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

ANNUAL REPORT 2017

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CLEAN ENERGY

CONTENTS

COMPANY PROFILE

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Yingcen *(Chairman)*
Mr. Xian Zhenyuan *(Chief Executive)*
Mr. Zhang Suwei *(General Manager)*
(appointed on 26 March 2018)
Mr. Feng Yi
Mr. Sun Heng (resigned on 26 March 2018)
Ms. Li Tao

Non-executive Director

Mr. Wang Jiansheng

Independent Non-executive Directors

Mr. Cao Zhibin (resigned on 27 November 2017)
Mr. Li Liuqing
Mr. Yeung Yui Yuen Michael
Ms. Zhao Jun

AUDIT COMMITTEE

Mr. Li Liuqing *(Chairman)*
Mr. Yeung Yui Yuen Michael
Ms. Zhao Jun

REMUNERATION COMMITTEE

Ms. Zhao Jun *(Chairlady)*
Mr. Zhang Yingcen
Mr. Yeung Yui Yuen Michael

NOMINATION COMMITTEE

Mr. Zhang Yingcen *(Chairman)*
Ms. Zhao Jun
Mr. Yeung Yui Yuen Michael

AUTHORIZED REPRESENTATIVES

Mr. Feng Yi
Mr. Hung, Man Yuk Dicson
(appointed on 1 October 2017)
Ms. Zhang Dongmei (resigned on 1 October 2017)

COMPANY SECRETARY

Mr. Hung, Man Yuk Dicson
(appointed on 1 October 2017)
Ms. Zhang Dongmei (resigned on 1 October 2017)

HEAD OFFICE IN THE PRC

4th Floor,
Tian Lun Group Building,
No.6 Huang He East Road,
Zheng Dong Xin District,
Zhengzhou City,
Henan Province, the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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100 Queen's Road Central
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Hong Kong

REGISTERED OFFICE

Clifton House
75 Fort Street
PO Box 1350
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Cayman Islands

CAYMAN ISLANDS SHARE TRANSFER OFFICE

Estera Trust (Cayman) Ltd
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITOR

PricewaterhouseCoopers
22nd Floor,
Prince's Building,
Central, Hong Kong

LEGAL ADVISER

Loong & Yeung
Room 1603, 16/F,
China Building
29 Queen's Road Central,
Hong Kong

PRINCIPAL BANKERS

China Construction Bank Corporation
Bank of China Limited
The Hongkong and Shanghai Banking Corporation Limited

STOCK CODE

01600

INVESTOR RELATIONS

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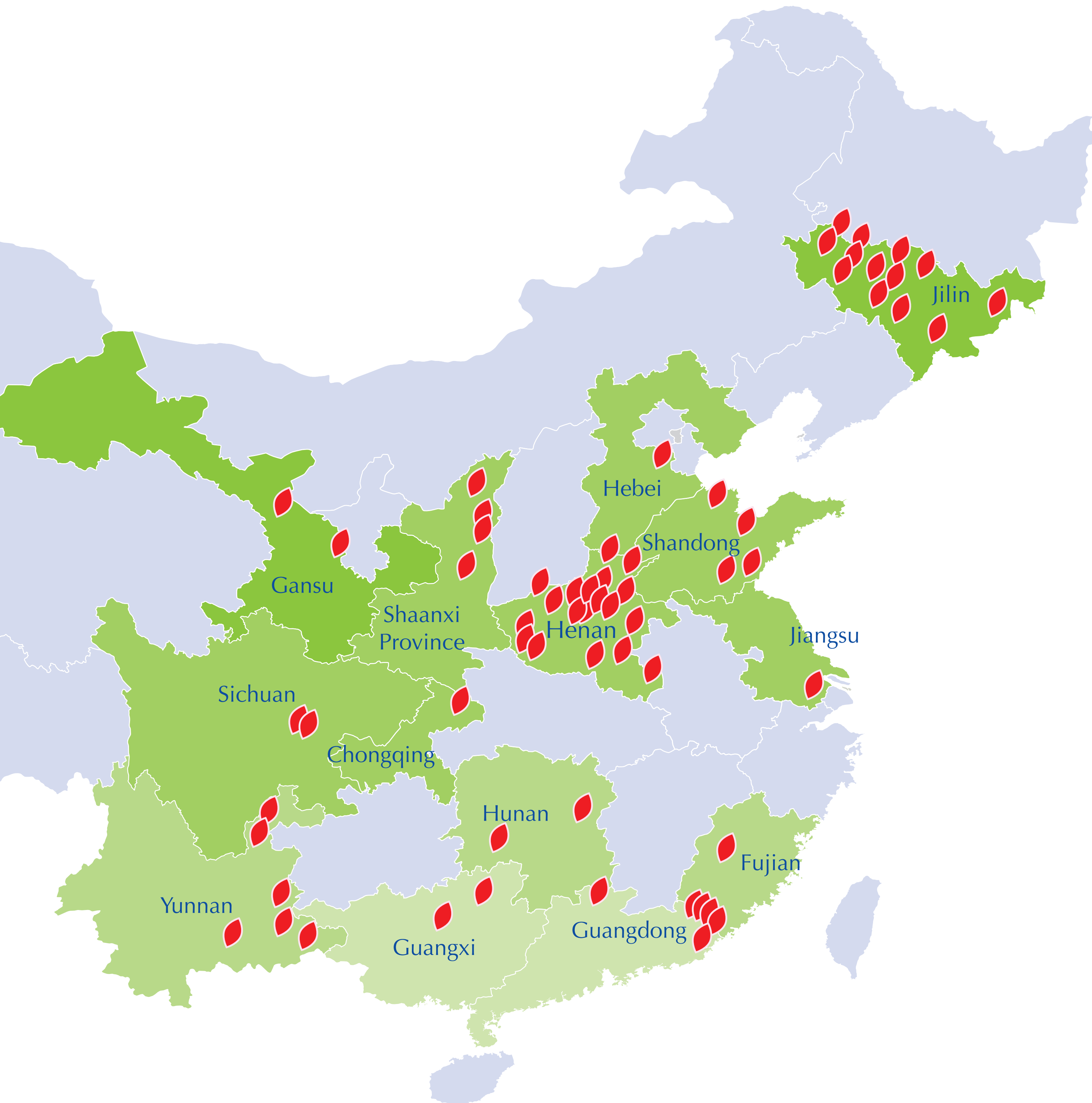
Zip Code	:	450003

