天伦燃气
TIANLUN GAS

China Tian Lun Gas Holdings Limited
中國天倫燃氣控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 01600)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

Highlights of results for the year ended 31 December 2017:

- Gas sales volume recorded rapid growth. Total gas sales volume was 1,064 million m^3, representing an increase of 15.9% as compared with 918 million m^3 for the corresponding period of last year. Gas sales volume to industrial and commercial users was 566 million m^3, representing a substantial year-on-year increase of 25.0%; gas sales volume to residential users was 181 million m^3, representing a year-on-year increase of 19.7%.

- Revenue was RMB3,109 million, representing an increase of 15.4% as compared with RMB2,693 million for the corresponding period of last year. Revenue from gas sales was RMB2,428 million, representing an increase of 18.2% as compared with RMB2,055 million for the corresponding period of last year.

- Profit for the year was RMB429 million, representing an increase of 28.3% as compared with RMB334 million for the corresponding period of last year.

- Profit attributable to owners of the Company amounted to RMB404 million, representing an increase of 29.0% as compared with RMB313 million for the corresponding period of last year.

- Basic earnings per share were RMB0.41, representing an increase of 30.5% as compared with RMB0.31 for the corresponding period of last year.

- The Board recommends the payment of a final dividend of RMB2.30 cents per share. Together with an interim dividend of RMB7.88 cents per share which had been paid, total dividend was RMB10.18 cents per share. Total dividends increased by 42.2% as compared with the corresponding period of last year.

The board (the "**Board**") of directors (the "**Directors**") of China Tian Lun Gas Holdings Limited (the "**Company**", together with its subsidiaries collectively, the "**Group**") is pleased to announce the audited consolidated annual results of the Group for the year ended 31 December 2017 together with the comparative audited figures for the preceding financial year as follows.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
	Note	**2017**	2016
		RMB'000	*RMB'000*
Revenue	*3*	**3,109,014**	2,693,094
Cost of sales	*4*	**(2,341,070)**	(2,000,745)
Gross profit		**767,944**	692,349
Distribution expenses	*4*	**(29,449)**	(23,541)
Administrative expenses	*4*	**(134,060)**	(117,205)
Other income	*5*	**27,115**	12,153
Other gains — net	*6*	**5,339**	43,982
Operating profit		**636,889**	607,738
Finance income		**47,280**	79,037
Finance expenses		**(131,701)**	(262,835)
Finance expenses — net	*7*	**(84,421)**	(183,798)
Share of post-tax profit of associates		**23,371**	20,768
Profit before income tax		**575,839**	444,708
Income tax expense	*8*	**(146,682)**	(110,299)
Profit for the year		**429,157**	334,409
Profit attributable to:			
Owners of the Company		**404,250**	313,379
Non-controlling interests		**24,907**	21,030
		429,157	334,409
Earnings per share for profit attributable to owners of the Company for the year (expressed in RMB per share)			
— Basic earnings per share	*9*	**0.41**	0.31
— Diluted earnings per share	*9*	**0.41**	0.31

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(Continued)*

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit for the year	**429,157**	334,409
Other comprehensive income:		
Item that may be reclassified to profit or loss		
Change in value of available-for-sale financial assets	**15,937**	(204)
Other comprehensive income for the year, net of tax	**15,937**	(204)
Total comprehensive income for the year	**445,094**	334,205
Attributable to:		
Owners of the Company	**420,187**	313,175
Non-controlling interests	**24,907**	21,030
	445,094	334,205

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	**2017**	2016
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Lease prepayments		**223,872**	233,842
Property, plant and equipment		**2,353,795**	2,124,140
Investment properties		**30,827**	18,210
Intangible assets		**3,407,638**	2,999,084
Investments accounted for using the equity method		**501,775**	271,571
Deferred income tax assets		**27,431**	26,271
Financial assets at fair value through profit or loss		**—**	19,786
Available-for-sale financial assets		**61,395**	40,145
Prepayments and other receivables	*10*	**69,661**	56,315
Prepayments related to other non-current assets		**81,705**	30,331
		6,758,099	5,819,695
Current assets			
Inventories		**46,625**	41,892
Trade and bills receivables	*10*	**381,986**	350,019
Prepayments and other receivables	*10*	**284,563**	253,145
Dividend receivables		**—**	4,642
Available-for-sale financial assets		**—**	2,000
Financial assets at fair value through profit or loss		**300,000**	335,267
Cash and cash equivalents		**678,237**	755,390
Restricted cash		**22,739**	71,362
		1,714,150	1,813,717
Total assets		**8,472,249**	7,633,412

CONSOLIDATED BALANCE SHEET *(Continued)*

	Note	As at 31 December **2017** *RMB'000*	2016 *RMB'000*
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	*11*	**8,340**	8,340
Share premium	*11*	**1,264,114**	1,264,114
Reserves	*12*	**153,526**	78,416
Retained earnings		**1,352,373**	1,080,332
		2,778,353	2,431,202
Non-controlling interests		**339,450**	320,507
Total equity		**3,117,803**	2,751,709
LIABILITIES			
Non-current liabilities			
Borrowings		**2,898,385**	2,739,953
Other payables and accruals	*13*	**136,598**	136,598
Deferred income		**1,472**	1,472
Deferred income tax liabilities		**419,881**	370,414
		3,456,336	3,248,437
Current liabilities			
Trade and bills payables	*13*	**180,754**	188,280
Other payables and accruals	*13*	**346,965**	342,128
Dividend payables		—	6,143
Advances from customers		**253,618**	150,690
Current income tax liabilities		**125,128**	97,531
Borrowings		**968,747**	848,494
Financial liabilities at fair value through profit or loss		**22,898**	—
		1,898,110	1,633,266
Total liabilities		**5,354,446**	4,881,703
Total equity and liabilities		**8,472,249**	7,633,412

1. GENERAL INFORMATION OF THE GROUP

China Tian Lun Gas Holdings Limited (the "Company") was incorporated on 20 May 2010 in the Cayman Islands under the Companies Law (2010 Revision) of the Cayman Islands as an exempted company with limited liability. The Company is an investment holding company and was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 November 2010.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the gas pipeline connections by providing residential, commercial and industrial users with laying and installation and transportation, distribution and sales of gases including natural gas and compressed natural gas ("CNG") and production and sales of liquefied natural gas ("LNG") in bulk and in cylinders in certain cities of the People's Republic of China (the "PRC").

The address of the Company's registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

These consolidated financial statements have been approved for issue by the Board of Directors on 26 March 2018.

These consolidated financial statements are presented in RMB, unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As at 31 December 2017, the Group had net current liabilities of RMB183,960,000, and the Group's profit after tax was RMB429,157,000 and net cash inflow from operating activities was RMB441,949,000 for the year then ended.

The directors of the Company believe that the Group will generate sufficient cash inflow from future operating cash inflow, the use of current banking facilities and the renewal of existing loans in order to operate and meet its liabilities and commitments as and when they fall due within the next twelve months from the balance sheet date. Accordingly, the directors of the Company have prepared these consolidated financial statements on a going concern basis.

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and requirements of the Hong Kong Companies Ordinance Cap. 622.

The consolidated financial statements have been prepared on a historical cost basis, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities at fair value through profit or loss (including derivative instruments), 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 judgment in the process of applying the Group's accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

New and amended standards adopted by the Group

The Group has adopted the following amendments to standards effective from 1 January 2017, which had no material effect on the Group's reported results and financial position for the current and prior accounting periods.

HKAS 7 (amendments)	Disclosure initiative
HKAS 12 (amendments)	Recognition of deferred tax assets for unrealised losses
HKFRS 12 (amendments)	Disclosure of interest in other entities

3. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the senior executive management team on monthly basis that are used to make strategic decisions.

The senior executive management team considers the business from a "product" perspective only, as geographically all the products are provided within the PRC, which is considered as one geographic location with similar risks and returns.

The reportable segments derive their revenue and profit primarily from city gas sales, and gas pipeline connections.

