目增加/(減少)淨額	304,010	(141,153)
Cash and cash equivalents at 1 January	於一月一日之現金及現金等值項目	1,040,994	1,316,869
Effect of foreign exchange rate changes	匯率變動影響	85,534	(134,722)
Cash and cash equivalents at 31 December	於十二月三十一日之現金及現金等值項目	<b>1,430,538</b>	<b>1,040,994</b>

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 39 Particulars of the principal subsidiaries and controlled structured entities (Continued)

### 39 主要附屬公司及受控制結構實體之詳情(續)

**(c) Details of the controlled structured entity are as follows:**

**(c) 受控制結構實體詳情如下：**

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

公司控制一間在香港營運的結構實體，其詳情如下：

Structured entities 結構實體	Principal activities 主要業務
Best Thinker Limited ("Trustee")	Purchases, administers and holds the Company's shares for the Restricted Share Award Scheme for the benefit of eligible employees of the Group
Best Thinker Limited (「受託人」)	為集團合資格僱員利益就限制性股份獎勵計劃買入、管理及持有公司股份

As the Trustee is set up solely for the purpose of purchasing, administering and holding the Company's shares for the Restricted Share Award Scheme (Note 32(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".

由於受託人乃專為就限制性股份獎勵計劃(附註32(c))買入、管理及持有公司股份而設置，公司有權控制受託人的財政及營運政策，並可從獲授限制性股份的僱員予持續受僱於集團時所提供的服務獲得利益。受託人的資產及負債自信託獲採納時起均包括在公司綜合財務狀況表中，並將受託人持有的公司股份作為一個扣減項目在權益中呈報，列作「為股份獎勵計劃持有股份」。

### 40 Approval of consolidated financial statements

### 40 批准綜合財務報表

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 27 March 2018.

董事局於二零一八年三月二十七日批准及授權刊發綜合財務報表。

## Notes to the Consolidated Financial Statements

### 綜合財務報表附註

(continued) (續)

#### 41 Statement of financial position of the Company

#### 41 公司財務狀況表

	Note 附註	2017 二零一七年 HK\$'000 千港元	2016 二零一六年 HK\$'000 千港元
Non-current assets	非流動資產		
Intangible assets	無形資產	1,702	1,702
Interests in subsidiaries	於附屬公司權益	5,096,529	5,437,320
Available-for-sale financial assets	可供出售財務資產	20,050	20,050
		5,118,281	5,459,072
Current assets	流動資產		
Other receivables	其他應收款項	51,218	66,588
Cash and cash equivalents	現金及現金等值項目	3,027	102,584
		54,245	169,172
Current liabilities	流動負債		
Other payables	其他應付款項	(42,447)	(43,944)
Net current assets	流動資產淨額	11,798	125,228
Total assets less current liabilities	總資產減流動負債	5,130,079	5,584,300
Non-current liabilities	非流動負債		
Senior notes	優先票據	(4,970,240)	(5,006,417)
Net assets	資產淨額	159,839	577,883
Equity	權益		
Equity attributable to owners of the Company	公司擁有人應佔權益		
Share capital	股本	32 58,257	58,257
Reserves	儲備	41 101,582	519,626
Total equity	權益總額	159,839	577,883

The statement of financial position of the Company was approved by the Board of Directors on 27 March 2018 and was signed on its behalf.

公司財務狀況表已於二零一八年三月二十七日獲董事局批准並由以下董事代為簽署。

Xu Tie-liang  
Director

Guan Yijun  
Director

許鈇良  
董事

關懿君  
董事

## Notes to the Consolidated Financial Statements 綜合財務報表附註

(continued) (續)