BUSINESS REGIONS



BUSINESS REGIONS

Urban Gas Project
Transportation Gas Project
LNG Plant Project
Long-haul Transmission Pipeline

Henan

Hebi City
Shilin Industrial Assemble Zone
Heqi Industrial Assemble Zone
Xuchang City
Xuchange New Area
Shangjie District in Zhengzhou City
High-tech District in Puyang City
Minquan County
Yucheng County
Song County
Xinye County
Xinwei Industrial Park
Gangwei New District
Weibei Technology and Food Industrial Park
Lankao County
Pingdingshan City
Xichuan County
Baofeng County
Ye County

Jilin

Dunhua City
Panshi City
Da'an City
Jiutai City
Baicheng City
Tongyu County
Zhenlai County
Nong'an County
Shuangyang District in Changchun City
Changchun Airport Economic Zone
Yitong Manchu Autonomous County
Changling County
Qian'an County

Yunnan

Huize County
Gejiu City
Guangnan County
Yanshan County
Ludian County
Hekou County

Shandong

Cao County
Shan County
Gaoxin District in Heze City
Dongming County

Guangxi

Luzhai County
Guanyang County

Gansu

Baiyin City
Gulang County

Hunan

Dongkou County
Fenghuang County

Chongqing

Kai County

Hebei

Xingtai City

Guangdong

Longhu Town in Chaozhou City
Fuyan Town in Chaozhou City
Dongfeng Town in Chaozhou City
Chenghai District in Shantou City
Chaoyang District in Shantou City
Lechang City

Shaanxi Province

Qian County
Liquan County
Mizhi County
Wubu County

Jiangsu

Wujiang City

Sichuan

Xindu District in Chengdu City
Xindu District in Jintang County

Fujian

Sanming City

PROJECT OPERATION INFORMATION

Place of operation						
Province	Project	Time of establishment	Connectable urban population (10,000 persons)	Length of existing pipelines (KM)	Number of existing gas stations and stations under construction	
Henan	Xuchang	September 2003	81	275	1	
	Shangjie	July 2007	21	92	2	
	Xinye	November 2011	20	61	2	
	Minquan, Shangqiu	March 2011	16	87	2	
	Lankao	May 2012	45	83	1	
	Song County	June 2011	51	48	1	
	Weishi	May 2012	28	103	3	
	Xichuan	September 2015	67	53	1	
	Hebi	November 2002	64	585	5	
	Puyang	March 2010	15	78	1	
Shandong	Cao County	September 2012	32	75	1	
	Shan County	October 2012	9	85	2	
	Heze	November 2013	13	90	1	
	Dongming	December 2013	26	90	1	
Gansu	Baiyin	July 2011	30	106	1	
	Gulang	November 2012	4	19	1	
Shaanxi	Qian County	January 2015	14	82	1	
	Liquan	January 2015	9	102	4	
Hunan	Dongkou	October 2012	84	31	1	
	Fenghuang	October 2015	42	17	1	
Guangxi	Luzhai	January 2012	13	17	1	
	Guanyang	September 2013	29	13	1	
Yunnan	Gejiu	August 2013	18	18	1	
	Guangnan	August 2013	88	24	1	
	Hekou	August 2013	8	15	1	
	Huize	August 2013	8	37	1	
	Ludian	August 2013	—	—	—	
	Yanshan	August 2013	49	19	1	
Guangdong	Chaozhou	January 2014	—	69	1	
	Chaoyang	May 2014	200	60	2	
	Lechang	May 2016	16	27	2	
	Chenghai	May 2014	85	81	1	