In 2016, the senior executive management team reviewed Beijing Tian Lun Investment Company Limited and its indirect subsidiaries (collectively, "Beijing Tian Lun Investment Group") as a single operating segment. Such operating segment is principally engaged in the long-haul pipeline gas transmission business (the "Longhaul Pipeline Gas Transmission and Sales") to sell gas to urban gas distributors and large industrial users, and also records other insignificant income from other business. In 2017, the senior executive management team changed the internal organisational structure and regarded the Long-haul Pipeline Gas Transmission and Sales operated by Beijing Tian Lun Investment Group as a single operating segment, and its other business was consolidated into other respective operating segments. The segment reporting for the year of 2016 was adjusted retrospectively.

The revenue from rental income of investment properties and other miscellaneous income, has been reviewed by the senior executive management team, and its results are included in the "all other segments" column.

The senior executive management team assesses the performance of the operating segments based on the measure of sales revenue and gross profit. Meanwhile, the Group does not allocate operating expenses, assets or liabilities to its segments, as the senior executive management team does not use this information to allocate resources to or evaluate the performance of the operating segments. Therefore, the Group does not report a measure of segment assets and segment liabilities for each reportable segment.

3. SEGMENT INFORMATION *(Continued)*

The segment information provided to the senior executive management team for the reportable segments for the year ended 31 December 2017 is as follows:

	City gas sales *RMB'000*	Long-haul pipeline gas transmission and sales *RMB'000*	Gas pipeline connections *RMB'000*	All other segments *RMB'000*	Inter-segment elimination *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
External revenue	1,603,673	824,437	619,931	60,973	—	—	3,109,014
Inter-segment revenue	—	—	—	—	—	—	—
Total revenue	1,603,673	824,437	619,931	60,973	—	—	3,109,014
Gross profit	271,348	89,656	380,289	26,651	—	—	767,944
Distribution expenses						(29,449)	(29,449)
Administrative expenses						(134,060)	(134,060)
Other income						27,115	27,115
Other gains — net						5,339	5,339
Operating profit							636,889
Finance expenses — net						(84,421)	(84,421)
Share of post-tax profit of associates						23,371	23,371
Profit before income tax							575,839
Income tax expense						(146,682)	(146,682)
Profit for the year							429,157

3. **SEGMENT INFORMATION** *(Continued)*

The segment information provided to the senior executive management team for the reportable segments for the year ended 31 December 2016 is as follows:

	City gas sales *RMB'000*	Long-haul pipeline gas transmission and sales *RMB'000*	Gas pipeline connections *RMB'000*	All other segments *RMB'000*	Inter-segment elimination *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
External revenue (restated)	1,168,838	885,878	595,854	42,524	—	—	2,693,094
Inter-segment revenue (restated)	—	94	—	—	(94)	—	—
Total revenue (restated)	1,168,838	885,972	595,854	42,524	(94)	—	2,693,094
Gross profit (restated)	209,890	89,474	376,020	16,965	—	—	692,349
Distribution expenses						(23,541)	(23,541)
Administrative expenses						(117,205)	(117,205)
Other income						12,153	12,153
Other gains — net						43,982	43,982
Operating profit							607,738
Finance expenses — net						(183,798)	(183,798)
Share of post-tax profit of associates						20,768	20,768
Profit before income tax							444,708
Income tax expense						(110,299)	(110,299)
Profit for the year							334,409

The principal subsidiaries of the Company are domiciled in the PRC. All the revenue from external customers are derived from the PRC, and all the non-current assets are located in the PRC.

During the year ended 31 December 2017, revenue of RMB336,566,000 and 11% of the Group's total revenue, is derived from a single external customer (2016: RMB338,308,000 and 13%). The revenue is attributable to the long-haul pipeline gas transmission and sales segment.

4. EXPENSES BY NATURE

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Raw materials and consumables used	**1,999,266**	1,679,126
Changes in inventories of finished goods and work in progress	**3,761**	13,150
Depreciation on property, plant and equipment	**109,203**	99,725
Depreciation on investment properties	**1,312**	1,021
Amortisation of lease prepayments	**4,764**	4,374
Amortisation of intangible assets	**73,075**	67,594
Employee benefit expenses	**149,111**	132,511
Licensing fee for the exclusive operating rights for city pipeline network	**1,100**	1,100
Engagement of construction and design services	**73,839**	65,036
Transportation costs	**6,081**	4,975
Travelling expenses	**6,103**	4,095
Maintenance costs	**10,249**	8,054
Auditors' remuneration		
— Audit services	**3,300**	3,210
— Non-audit services	**—**	100
Professional expenses	**3,756**	3,593
Advertising expenses	**2,214**	3,389
Entertainment expenses	**7,284**	5,719
Office expenses	**9,276**	6,545
Taxes	**14,881**	17,350
Energy consumption	**21,008**	18,474
Impairment loss	**2,404**	—
Other expenses	**2,592**	2,350
Total cost of sales, distribution expenses and administrative expenses	**2,504,579**	2,141,491

5. OTHER INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Dividend income from available-for-sale financial assets	**12,945**	4,642
Government grants in relation to		
— Tax refund	**2,990**	4,721
— Subsidies for local investment rewards and other incentives	**11,180**	2,790
	27,115	12,153

6. OTHER GAINS — NET

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
(Losses)/gains on disposal of property, plant and equipment and lease prepayments	**(2,347)**	5,978
Changes on fair value of contingent consideration for acquisition of subsidiaries	**—**	37,858
Penalty and overdue fines	**(1,566)**	(2,069)
Reversal of trade payables	**3,615**	—
Others	**5,637**	2,215
	5,339	43,982

7. FINANCE EXPENSES — NET

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Finance income		
— Interest income from bank deposits and loans to third parties	**(21,045)**	(10,600)
— Investment gains on financial assets at fair value through profit or loss:		
Investment in a trust	**(26,235)**	(32,266)
Cross currency swap contracts	**—**	(36,171)
	(47,280)	(79,037)
Finance expenses		
— Interest expense on borrowings	**214,618**	191,033
— Net exchange (gains)/losses	**(119,382)**	100,895
— Investment losses on cross currency swap contracts	**64,434**	—
— Others	**1,518**	1,506
Less: amounts capitalised on qualifying assets	**(29,487)**	(30,599)
	131,701	262,835
	84,421	183,798

8. TAXATION

(a) The Company and Upsky Holdings are not subject to profits tax in their respective countries of incorporation.

(b) Hong Kong profits tax

For the years ended 31 December 2017 and 2016, there are no Hong Kong profits tax applicable (tax rate 16.5%) to any Group entities.

(c) PRC corporate income tax (the "PRC CIT")

All the Company's subsidiaries incorporated in the PRC are subject to the PRC CIT, which has been provided based on the statutory income tax rate of the assessable income of each of such companies during the years ended 31 December 2017 and 2016, as determined in accordance with the relevant PRC income tax rules and regulations. The CIT rate of all the relevant subsidiaries operating in the PRC is 25% (2016: 25%), except for Baiyin Natural Gas Limited, Li Quan County Hong Yuan Natural Gas Company Limited, Qian County Hong Yuan Natural Gas Company Limited, Baiyin Wantong Gas Limited, Gulang Tianlun Gas Limited, Sichuan Mingsheng Natural Gas Company Limited and Sichuan Jintang County Tian Lun Gas Company Limited as they were approved to entitle to the CIT Preferential Policies for the Development of the Western Regions and the CIT rate of 2017 is 15% (2016: 15%).

The amount of income tax expense charged to profit or loss represents:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current tax on profits for the year		
PRC enterprise income tax	**165,474**	134,005
Deferred income tax	**(18,792)**	(23,706)
	146,682	110,299

9. EARNINGS PER SHARE

(a) Basic

Basic earnings per share ("EPS") is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2017	2016
Profit attributable to owners of the Company *(RMB'000)*	**404,250**	313,379
Weighted average number of shares in issue *(thousands)*	**989,615**	1,000,857
Basic earnings per share *(RMB per share)*	**0.41**	0.31

(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 one category of dilutive potential ordinary shares: share options. For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Year ended 31 December	
	2017	2016
Profit attributable to owners of the Company *(RMB'000)*	**404,250**	313,379
Weighted average number of shares in issue *(thousands)*	**989,615**	1,000,857
Adjustments for:		
— Share options *(thousands)*	**802**	—
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	**990,417**	1,000,857
Diluted earnings per share *(RMB per share)*	**0.41**	0.31

During the year ended 31 December 2016, the share options were antidilutive.