### 42 Reserves of the Company

### 42 公司儲備

		Share premium	Capital redemption reserve	Shares held for share award scheme	Exchange fluctuation reserve	(Note) Contributed surplus	Accumulated losses	Total
		股份溢價	資本贖回儲備	為股份獎勵計劃持有股份	匯兌波動儲備	(附註) 繳入盈餘	累計虧損	總額
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		千港元	千港元	千港元	千港元	千港元	千港元	千港元
At 1 January 2016	於二零一六年一月一日	24,578	998	(275,629)	(16,836)	1,520,328	(444,075)	809,364
Vesting of shares under share award scheme	根據股份獎勵計劃歸屬股份	-	-	1,798	-	-	-	1,798
Exchange differences on translating foreign operations	換算海外業務之匯兌差額	-	-	-	(706)	-	-	(706)
Shares purchased for share award scheme	為股份獎勵計劃購買股份	-	-	(31,875)	-	-	-	(31,875)
Loss for the year	年內虧損	-	-	-	-	-	(258,955)	(258,955)
At 31 December 2016	於二零一六年十二月三十一日	24,578	998	(305,706)	(17,542)	1,520,328	(703,030)	519,626
Vesting of shares under share award scheme	根據股份獎勵計劃歸屬股份	-	-	991	-	-	-	991
Exchange differences on translating foreign operations	換算海外業務之匯兌差額	-	-	-	(802)	-	-	(802)
Shares purchased for share award scheme	為股份獎勵計劃購買股份	-	-	(104,257)	-	-	-	(104,257)
Loss for the year	年內虧損	-	-	-	-	-	(284,848)	(284,848)
Final dividend for the year ended 31 December 2016	截至二零一六年十二月三十一日止年度之末期股息	-	-	-	-	(29,128)	-	(29,128)
At 31 December 2017	於二零一七年十二月三十一日	24,578	998	(408,972)	(18,344)	1,491,200	(987,878)	101,582

Note:

The contributed surplus of the Company represents the excess of the net assets value of the subsidiaries acquired pursuant to the Group's reorganisation in 1993 over the nominal value of the Company's shares issued in exchange thereof. Under the Companies Act of Bermuda 1981 (as amended), the contributed surplus of the Company is distributable to the shareholders in certain circumstances which the Company is able to satisfy.

附註：

公司之繳入盈餘指集團於一九九三年因重組而收購附屬公司之資產淨值超出公司就收購而發行股份之面值之金額。根據一九八一年百慕達公司法(修訂本)，公司之繳入盈餘在若干情況下可供分派予股東，惟目前公司未能符合此等情況。

## PRINCIPAL AND REGISTERED OFFICES OF THE COMPANY

### China Oil And Gas Group Limited

*Headquarters and principal  
place of business in the PRC*  
15/F, Xinhai Central International  
Commerce Center Building  
No. 9 Qianshan Road  
Xiangzhou District  
Zhuhai, Guangdong Province  
People's Republic of China

*Place of business in Hong Kong*  
Suite 2805, 28th Floor  
Sino Plaza  
255-257 Gloucester Road  
Causeway Bay  
Hong Kong

*Registered office*  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### TRUSTEE

**Citicorp International Limited**  
39/F, Champion Tower  
3 Garden Road  
Central, Hong Kong

### PAYING AGENT, TRANSFER AGENT AND REGISTRAR

**Citibank, N.A., London Branch**  
c/o Citibank, N.A., Dublin Branch  
One North Wall Quay  
Dublin 1  
Ireland

### LEGAL ADVISERS TO THE COMPANY

*as to United States and Hong Kong laws*

**Sidley Austin**  
Level 39  
Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

*as to Bermuda and British Virgin Islands laws*

**Appleby**  
2206-19 Jardine House  
1 Connaught Place  
Central  
Hong Kong

*as to PRC law*

**Tian Yuan Law Firm**  
10/F, China Pacific Insurance Plaza  
28 Fengsheng Hutang  
Xicheng District, Beijing  
People's Republic of China

### LEGAL ADVISERS TO THE INITIAL PURCHASERS

*as to United States law*

**Davis Polk & Wardwell**  
The Hong Kong Club Building  
3A Chater Road  
Hong Kong

*as to PRC law*

**Commerce & Finance Law Offices**  
6F NCI Tower  
A12 Jianguomenwai Avenue  
Chaoyang District  
Beijing 100022  
People's Republic of China

### INDEPENDENT AUDITOR

**PricewaterhouseCoopers**  
22/F Prince's Building  
Central, Hong Kong

### SINGAPORE LISTING AGENT

Shook Lin & Bok LLP  
1 Robinson Road  
#18-00 AIA Tower  
Singapore 048542



中油燃氣集團有限公司

CHINA OIL AND GAS GROUP LIMITED