PROJECT OPERATION INFORMATION

	Daily gas supply capacity of natural gas stations (1,000 m³)	Residential users	Commercial users	Industrial users	Accumulated daily gas consumption of industrial and commercial users (including public welfare users) (m³/day)	Number of gas stations
	600	243,193	1,194	77	598,913	3
	360	74,278	298	69	544,278	2
	96	31,488	111	10	40,096	1
	192	48,400	165	42	93,897	1
	100	52,963	226	14	58,658	1
	72	36,750	208	6	39,972	1
	120	36,896	163	26	66,155	1
	60	5,725	26	12	18,359	1
	1,920	172,380	1,251	66	648,885	5
	80	39,054	424	11	25,764	—
	36	55,821	114	0	19,899	1
	619	49,532	273	87	86,777	1
	180	42,703	93	13	45,110	—
	300	38,879	239	14	89,918	—
	576	65,607	744	26	618,293	2
	36	12,592	47	9	5,000	2
	144	31,511	222	21	149,736	1
	602	34,615	453	40	283,512	2
	96	13,275	82	1	9,462	1
	24	3,090	—	—	—	1
	14.4	4,724	28	3	2,890	—
	96	1,002	8	—	20	—
	28	9	11	1	—	1
	40	327	11	—	2,028	1
	10	454	22	—	1,517	1
	20	3,112	69	3	15,182	1
	—	—	—	—	—	—
	36	814	34	1	3,061	1
	600	—	—	139	281,005	—
	270	24,654	25	9	55,026	—
	168	10,628	54	3	14,532	—
	52	48,808	228	2	4,025	—

PROJECT OPERATION INFORMATION

Place of operation					
Province	Project	Time of establishment	Connectable urban population (10,000 persons)	Length of existing pipelines (KM)	Number of existing gas stations and stations under construction
Fujian	Sanming	March 2015	—	—	1
Jilin	Da'an	April 2011	18	57	1
	Dunhua	April 2011	48	38	1
	Jiutai	April 2011	22	91	1
	Nong'an	April 2011	8	21	2
	Panshi	April 2011	18	42	1
	Tongyu	April 2011	37	33	1
	Yitong	April 2011	9	26	1
	Zhenlai	April 2011	10	42	1
	Baicheng	April 2011	—	—	—
	Shuangyang	April 2011	—	—	—
	Qian'an	July 2015	10	41	1
	Changling LNG plant project	December 2013	—	6	—
Hebei	Xingtai	May 2012	—	—	—
Sichuan	Chengdu	November 2015	25	234	2
	Jintang	May 1993	35	419	8
Hubei	Songzi	April 2015	—	—	—
Beijing	Beijing Tian Lun Investment*	December 2016	—	217	—
Total			**1,426**	**3,902**	**59**

* Note: formerly known as Beijing Hui Ji Tai Zhan Investment Company Limited (北京慧基泰展投資有限公司)

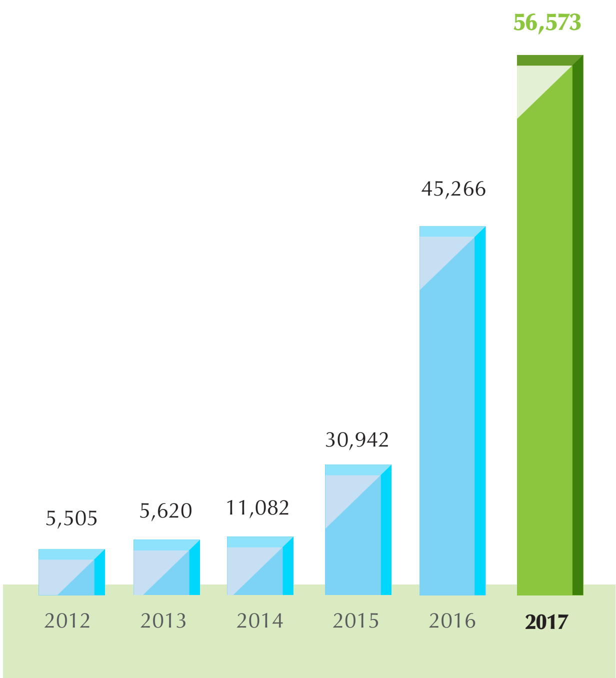
PROJECT OPERATION INFORMATION

Daily gas supply capacity of natural gas stations (1,000 m³)	Residential users	Commercial users	Industrial users	Accumulated daily gas consumption of industrial and commercial users (including public welfare users) (m³/day)	Number of gas stations
120	—	1	12	37,400	—
5	48,712	522	8	79,417	2
48	35,360	58	—	27,830	1
150	36,859	437	1	39,663	2
60	19,243	10	1	8,576	—
20	33,610	248	—	43,739	1
15	20,870	232	—	14,010	1
25	2,137	20	—	8,070	—
20	20,791	93	—	11,444	2
—	—	—	—	—	3
—	—	—	—	—	2
60	6,698	38	—	5,526	1
—	—	—	—	—	2
—	—	—	—	—	1
300	110,740	1,983	76	166,692	—
1200	102,967	3,409	275	322,948	—
—	—	—	—	—	—
—	—	—	4	1,660,000	1
8,370	**1,621,270**	**13,874**	**1,082**	**6,257,286**	**51**