10. TRADE AND BILLS RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

Trade and bills receivables	**As at 31 December**	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables — gross *(a)*	**351,551**	348,929
Less: provision for impairment	**(2,404)**	—
Trade receivables — net	**349,147**	348,929
Bills receivables	**32,839**	1,090
	381,986	350,019

Prepayments and other receivables	**As at 31 December**	
	2017	2016
	RMB'000	*RMB'000*
Prepayments	**120,237**	93,975
Receivables due from related parties *(a)*	**28,468**	28,539
Other receivables	**169,955**	147,910
Value-added-tax to be offset and prepaid income tax	**35,564**	39,036
	354,224	309,460
Less: long-term prepayments	**(69,661)**	(56,315)
Current portion	**284,563**	253,145

10. TRADE AND BILLS RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES (*Continued)*

(a) The credit period generally granted to customers in relation to sales of pipelined gases is up to two months. As for the customers in relation to connection of gas pipelines, the Group generally requests advance payments, and in circumstances of credit sales, management closely monitors the credit quality of the customers, and credit period was granted case by case with maximum of 2 years. The following is an aged analysis of trade receivables and receivables due from related parties in trade nature amounting to RMB14,850,000 (2016: RMB14,826,000), presented based on invoice date at the end of the reporting period:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Less than 30 days	**277,405**	169,509
31 days to 90 days	**9,476**	24,481
91 days to 1 year	**44,862**	116,197
1 year to 2 years	**22,261**	44,716
Over 2 years	**12,397**	8,852
	366,401	363,755

As at 31 December 2017, receivables in trade nature of RMB354,004,000 (2016: RMB354,903,000) were fully performing.

The Group has policies for allowance of bad and doubtful debts which are based on the evaluation of collectability and ageing analysis of accounts and on the management's judgment including the current creditworthiness and the past collection history of each customer.

10. TRADE AND BILLS RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES (*Continued)*

(a) (*Continued)*

During 2017, the Group made an allowance of RMB2,404,000 in respect of the trade receivables related to the gas pipeline connection business, which was past due at the reporting date with long ageing and slow repayments were received from respective customers since the due date. The directors of the Company considered the related receivables may be impaired and specific allowance was made.

As at 31 December 2017, trade receivables of RMB9,993,000 (2016: RMB8,852,000) were past due but not impaired. These relate to a number of independent customers that have good trading records with the Group. Based on the past experiences, 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 considered fully recoverable. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Over 2 years	**9,993**	8,852

(b) The carrying amounts of trade and bills receivables, prepayments and other receivables were denominated in RMB.

(c) The other classes within trade and bills receivables, prepayments and other receivables do not contain impaired assets.

(d) As at 31 December 2017 and 2016, the Group's maximum exposure to credit risk was the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

(e) The carrying amounts of the current portion of trade and bills receivables, prepayments and other receivables approximate to the fair values.

11. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares *(thousands)*	Ordinary shares *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
Issued and fully paid:				
At 1 January 2016	1,009,615	8,512	1,366,774	1,375,286
Repurchase of shares (a)	(20,000)	(172)	(102,660)	(102,832)
At 31 December 2016	989,615	8,340	1,264,114	1,272,454
At 31 December 2017	989,615	8,340	1,264,114	1,272,454

The total authorised number of ordinary shares is 2,000,000,000 shares (2016: 2,000,000,000 shares) with a par value of HK$0.01 per share (2016: HK$0.01 per share).

(a) During 2016, the Company acquired 19,999,500 of its own shares through purchases on the Hong Kong Stock Exchange, which had been cancelled during the year. The total amount paid to acquire the shares was HK$119,368,000 (equivalent to RMB102,832,000), which had been deducted within the shareholders' equity. The details of share repurchased are as follows:

Date of repurchase	No. of ordinary shares *HK$0.01*	Price per share highest *HK$*	Price per share lowest *HK$*	Aggregated repurchased costs *HK$'000*
22 July 2016	5,949,000	5.97	5.88	35,366
25 July 2016	6,075,000	6.00	5.90	36,266
26 July 2016	4,984,500	6.00	5.98	29,871
27 July 2016	1,542,000	6.00	5.94	9,187
28 July 2016	1,449,000	6.00	5.95	8,678
	19,999,500			**119,368**

12. RESERVES

	Capital reserves	Statutory reserves	Available-for-sale investments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	(6,416)	103,718	(1,315)	95,987
Revaluation-gross	—	—	(272)	(272)
Revaluation-tax	—	—	68	68
Appropriation (a)	—	36,887	—	36,887
Acquisition of additional interests of subsidiaries	(59,497)	—	—	(59,497)
Employee share option scheme:				
— Value of employee services	5,243	—	—	5,243
At 31 December 2016	(60,670)	140,605	(1,519)	78,416
At 1 January 2017	(60,670)	140,605	(1,519)	78,416
Revaluation-gross	—	—	21,250	21,250
Revaluation-tax	—	—	(5,313)	(5,313)
Appropriation (a)	—	54,580	—	54,580
Employee share option scheme:				
— Value of employee services	4,593	—	—	4,593
At 31 December 2017	(56,077)	195,185	14,418	153,526

Statutory reserves

(a) In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC now comprising the Group (the "PRC Subsidiaries"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserves fund before distributing the net profit. When the balance of the statutory surplus reserves fund reaches 50% of the registered capital of the PRC Subsidiaries, any further appropriation is at the discretion of shareholders.

The statutory surplus reserves fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding, provided that the remaining balance of the statutory surplus reserves fund after such issue is not less than 25% of registered capital.

For the year ended 31 December 2017, RMB54,580,000 (2016: RMB36,887,000) were appropriated to the statutory surplus reserves funds from net profits of certain PRC subsidiaries.

13. TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUALS

Trade and bills payables	**As at 31 December**	
	2017	2016
	RMB'000	*RMB'000*
Bills payables	—	12,900
Trade payables (a and b)	**180,754**	175,380
	180,754	188,280

Other payables and accruals	**As at 31 December**	
	2017	2016
	RMB'000	*RMB'000*
Amounts due to related parties (a)	**30,687**	31,595
Accrued payroll and welfare	**4,254**	4,025
Interest payables	**8,631**	9,145
Other taxes payables	**22,266**	14,341
Contingent consideration payables	**294,021**	220,594
Other payables (a)	**123,704**	199,026
	483,563	478,726
Less: non-current portion of other payables and accruals (d)	**(136,598)**	(136,598)
Current portion	**346,965**	342,128

13. TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUALS (*Continued*)

(a) As at 31 December 2017 and 2016, all such trade and bills payables and the current portion of other payables and accruals of the Group were non-interest bearing and their fair values approximated to their carrying amounts due to their short maturities.

(b) At 31 December 2017 and 2016, the ageing analysis of the trade payables based on invoice date was as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Less than 30 days	**100,353**	90,837
31 days to 90 days	**35,332**	32,274
91 days to 1 year	**22,303**	31,342
1 year to 2 years	**13,387**	12,993
2 years to 3 years	**2,699**	4,764
Over 3 years	**6,680**	3,170
	180,754	175,380

(c) The carrying amounts of the Group's trade and bills payables, other payables and accruals were denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
RMB	**649,811**	649,813
USD	**11,360**	13,558
HK$	**3,146**	3,635
	664,317	667,006

13. TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUALS (*Continued)*

(d) At 31 December 2017, the non-current portion of other payables and accruals included contingent consideration payables amounted to RMB124,406,000 (2016: RMB124,406,000) which were at fair value and long-term loan due to a non-controlling interest of a subsidiary amounted to RMB12,192,000 (2016: RMB12,192,000) with an interest rate of 10% per annum, of which the fair value approximated to the carrying amounts. The fair values of the contingent consideration payables and amount due to the non-controlling interest were measured by the discounted cash flow method and included in level 3 of the fair value hierarchy.