OPERATION

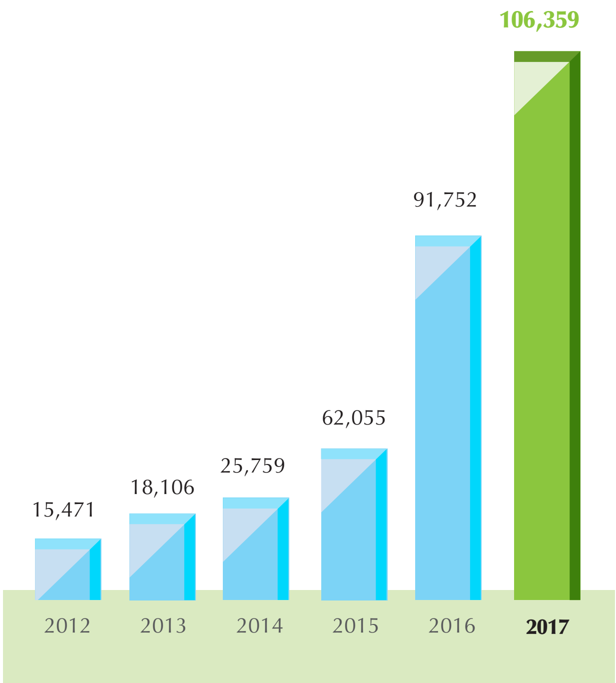
GAS SALES VOLUME TO INDUSTRIAL & COMMERCIAL USERS

(0'000 m^3)

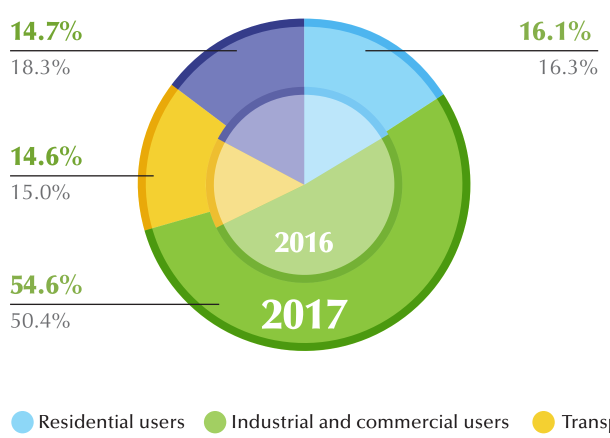


TOTAL GAS SALES VOLUME

(0'000 m^3)