14. DIVIDENDS

The interim dividend paid in 2017 was RMB77,629,000 (2016: RMB73,251,000).

	2017	2016
	RMB'000	*RMB'000*
Interim dividend paid to ordinary shares	**77,629**	73,251

Pursuant to the resolution of the Board of Directors dated 26 March 2018, the directors of the Company proposed to distribute total final dividend of RMB22,761,145 (RMB2.30 cents per share) for the year ended 31 December 2017 (2016: nil), which was not recognised as a liability at year end.

INDUSTRY REVIEW

With the promotion of "coal-to-gas conversion" policies and environmental protection policies, China's natural gas has maintained rapid growth in terms of production, import and consumption in 2017. According to the National Development and Reform Commission (the "NDRC") of the People's Republic of China (the "PRC" or "China"), natural gas consumption was 237.3 billion m^3 for the full year, representing a year-on-year increase of 15.3% and reaching record high natural gas consumption in the history; natural gas production for the year was 148.7 billion m^3, representing a year-on-year increase of 8.5%; natural gas import volume was 92 billion m^3, representing a year-on-year increase of 27.6%. The rapid recovery of China's macro-economy, the continuous upgrading of consumption structure, the fast development of industrialization and urbanization and the continuous promotion of ecological civilised construction had led to the continuous growth of energy demand in the PRC. As a major energy type for the development of clean energy, the consumption of natural gas will maintain rapid growth. In the meantime, the development of infrastructure with the support of policies and the advance of the natural gas price reform will bring long-term positive impacts on the rapid development of the natural gas industry.

In order to strengthen the development of natural gas pipeline network in the PRC, the NDRC and the National Energy Administration (the "NEA") of the PRC issued the "Medium term and Long-term Oil and Gas Pipeline Network Development Plan" on 19 May 2017, which specifies that natural gas pipeline network length will reach 104,000 kilometres by 2020 and 163,000 kilometres by 2025. The number of urban natural gas users in the PRC will reach 550 million, natural gas consumption as a percentage of energy consumption will reach about 12%; and a nationwide natural gas network will be gradually formed with "interconnection of backbone networks with regional networks".

On 23 June 2017, 13 departments of the Chinese authority including the NDRC and the NEA jointly issued the "Opinions on Acceleration of Use of Natural Gas", which requires, with the replacement by clean energy and development of emerging markets as the main objectives, actively lead to the promotion and utilization of natural gas in urban gas, industrial fuel, gas power generation and transport and other key areas, include coal replacement by clean energy in environment protection assessment, improve the natural gas market system and the price mechanism reform, and promote the ancillary facilities in terms of industrial policies, financial support and technological innovations. The object is to gradually develop natural gas into a major energy in China's modern clean energy system and to raise the percentage of natural gas consumption to primary energy consumption to approximately 10% by 2020 and to approximately 15% by 2030.

The continuous optimisation of national energy consumption structure, the recovery of the price advantage of natural gas, and the promulgation of a series of favourable policies for green recycling and low carbon-emission development, will continue to promote the growth of natural gas consumption and provide strong support for the Group's presence in the natural gas market.

BUSINESS REVIEW

During the year ended 31 December 2017, the Group captured the industry opportunities brought by rapid growth of natural gas consumption and the government's policies supporting the coal-to-gas conversion, continued to implement its strategy of selective acquisition and actively explored the potential of the urban gas market while improving the operation and management of its existing projects. As a result, the natural gas sales volume and number of users both recorded significant growth.

The key results and operating data of the Group for the year ended 31 December 2017 and their comparison against the figures for the previous year are as follows:

	For the Year Ended 31 December		
	2017	2016	Increase/Decrease
Revenue (RMB'000)	**3,109,014**	2,693,094	15.4%
Profit before income tax (RMB'000)	**575,839**	444,708	29.5%
Profit attributable to owners of the Company (RMB'000)	**404,250**	313,379	29.0%
Weighted average number of shares ('000)	**989,615**	1,000,857	-1.1%
Earnings per share * — basic (RMB)	**0.4085**	0.3131	30.5%
Total pipeline gas users:			
— Residential users	**1,621,270**	1,325,382	22.3%
— Industrial and commercial users	**14,956**	8,917	67.7%
— Designed daily gas supply capacity to industrial and commercial users (in ten thousand m^3)	**626**	494	26.7%
Natural gas sales volume (in ten thousand m^3)	**106,359**	91,752	15.9%
Including:			
— Natural gas sales volume to industrial and commercial users (in ten thousand m^3)	**56,573**	45,266	25.0%
— Natural gas sales volume to residential users (in ten thousand m^3)	**18,053**	15,080	19.7%
— Natural gas sales volume to transportation users (in ten thousand m^3)	**15,117**	12,246	23.4%
Long-haul pipeline gas transmission volume (in ten thousand m^3)	**86,383**	78,044	10.7%
Total length of medium and high-pressure pipelines (kilometre)	**3,902**	3,063	27.4%

* In accordance with the requirements of the relevant accounting standards, earning per share of the Company will be subject to the weighted average number of ordinary shares.

Gas Pipeline Connection Volume

For the year ended 31 December 2017, the Group connected a total of 206,237 residential users to gas pipelines, and the total number of its residential users increased to 1,621,270, representing an increase of 22.3% as compared with the corresponding period of last year. For the year ended 31 December 2017, the Group connected a total of 2,635 industrial and commercial users to gas pipelines, and the total number of its industrial and commercial users increased to 14,956, representing an increase of 67.7% as compared with the corresponding period of last year.

Gas Sales Volume

For the year ended 31 December 2017, gas sales volume of the Group amounted to 1,064 million m^3, representing an increase of 146 million m^3 or 15.9%, as compared with the corresponding period of last year. Long-haul pipeline gas transmission volume amounted to 864 million m^3, representing an increase of 83 million m^3 or 10.7% as compared with the corresponding period of last year. Gas volume sold to industrial and commercial users, residential users, transportation users and wholesale users accounted for 53.2%, 17.0%, 14.2% and 15.6%, respectively, of total gas sales volume. The average selling prices of natural gas sold by the Group to industrial and commercial users, residential users, transportation users (including retail and wholesale) and wholesale users (exclusive of tax) were RMB2.34/m^3, RMB2.17/m^3, RMB2.35/m^3 and RMB1.92/m^3, respectively.

Benefiting from the coal-to-gas conversion for industrial and commercial users and the Group's strategy of vigorously developing industrial and commercial users, gas sales volume to industrial and commercial users increased significantly by 25.0% as compared with the corresponding period of last year, and its sales volume as a percentage to total gas sales volume was 3.9 percentage points higher than that for the corresponding period of last year. Excluding the gas sale volume to industrial and commercial users for long-haul pipeline gas transmission and sales business segment, gas sales volume to industrial and commercial users of other gas projects of the Group grew by 48.3% as compared with the corresponding period of last year.