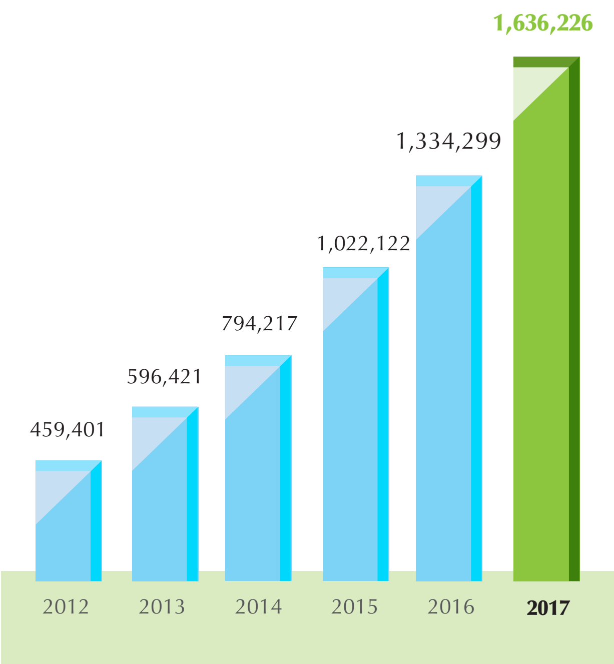


STRUCTURE OF REVENUE FROM GAS SALES

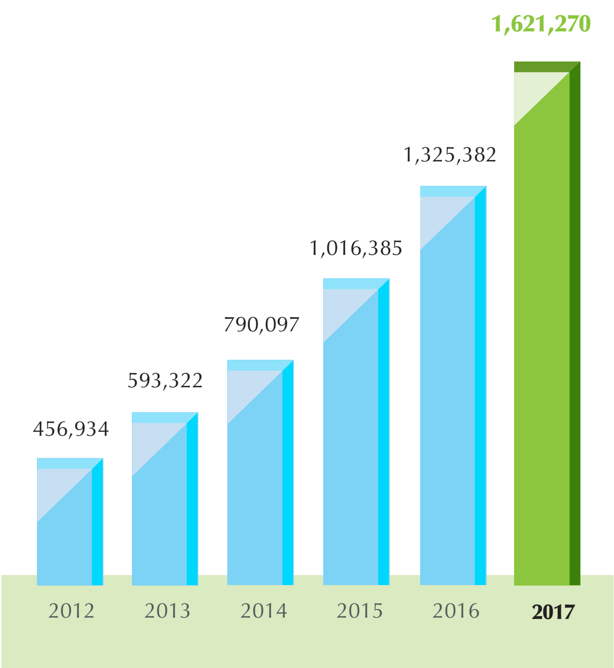


During the year, the revenue from gas sales of the Group to residential users, industrial and commercial users, transportation users and wholesale users accounted for 16.1%, 54.6%, 14.6% and 14.7%, respectively of total revenue from gas sales. The Group's revenue from gas sales to industrial and commercial users as a percentage of total revenue from gas sales increased from 50.4% in 2016 to 54.6% in 2017.

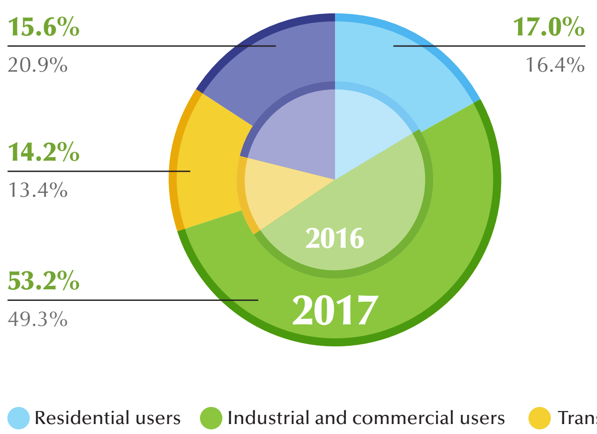
AGGREGATE CONNECTIONS USERS



TOTAL NUMBER OF CONNECTED RESIDENTIAL USERS



GAS SALES STRUCTURE

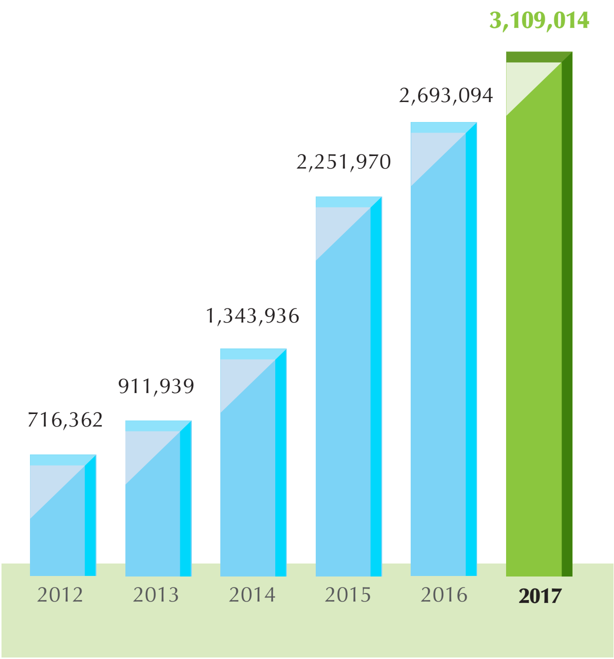


During the year, the volume of gas of the Group sold to residential users, industrial and commercial users, transportation users and wholesale users accounted for 17.0%, 53.2%, 14.2% and 15.6% respectively of total gas sales volume. The volume of gas sold to industrial and commercial users as a percentage of total volume of gas sold increased from 49.3% in 2016 to 53.2% in 2017.