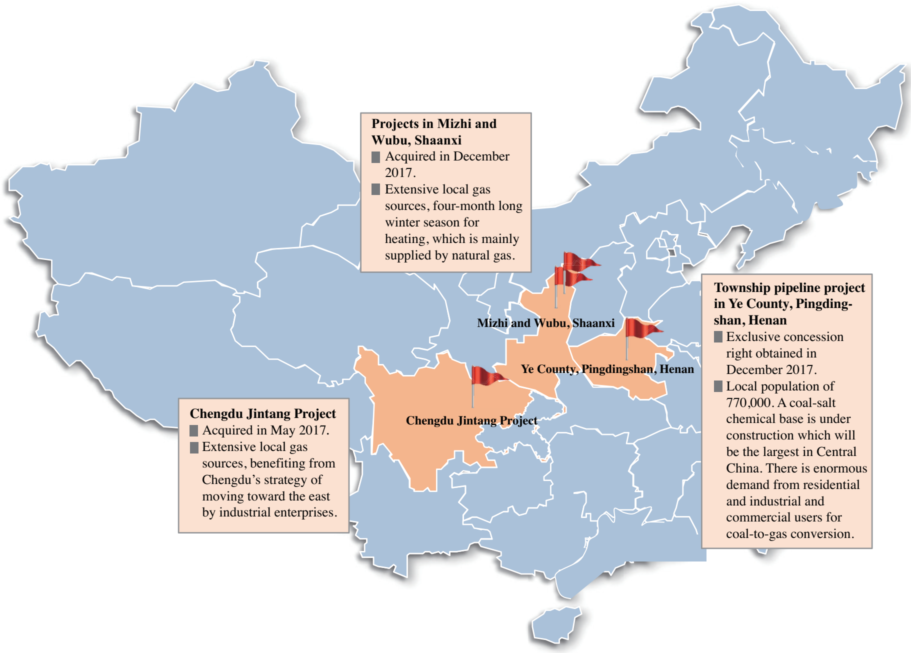
Total gas sales volume to residential users increased by 19.7% as compared with the corresponding period of last year, mainly because the Group vigorously increased the penetration rate of its existing gas projects and acquired the Jintang project in Sichuan Province in 2017 (the gas sales volume and profits of the Jintang project had been consolidated into the Group since July 2017).

During the year ended 31 December 2017, with the promulgation and implementation of a series of policies for the acceleration of natural gas development, especially the "coal-to-gas conversion" policy, while maintaining continuous growth of industrial and commercial users in the areas in which the Group operates, it vigorously explored the potential of local industrial and commercial users for coal-to-gas conversion and obtained a large number of high-quality users from coal-to-gas conversion, making the designed daily gas supply capacity for industrial and commercial users reach 6.26 million m^3, with a significant increase of 26.7% compared with 2016. As the newly-developed industrial and commercial users started to fully use gas, the Group believes its gas sales volume to industrial and commercial users will further increase significantly.

Development of New Projects

During the year ended 31 December 2017, the Group obtained four new urban gas projects, including the acquisition of three projects in Jintang County, Sichuan Province, Mizhi County and Wubu County, Shaanxi Province, among which, the two projects in Shaanxi Province had not been consolidated into the Group in 2017, and obtained the exclusive township gas concession right in Ye County, Henan Province. As at 31 December 2017, the Group had a total of 57 urban gas projects in 16 provinces across China.

Four new projects obtained in 2017 through acquisitions and grants



57 projects in 16 provinces across China

The Group has 57 urban gas projects; 51 operating gas refilling stations; 2 LNG plant projects; 6 long-haul pipelines

Northwest China Region
- Urban gas projects: 7
- Gas refilling stations: 8

Southwest China Region
- Urban gas projects: 13
- Gas refilling stations: 6
- LNG plant project: 1

South China Region
- Urban gas projects: 5

Long-haul Pipeline Division
- Long-haul pipelines: 6

Northwest China Region
- Urban gas projects: 10
- Gas refilling stations: 16
- LNG plant project: 1

North Henan Region
- Urban gas projects: 8
- Gas refilling stations: 8

South Henan Region
- Urban gas projects: 14
- Gas refilling stations: 13

Acquisition of an urban gas project in Jintang County, Sichuan Province

On 12 May 2017, Xuchang Tian Lun Gas Group Limited* (許昌市天倫燃氣有限公司), an indirect wholly-owned subsidiary of the Company, entered into an agreement with the then shareholders of Sichuan Jintang Gas Company * (四川省金堂縣燃氣公司) to acquire the entire equity interest of Sichuan Jintang Gas Company at a consideration of RMB500,000,000.

Jintang County, where the project operates, is in the core area of the Chengdu-Chongqing economic circle and only 42 kilometres from the central urban area of Chengdu, the PRC. It is a key development area in the Chengdu Plain economic circle and a key development zone for characteristics industries in Chengdu. Local property business in Jintang County is at a stage of rapid growth, with a large number of properties under construction or to be developed and land available for development. With its unique location advantage, the Chengdu-Jintang subway, which is under construction, will also be completed in 2020. With the improving transportation network, urban population will maintain fast growth, and local civil gas market has broad development prospects. The "Da Zhi Zao" (大智造) industrial park, which has a planned area of 330 square kilometres and has commenced construction, will focus on the development into an industrial cluster area for energy-saving and environmental protection, general aviation, new energy vehicles, new materials, high-end equipment, and biological medicine industries, and it is a "trillion level industrial new town" and a "national development zone" in Chengdu. The Chengdu-Aba Industrial Park focuses on the development of energy-saving and environmental protection, resources recycling and electronics industry cluster and has participated over 100 large-scale industrial projects. In addition, Jintang County government vigorously promotes the development of local tourism industry and focuses on the development of a number of demonstration tourism projects including the largest children's theme park in Southwest China, China's first big data football base and a hot spring resort of China Travel Service (Hong Kong). The improving urban systems, growing urban area and population, and developing industrial park and key investment projects will all facilitate the future market expansion and development of the project.

The project has a stable and mature business operation and over 110,000 residential users, more than 3,400 commercial users and 275 industrial users. It has gas supplied by both China Petroleum and Chemical Corporation, Southwest Oil and Gas Branch and PetroChina Company Limited, Southwest Natural Gas Sales Branch, which further ensures its future steady growth. The project is only 30 kilometres from Xindu District where Sichuan Ming Sheng, an existing project of the Company operates. The acquisition will further expand the business size of the Group in Southwest China, improve the operational synergies generated by the Group's urban gas projects in Sichuan Province, Gansu Province, Shaanxi Province and Yunnan Province, and have strategic values and play an important role in the Group's presence in Sichuan Province and further increase in its market share in Southwest China.

Acquisition of two urban gas projects in Mizhi County and Wubu County in Shaanxi Province

On 19 December 2017, Henan Tian Lun Gas Group Limited* (河南天倫燃氣集團有限公司), an indirect wholly-owned subsidiary of the Company, entered into an agreement with former shareholders of Mizhi County Changxing Natural Gas Company Limited* (米脂縣長興天然氣有限責任公司) and Wubu County Changxing Natural Gas Company Limited* (吳堡縣長興天然氣有限責任公司) to acquire the entire equity interest of Mizhi County Changxing Natural Gas Company Limited and Wubu County Changxing Natural Gas Company Limited at a consideration of RMB177,000,000.

Mizhi Changxing and Wubu Changxing respectively owns the exclusive city gas concession rights in Mizhi County* (米脂縣) and Wubu County* (吳堡縣), Yulin, Shaanxi Province in the PRC to provide natural gas to residential, industrial and commercial users in the regions. They in total own 19 kilometres of high-pressure pipelines, 73 kilometres of medium-pressure pipelines and a compressed natural gas refilling station, with a total gas sales volume of approximately 30 million cubic metres in 2017.

Shaanxi Province has abundant natural gas resources and is one of the major natural gas origins in the PRC. The two projects are close to sources of natural gas, and local residents generally use natural gas for heating during winters. In addition, as benefited from the exclusiveness of the concession rights, the target companies face relatively little business competition. The acquisitions will strengthen and expand the Group's business scale, which will bring important strategic values and influence on the Group's future business expansion in Shaanxi Province and further increase in the market share in northwestern China.

Grant of exclusive township pipeline natural gas concession right in Ye County, Henan Province

On 29 December 2017, Henan Tian Lun Gas Pipeline Network Co., Ltd.* (河南天倫燃氣管網有限公司), an indirect subsidiary of the Company, entered into a concession agreement with Ye County Housing and Urban & Rural Planning Construction Bureau, Pingdingshan City, Henan Province, pursuant to which it is entitled to exclusively plan, design and construct the township pipeline natural gas pressure regulating stations, build natural gas pipelines and provide natural gas via pipelines to local users, and provide relevant maintenance, repair and emergency rescue services in respect of the pipeline natural gas facilities in 13 townships in Ye County.

Ye County is located in the central area of the Henan Province and close to the Group's long-haul pipeline transmission network in Pingdingshan City and its township pipeline natural gas concession right project in Baofeng County* (寶豐縣). Ye County has a population of 777,000. Pingdingshan Chemical Industry Cluster Area, which is located in Ye County, is one of the important industrial areas in Henan Province and is clustered by coal chemical, salt chemical, nylon, warehousing logistics and thermal power projects. It is expected to become the largest coal salt chemical industry base in the central area of China upon completion.

There are strong demand for industrial coal-to-gas conversion and township coal-to-gas conversion in Ye County, which will generate synergies with the Group's existing long-haul natural gas pipeline network and township pipeline natural gas concession right projects in the vicinity. In addition, it is expected that new business models such as distributed energy are expected to be developed in Ye County, which will further improve the Group's business scale and market share in the central area of China.

Investment in Gas Refilling Stations

During the year ended 31 December 2017, the Group added 7 new operating gas refilling stations and had a total of 51 operating gas refilling stations. The Group will keep a close eye on the policies and the relevant market changes and adjust its development strategy as and when necessary. It will introduce partners to jointly develop the transportation gas market should the opportunities arise.

LNG Plant Projects

According to the design plan, the Group's gas source bases at Changling County, Jilin Province will have a daily production volume of 150,000 m^3 of CNG and LNG each. The CNG production facility currently has a daily production of nearly 150,000 m^3 and its production is stable. The LNG production facility was completed and commenced commissioning in October 2017, with a daily production of 50,000 m^3. With the steady production of the project, its advantages in gas cost and geographical location and the Group's advantage in distribution capability in Northeast China will grow even stronger, which will further lower the Group's gas cost in such area and lay a solid foundation for its further development of the Northeast China market in the future.

The Group's LNG plant project in southwestern China is also in progress. The Group will negotiate with local governments and partners to determine the optimal investment and cooperation plan.

Long-haul Pipelines

The Group has a total of six long-haul pipelines, three of which have been put into operation and are located in Da'an City, Jilin Province, Pingdingshan City, Henan Province and Wujiang City, Jiangsu Province, respectively, which have played an important role in securing the Group's gas source supply. As at the end of the Reporting Period, more than half of the station line constructioin and ball pressure test of the Lushan-Ruzhou Pipeline Branch of the West-East Pipeline II of the Group under construction was completed, and it is expected that the station line construction work will be completed in the second quarter of 2018. Furthermore, the Yuzhou-Changge project, which targets to mainly serve Xuchang Subsidiary, a core member of the Group, and supply gas to related surrounding markets, has been included in the 13th five-year plan of Henan Province for energy development. It has been appoved by the Xuchang Municipal Development and Reform Commission and included in the list of major projects in Xuchang. Currently the planning, site selection and preliminary design of the stations and lines had been completed. Construction is expected to commence in the first quarter of 2018 and be completed in the fourth quarter of 2018. In addition, the planned Puyang-Hebi pipeline of the Group was approved and included in the 13th five-year plan of Henan Province by Henan Province Development and Reform Commission, and will, upon completion, further lower the gas supply cost of Puyang Subsidiary and Hebi Subsidiary and provide strong gas source support for future expansion into surrounding pipeline market.

The Group will continue to carry out long-haul pipeline self-construction project, actively participate in the design of, investment in and development of distributed energy and the middle stream source procurement and downstream sales and value-added business, vigorously develop high-quality supply projects, and further enlarge the size of its gas sales and business operation regions.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2017, the Group's revenue amounted to RMB3,109 million, representing an increase of RMB416 million or 15.4% as compared with the corresponding period of last year. The Group's revenue was primarily derived from the gas pipeline connections business and the transportation and sales of gas business, accounting for 19.9% and 78.1% (the corresponding period of last year: 22.1% and 76.3%), respectively, of the total revenue for the year ended 31 December 2017.

Revenue from gas pipeline connection

The Group conducts gas pipeline connection operation by providing property developers and industrial and commercial users with gas pipeline laying and installation services in the cities in which it operates. For the year ended 31 December 2017, revenue from gas pipeline connections amounted to RMB620 million, representing a year-on-year increase of 4.0% from RMB596 million for the corresponding period of last year. In terms of pipeline connection fee proceeds, for the year ended 31 December 2017, cash received from gas pipeline connections amounted to RMB701 million, representing a year-on-year increase of 18.4% from RMB592 million for the corresponding period of last year.

Revenue from sales of gas

The Group delivers, distributes and sells natural gas to industrial and commercial users, residential users, transportation users and wholesale users in the cities in which it operates, and is engaged in long-haul pipeline gas transmission. For the year ended 31 December 2017, the Group had a significant growth in gas sales volume. Revenue from gas sales amounted to RMB2,428 million, representing a year-on-year increase of 18.2% from RMB2,055 million for the corresponding period of last year. In particular, revenue from gas sales to industrial and commercial users was RMB1,326 million, representing a year-on-year increase of 28.0% as compared with RMB1,036 million for the corresponding period of last year; gas sales to industrial and commercial users accounted for 54.6% of total gas sales, representing an increase of 4.2 percentage points from 50.4% for the corresponding period of last year; revenue from gas sales to residential users was RMB392 million, representing a year-on-year increase of 17.1% as compared with RMB335 million for the corresponding period of last year.

Gross Profit and Gross Profit Margin

For the year ended 31 December 2017, the Group realized gross profit of RMB768 million, representing an increase of RMB76 million or 10.9% from the year ended 31 December 2016. Overall gross profit margin of the Group was 24.7%. Gross profit margin for gas sales was 14.9%, representing an increase of 0.3 percentage points compared with the same period of last year, mainly due to the continuous increase in the proportion of gas sales volume to industrial and commercial users in total gas sales volume and the fact the Group effectively coped with the tight supply of gas during the heating season in winter of 2017. Gross profit margin for connection business was 61.3%, representing a decrease of 1.8 percentage points compared with the same period of last year, mainly due to the development of small- and medium-sized and township coal-to-gas conversion users and the increase in the cost of connection materials during the year.

Distribution Cost and Administrative Expenses

The Group's distribution cost for the year ended 31 December 2017 was RMB29.45 million, and administrative expenses for the year were RMB134 million. With the continuous implementation of cost control policies such as the comprehensive budgeting management system, the Group's distribution costs and administrative expenses as a percentage of total revenue for the year ended 31 December 2017 remained almost at the same level as in las year.

Other Income

For the year ended 31 December 2017, other income of the Group amounted to RMB27 million, representing an increase of RMB15 million as compared with the corresponding period of last year, mainly attributable to the dividend received from other gas companies in which the Group invests in, and the government grant received by members of the Group for carrying out coal-to-gas conversion.

Other Gains - Net

For the year ended 31 December 2017, other gains - net of the Group amounted to RMB5 million, representing a decrease of RMB39 million as compared with the corresponding period of last year, mainly because that the gain on change in fair value of contingent consideration for acquisition of subsidiaries in the amount of RMB38 million was included in other gains - net for 2016 while there was no such item in other gains - net for 2017.

Finance Expenses - Net

For the year ended 31 December 2017, finance expenses - net of the Group amounted to RMB84 million, representing a decrease of RMB99 million or 54.1% as compared with the corresponding period of last year.

Share of Profit after Tax of Associates

For the year ended 31 December 2017, the Group's share of profit after tax of associates amounted to RMB23 million, representing an increase of 12.5% as compared with last year.

Net Profit and Net Profit Margin

For the year ended 31 December 2017, net profit of the Group amounted to RMB429 million, representing an increase of RMB95 million or 28.3%, as compared with the corresponding period of last year. For the year ended 31 December 2017, net profit margin of the Group was 13.8%, representing an increase of 1.4 percentage points as compared with the corresponding period of last year.

Net Profit Attributable to Owners of the Company

For the year ended 31 December 2017, net profit attributable to owners of the Company was RMB404 million, representing an increase of RMB91 million or 29.0% as compared with the corresponding period of last year.