FINANCIAL HIGHLIGHTS

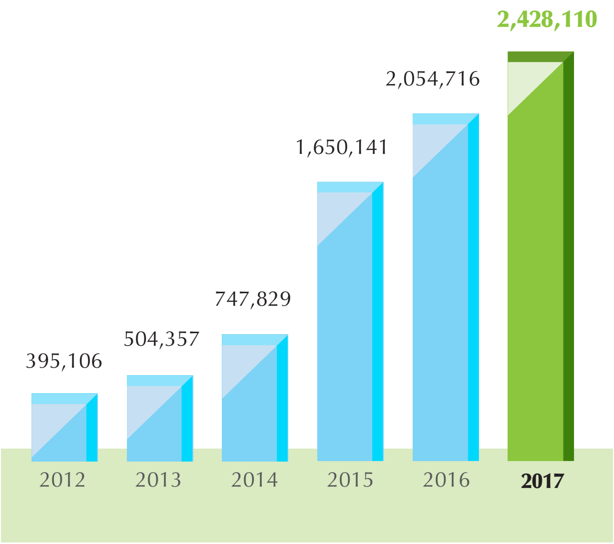
REVENUE

RMB'000



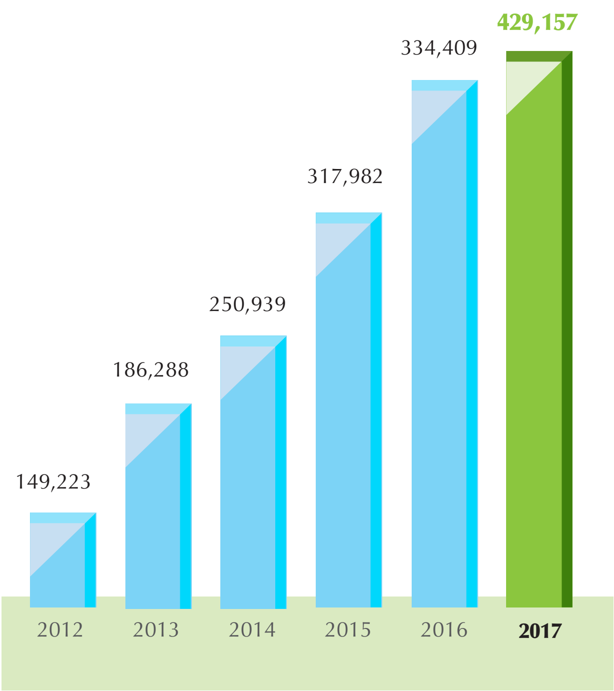
REVENUE FROM GAS SALES

RMB'000



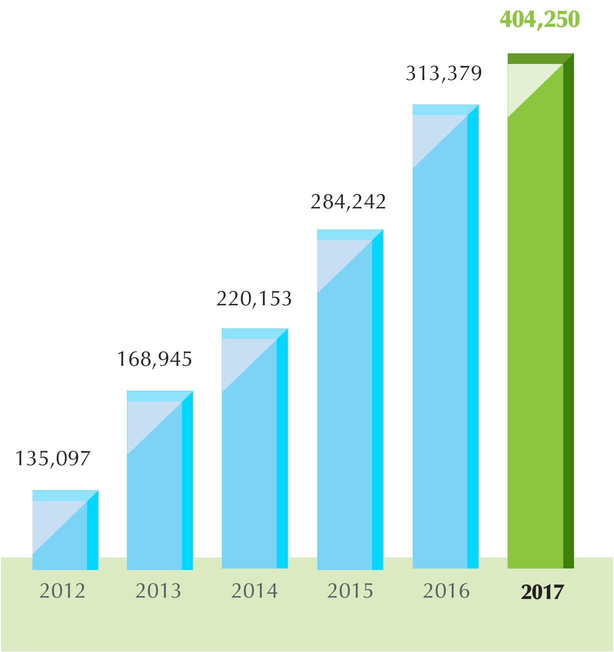
PROFIT FOR THE YEAR

RMB'000



PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

RMB'000



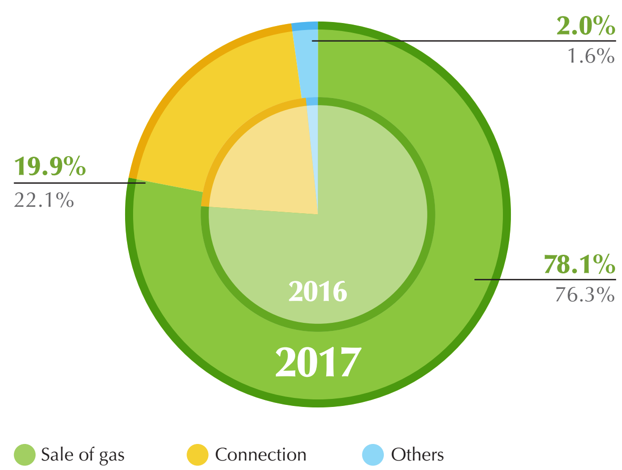
Financial Highlights

	2016 RMB'000	**2017 RMB'000**
Revenue and profit		
Revenue	2,693,094	**3,109,014**
Profit before income tax	444,708	**575,839**
Income tax expense	110,299	**146,682**
Profit for the year	334,409	**429,157**
Assets and liabilities		
Non-current assets	5,819,695	**6,758,099**
Current assets	1,813,717	**1,714,150**
Non-current liabilities	3,248,437	**3,456,336**
Current liabilities	1,633,266	**1,898,110**
Cash and cash equivalents	755,390	**678,237**
Equity		
Share capital	8,340	**8,340**
Share premium	1,264,114	**1,264,114**
Equity attributable to owners of the Company	2,431,202	**2,778,353**
Non-controlling interests	320,507	**339,450**
Total equity	2,751,709	**3,117,803**
Earnings per share - basic and diluted (RMB)	0.31	**0.41**

Financial Indicators

	2016	**2017**
Gross profit margin	25.7%	**24.7%**
Net profit margin	12.4%	**13.8%**
Current ratio	111.1%	**90.3%**
Assets gearing ratio	64.0%	**63.2%**
Weighted average return on capital	10.4%	**14.3%**

REVENUE STRUCTURE



During the year, the revenue from gas pipeline connections operation, transportation and sales of gas operation and other operation of the Group accounted for approximately 19.9%, 78.1% and 2.0% of total revenue, respectively. In 2017, revenue from transport and sales of gas as a percentage of total revenue increased by approximately 18.2% from 2016.

CHAIRMAN'S STATEMENT

The continuous optimisation of national energy consumption structure, the fast development of industrialization and urbanization and the promulgation of environmental protection policies, will continue to promote the growth of natural gas consumption and provide strong support for the Group's presence in the natural gas market.

Zhang Yingcen, Chairman

ANNUAL RESULTS

In 2017, the supply side structure reform was further advanced, and consumption structure continued to improve. China's economy has shifted to a stage of high-quality development from a state of rapid growth and recorded an economic growth rate of 6.9%, exhibiting a stable and positive trend. With the rapid development of industrialization and urbanization, further strengthened efforts into ecological and environmental protection, and the effective promotion and implementation of the policies for coal-to-gas conversion and natural gas utilisation, China's goal to "make natural gas become one of the major types of energy in China's modern clean energy system" has become increasingly clear, and there is great potential for the development of the natural gas industry and market.

With the concerted efforts of all staff of the Group, its operating results continued to record growth during the year. Its revenue amounted to approximately RMB3,109,000,000, representing an increase of 15.4% from 2016. Gross profit amounted to approximately RMB768,000,000, representing an increase of approximately 10.9% from 2016. Profit attributable to owners of the Company amounted to RMB404,000,000, representing an increase of approximately 29.0% from 2016. In 2017, gas sales volume of the Group amounted to approximately 1,064,000,000 m^3, representing an increase of approximately 15.9% as compared with 2016. The total number of the Group's various gas users reached 1,636,226.

CORPORATE MANAGEMENT

During the year, the Group focused its management on introducing senior management teams, reviewing its management model and strengthening the building and management of human resource system. It recruited a series of senior management talents from outside channels including the general manager of the gas group, deputy general manager of gas capital, deputy general manager of human resources and deputy general manager of operation, and selected a number of young internal cadres for holding important management positions such as vice presidents of members of the Group. The recruitment and promotion of these senior managers will enable the Group to improve its operation and management and accelerate the implementation of its strategic plans. In addition, the Group engaged Chinastone Management Consulting Group for the implementation of a human resource management and consulting project, which has further improved the construction of organizational performance assessment system and employment performance assessment system of the group.

During the year, the Group made solid progress in cost management, risk management and customer services. For cost management. In view of the situations of its members, the Group amended the reference indicators for pricing and investment and reduced the investment cost of its members. The Group conducted a comprehensive review of more than 100 existing risk management rules and selected 10 important rules for deep learning at its members and effective implementation of rules through examination and assessment. For customer services, the Group has completed the development of high-quality courses for customer service training, further improved its customer service system, improved the expertise of customer service personnel, and organised its members to open WeChat official accounts to timely understand the needs and feelings of customers and improve customer satisfaction.

In addition, based on the existing information system and through further improving its finance, gas billing, project management and material management system, the Group further enhanced its overall operational efficiency and performance and facilitated the unified, standard and refined management of the gas group.

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 the meantime, 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 at 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.

ACKNOWLEDGEMENT

On behalf of the Board of the Company, I would like to express my sincere gratitude to our staff members for their contributions in 2017, and I highly appreciate the continuing support from the shareholders and investors of the Company.

Zhang Yingcen
Chairman

26 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

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 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:

	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.