FINANCIAL POSITION

The Group has been adopting prudent policies in respect of financial resources management, including maintaining an appropriate level of cash and cash equivalents as well as sufficient credit limits, in order to cope with the needs of daily operation and business development and control the borrowing at a healthy level.

For the year ended 31 December 2017, the Group incurred capital expenditure of RMB745 million, of which RMB437 million was used in project acquisitions and RMB308 million in continuously improving urban gas business. The above capital expenditure was financed by the Group's operating cash flows and bank borrowings.

As at 31 December 2017, the Group held cash and cash equivalents and liquid investment classified as financial assets at fair value through profit or loss of RMB978 million in total, of which cash and cash equivalents amounted to RMB678 million, of which 96.0% was denominated in RMB, 3.9% was denominated in US dollars and 0.1% was denominated in HK dollars, and its liquid investment of RMB300 million, safeguarding the needs of project expansion and acquisition of businesses of the Group.

As at 31 December 2017, the Group's total borrowing was RMB3,867 million (among which loans denominated in RMB were RMB1,812 million, loans denominated in US dollars were RMB1,721 million and loans denominated in Hong Kong dollars were RMB334 million). The Group's borrowings comprised mainly long-term borrowings, and 74.9% of borrowings were classified as non-current liabilities and 25.1% was classified as current liabilities. The loans repayable within one year amounted to RMB969 million, of which RMB247 million was secured by the Group's gas charge rights. As at 31 December 2017, the gearing ratio, calculated based on the percentage of total liabilities over total assets, was 63.2%.

FINANCE COST AND EXCHANGE RISK MANAGEMENT

For the year ended 31 December 2017, the Group's finance cost was RMB215 million, representing an increase of 12.3% as compared with the corresponding period of last year, mainly due to the increase in the withdrawal of overseas loans by the Group in the year and the resulting increase in finance cost in the year.

For the year ended 31 December 2017, the Group's overseas borrowings denominated in foreign currencies accounted for 53.1% of its total borrowings, which was lower than industry peers. The Group will continue to closely monitor the changes in exchange rates and strive to lower its finance costs through diversified arrangements, and will adopt necessary measures to lower its exchange risk as and when necessary.

OPERATIONAL REVIEW

Customer Services

The Group always regards improving customer satisfaction as the top priority of its customer services work. By understanding the real needs of customers, it continues to optimise and innovate service models and improve service concept in order to provide customers with high-quality services and experiences.

The Group adheres to the people-oriented management philosophy and actively arrange training to enhance employees' service awareness and ability. The Group improved the use efficiency of its marketing service system, realized full coverage of its urban gas member companies, and organized the relevant customer service information training. In addition, the Group attaches great importance to customers' evaluation, complaints and suggestions, arranged member companies to set up Wechat public accounts to expand the marketing channel and collect suggestions from customers, and developed the relevant rectification measures and ensured their strict implementation.

The Group fully implemented the innovative management thinking of "internet +" by deeply advancing its comprehensive cooperation with Alipay in order to facilitate the connection of the Group's online and mobile customer service platform to Alipay's utility (gas) payment platform, which, by making full use of Alipay's established online payment channels and connection to Alipay's big data of users, provides the users of the Group with considerate payment services such as online search, electronic bills and code scan payment. It also worked with Zhongyuan Bank on gas bill payment at zero rate, and conducted the pilot and promotion of self-service IC card charging.

The Group highly values customers' safety in gas use. It always considers customers' safety above all else by arranging specialized personnel to conduct safety examinations for yard pipeline network, indoor pipelines and gas devices and facilities and free home safety examinations each year to identify safety threats and ensure customers' safety in gas use.

Safety Management

As a basis for its healthy and sustainable development, the Group always takes safety management as a top priority in its operation and continues to implement safety management requirements with higher standards to support its steady growth.

During the year, the Group completed its annual review of ISO and OHSAS systems and conducted safety standardization reviews of its urban gas members. Their average score was 8% higher than that in 2016 and reached the class II level for the gas industry standardization in the PRC.

The Group issued the Guidelines for Construction of Production Safety Management System of Tian Lun Gas Group and arranged their training and promotion. The Group prepared the Production Safety Supervision and Management System and the Safety Threats Management System and continued to implement the safety management system with risk prevention as the core to prevent the threats from realization. The Group organized its members to fully review the position production safety responsibility system, determined the safety responsibility and work responsibility of each position, continued to improve the safety management mechanism, implemented safety objectives and strengthened responsibility assessment. By carrying out the "Month of Production Safety", the "Collection of Safety Culture Ideas" and the "Risk Source Identification" as well as emergency rescue drills, the Group improved the safety awareness of its members and the skills of its safety management personnel. In the meantime, the Group organized a 100-day safety inspection, whereby the Group's headquarter office, urban gas regions and members conducted mutual supervision and cross-assessment, which had effectively identified and eliminated safety risks.

The Group attaches importance to the development of the production safety management team and has established a team of safety management experts to cooperate with safety management consulting institutions, learn from their experience, hold special training, amend the relevant rules and hold expert seminars and accident analysis meetings. By focusing on solving the difficult problems in the production safety of the Group and learning from experience in the industry, the Group's safety management ability has been strengthened.

Risk Management

The Group is well aware of the importance of risk management to sustainable development and long-term development. It emphasizes on the promotion of risk control and business operation at the same time, has established a long-term and careful risk management and control system and improved the operational decision-making in order to ensure the long-term steady growth of the Group.

During the year, following the development and review of over 100 risk management rules covering all links including market operation, finance, internal audit and production safety, the Group has realized the establishment of ten core systems, the risk control matrix analysis and the summarization of key control points. The Group recorded videos on the explanation of the ten core systems, which broke down these systems in light of the Company's practices and were distributed to its members for learning. The Group also prepared and implemented the supervision plan for the core systems, and examined and assessed the implementation of these systems by over 50 members to ensure the effective implementation of all systems. By organizing seminars and taking into account its own situations, the Group has initially established a practical closed risk management and control proposal covering rule index database, training and learning, routine inspection, and evaluation and assessment.

Based on its risk prevention in advance, the Group also carried out sound countermeasures following realization of risks. During the year ended 31 December 2017, the Group renewed the public liability insurance, all property insurance, directors and senior management liability insurance as well as accidental injury insurance and term life insurance covering all employees of the Group to ensure that all risks are covered by insurance and minimize the possible risk losses of the Group.

Cost Management

Effective cost management not only benefits the enterprises, but also promotes the overall development of their operation and management. As such, the Group considers cost management an important driving force to ensure its continuous rapid development, and attaches great importance to continuous improvement in cost management.

During the year, the Group's project pricing department revised the internal pricing standards, pipeline network project reference indicators, station construction reference indicators and large-amount investment dynamic cost management measures by region in view of the actual situations of its members in order to lower the investment cost of members of the Group. For materials management, in light of the current conditions of materials management, the Group set maximum inventory limit for assessment of its members, prepared the relevant systems, and improved the building of a materials management system. It further improved the management of prices and suppliers, including reviewing the procurement price and suppliers of class I materials, renewing the procurement model for classes II and III materials, arranging visits to suppliers of LGN and CNG P2P supply equipment, managing and controlling the procurement of key project equipment, and establishing and maintaining a materials price database and project construction price information database to ensure the refined and coordinated procurement of the Group.

For transmission error management, the Group organized its stations to conduct transmission error analysis and control upstream transmission errors through flow metre calibration, negotiation with upstream suppliers and other measures. It arranged members to conduct inspections on residential users and industrial and commercial users, in particular the matching degree of metres and gas appliances, to lower downstream transmission error. In addition, the Group prepared maintenance standards for all equipment at CNG and LNG refilling stations and promoted the implementation of an equipment management system at all members, which further regulated the equipment maintenance cycle and contents and increased the maintenance frequency to lower repair costs.

Information Management

In order to ensure the coordinated, standardized and refined management, during the year, the Group further improved its finance, gas billing, project management and materials management systems by taking into account the needs of its rapid development and leveraging its existing information systems.

During the year, the Group established a finance sharing centre, coordinated item accounting system and regulated accounting, which is beneficial for the Group's analysis of financial data and its internal control and supervision. Through the Jiuqi statement system, the Group had established a statement management platform, which realized the centralized management of the statements of the Group and strengthened the management and control of the Group over its members with an objective of comprehensive budget management. By optimising its gas billing system, the Group realized the same process and management philosophy in different areas and billing through over 30 IC card metres on the same platform. In addition, by connection to major third-party payment platforms in the PRC, gas users are able to pay real-time bills online via Alipay, Wechat, self-service terminals and banks, which had significantly improved the quality of its customer services.

HUMAN RESOURCES

As at 31 December 2017, total number of employees of the Group was 2,571. The remuneration of employees of the Group are determined based on their work performance, work experiences and prevailing market rate.

During the year, in order to further improve its human resource system and establish an effective assessment mechanism, elimination mechanism and incentive mechanism, the Group introduced the China Stone consulting team, currently one of the most professional and largest consulting firms in the PRC, to further improve the construction of its human resource system.

While setting clear development goals and responsibilities, the Group implemented the selection of internal certified mentors and the recruitment of external professional lecturers. A total of nearly 600 hours of courses were provided to nearly 1,000 persons. The Group carried out cadre rotation training program for senior management, reserve manager training camp for middle-level managers, various training for low-level employees, and the "Parachute Program" for university graduates, in order to ensure employees at all levels can acquire the training for professional quality required for their positions. By implementing the "Talent Program", "Coming Home to Work at Tian Lun" and "Management Trainee for President" programs, a large number of high-quality talents had been introduced to the Group, which further improved its talent teams. In addition, the Group further motivated its employees' work enthusiasm and cohesion through holding "Quarterly Bravery Award", "Annual Outstanding Employees" and "Outstanding Management Award".

Corporate and Social Responsibility

As a clean energy enterprise committed to improving people's lives, since its establishment, the Group has been providing high-quality and stable natural gas services to all kinds of natural gas users in the regions in which it operates and striving to become a national energy distribution enterprise which is worth customers' trust and wins social respect, with its mission of developing clean energy and improving living environment and its philosophy of putting customer's needs and satisfaction first.

Economic Responsibility

Since its listing, the Group's presence in the natural gas market had continued to expand. Currently the Group owns 57 gas projects in 16 provinces in the PRC, which has promoted the common development of gas business and local economy in the third- and fourth-tier cities of China and surrounding townships, effectively increased local taxation income, alleviated employment pressure, promoted local economic growth and accelerated local urbanization reforms.

Environment Responsibility

As an enterprise committed to developing clean energy, the Group fully responds to the government's call for air pollution treatment and insists on the utilisation and promotion of natural gas. Leveraging the opportunities brought by China's policies for acceleration for utilisation of natural gas, the Group actively provides optimisation plans to enterprises with high energy consumption and heavy pollution in the areas in which it operates, and further promotes the progress of coal-to-gas conversion. With the continuous increase in the number of coal-to-gas conversion users of the Group, the emission of pollutants will be effectively reduced, which represents the Group's response to the government's call for energy-saving and emission-reduction and develop green economy with practical actions.

OUTLOOK

In 2017, the Chinese government issued a series of manifestos for country governance in the new era such as "Treating the fulfillment of people's yearning for beautiful life as a goal", which will have profound impacts on the Chinese economy, the Chinese enterprises and the future development of the Group. In 2017, China's natural gas experienced another cycle of rapid growth, and annual natural gas consumption recorded the highest growth in recent years. The "coal-to-gas conversion" process in the PRC experienced fast development, and new business models and development paths continued to emerge. The Group once again embraced a golden period of industry development.

In 2018, while doing conventional operation and management well and pursuing annual objectives, the Group will strengthen its investments in new areas, new business and new models, actively follow the development trend of the gas industry of "loosening control over the ends" by accelerating its expansion into upstream gas source trading industry, exploring diversified operation and service models for terminals, and actively develop new users outside the areas in which it operates. For development work, the development of long-haul pipeline projects not only will develop new projects and new areas, but also will focus on the construction of self-owned pipelines of its existing projects in the areas where the Group already has presence. In addition, the Group will facilitate the development of new business and new areas including coal-to-gas conversion in rural areas including coal-to-gas conversion, distributed energy and LGN trading and actively promote the implementation of these projects. In addition, the Group will continue to strengthen the development of its talent teams through introduction of external talents and selection of internal core employees. It will also focus the management of its cadres on strict implementation of cadre disciplines and raising working standards, emphasize on the implementation of "Three Red Lines that Cannot be Crossed" and corporate rules, promote innovations in work and improve the requirements for management. In the future, the Group will capture the opportunities brought by favourable policies, closely follow the development trend of the industry in the new era, concentrate its team strengths to accelerate the expansion of its presence in the gas market, in order to repay the shareholders with better performance.

Purchase, sale or redemption of the Company's listed securities

During the year ended 31 December 2017, none of the Company or any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

Contingent Liabilities

During the year ended 31 December 2017, the Group had no material contingent liabilities.

Final Dividend

In order to thank the shareholders for their support, the Group has established a long-term steady dividend policy. Pursuant to the resolutions of the Board on 26 March 2018, the Board recommended the payment of a final dividend for the year ended 31 December 2017 of RMB2.30 cents per share (the "**Final Dividend**"). Together with an interim dividend of RMB7.88 cents per share which had been paid, total dividend paid or recommended for the year ended 31 December 2017 was RMB10.18 cents per share, representing an increase of 42.2% as compared with 2016.

The Final Dividend will be paid in Hong Kong dollars on or about 16 July 2018 (Monday) to the Shareholders whose name appear on the register of members of the Company on 15 June 2018 (Friday), subject to the Shareholders' approval at the forthcoming annual general meeting. Further announcement will be made by the Company in relation to the exact amount of the Final Dividend in Hong Kong dollars when the conversion rate for Renminbi to Hong Kong dollars to be adopted has been determined by the Board.

Closure of Register of Members

In order to determine the shareholders' entitlement to the Final Dividend, the register of members of the Company will be closed from 11 June 2018 (Monday) to 15 June 2018 (Friday) (both days inclusive), during which no transfer of shares of the Company will be registered. In order to be eligible to receive the proposed Final Dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Group's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 8 June 2018 (Friday).

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code of conduct regarding securities transactions by the Directors. Upon specific enquiries made to all the Directors, each of them confirmed that they strictly complied with the required standards set out in the Model Code for the year ended 31 December 2017.

Corporate Governance Code

The Company has adopted and been in compliance with the code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules for the period from 1 January 2017 to 31 December 2017.

Audit Committee

The audit committee (the "Audit Committee") of the Company consists of three independent non-executive Directors, namely, Mr. Li Liuqing (chairman of the Audit Committee), Mr. Yeung Yui Yuen Michael and Ms. Zhao Jun. The Audit Committee had held meetings with the management to review accounting principles and practices adopted by the Group and discussed the audit, internal control and financial reporting issues. The Audit Committee had reviewed and discussed the annual results and financial statements of the Group for the year ended 31 December 2017.

Audit of Financial Statements

PricewaterhouseCoopers, the external auditor of the Group, had audited the consolidated financial statements of the Group and issued unqualified opinions. The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2017 have been compared and agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary results announcement.

Annual Report

The Company's annual report for the year ended 31 December 2017 will be published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company's website (www.tianlungas.com), and copies of the annual report will be despatched to the shareholders of the Company in due course.

By order of the Board
China Tian Lun Gas Holdings Limited
Zhang Yingcen
Chairman

Zhengzhou, the PRC, 26 March 2018

As at the date of this announcement, the executive Directors are Mr. Zhang Yingcen (Chairman), Mr. Xian Zhenyuan (Chief Executive), Mr. Zhang Suwei, Mr. Feng Yi and Ms. Li Tao; the non-executive Director is Mr. Wang Jiansheng and the independent non-executive Directors are Mr. Li Liuqing, Mr. Yeung Yui Yuen Michal and Ms. Zhao Jun.

* *For identification purposes only*