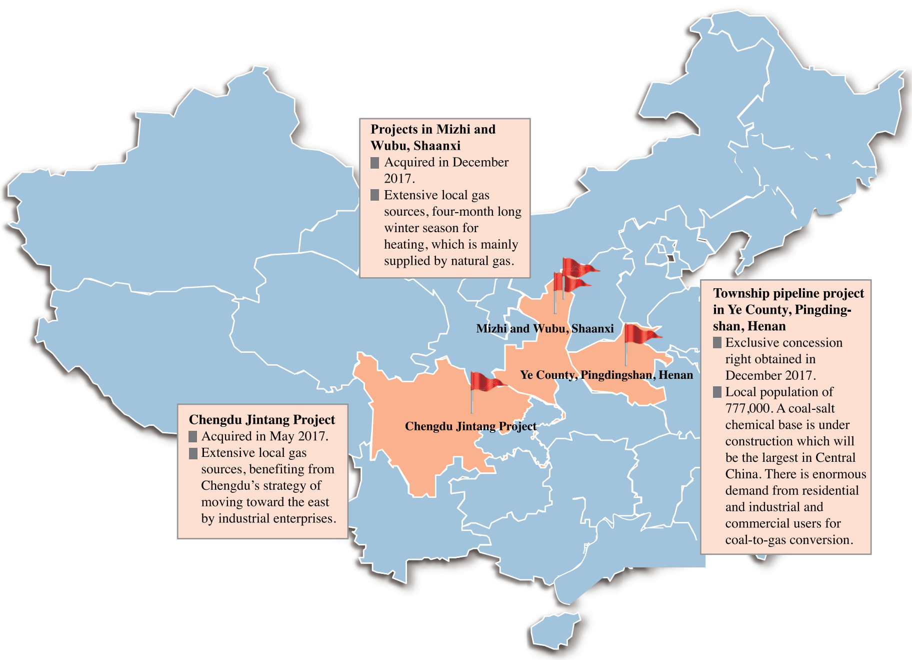
Total gas sales volume to residential users increased by 19.7% as compared with the corresponding period of last year, mainly because the Group vigorously increased the penetration rate of its existing gas projects and acquired the Jintang project in Sichuan Province in 2017 (the gas sales volume and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

During the year, 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) ("Mizhi Changxing") and Wubu County Changxing Natural Gas Company Limited* (吳堡縣長興天然氣有限責任公司) ("Wubu Changxing") 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. For details, please refer to the Company's announcement dated 7 February 2018.

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) ("Tian Lun Pipeline"), 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 Tian Lun Pipeline 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. For details, please refer to the Company's announcement dated 5 January 2018.

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 31 December 2017, more than half of the station line construction 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 approved 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 last 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 organizational performance assessment system and employment performance assessment system of the group.

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".

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 approved 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 opinion. 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.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zhang Yingcen (張瀛岑先生), aged 55, is the founder of the Company and also the Chairman of the Company and an executive Director. He is responsible for the overall strategic planning and has involved in leading the development and investment of the business of the Group in the PRC. Mr. Zhang has more than 21 years of management experience, including 16 years of experience in the management of gas enterprises. Mr. Zhang received the certificate of graduation in advanced EMBA program from Enterprise Research Center of Peking University (北京大學企業研究中心EMBA課程高級研修班結業證書) in 2001, and received a certificate of graduation in the PRC Enterprise CEO/Financial CEO program from Cheung Kong Graduate School of Business (長江商學院中國企業CEO/金融CEO課程結業證書) in 2014 and obtained the executive master degree of business administration from Tsinghua University in 2018. He is currently the representative of the 12th National People's Congress of the PRC (中華人民共和國第十二屆全國人民代表大會代表) and Vice Chairman of the Industrial and Business Association in Henan Province (河南省工商業聯合會副主席).

Mr. Xian Zhenyuan (冼振源先生), aged 43, is the chief executive of the Company and an executive Director. Mr. Xian has 14 years of experience in the management of gas enterprises. Mr. Xian joined the Group in 2003, and served as a director and general manager of certain subsidiaries of the Company successively. Mr. Xian obtained a bachelor's degree majoring in International Trade from Southeast University (東南大學) in the PRC in 1997 and obtained a master's degree majoring in Accounting from Macquarie University in Australia in 2003.

Mr. Zhang Suwei (張素偉先生), aged 44, was appointed as an executive Director and general manager of the Company on 26 March 2018. Mr. Zhang joined the Group in July 2017. Prior to joining our Group, Mr. Zhang served as the chief representative at Sinosteel Corporation (中國中鋼集團公司) in the Africa region and the general manger at ASA Metals (Pty) Ltd. (中鋼南非鉻業有限公司) from May 2006 to March 2011, the general manager of Fosun International Resources Group (復星國際資源集團) from August 2011 to March 2013 and director and general manager at Inner Mongolia Yili Energy Company Limited, the shares of which are listed on Shanghai Stock Exchange (stock code: 600277) from February 2014 to May 2015. Mr. Zhang obtained a bachelor degree (major in nonferrous metallurgy and minor in international trade) from Northeastern University (東北大學) in China in 1996, and a bachelor degree in Accounting from University of South Africa in 2004. He is a fellow member of the Association of Chartered Certified Accountants. Mr. Zhang has extensive experience in the formulation of corporate strategic planning, platform construction, investment and financing, industrial chain resource integration, staff incentive and capital market. He was awarded the title of Model Worker of Central Enterprises of China, and served as an advisor of the Employment and Economic Development Committee to the Governor of Limpopo Province, South Africa and other social positions.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Feng Yi (馮毅先生), aged 39, is an executive Director of the Company. Mr. Feng has 16 years of experience in corporate investment and financing. Mr. Feng joined the Group in 2006 and acted as the assistant to the general manager, deputy general manager and director of Henan Tian Lun Gas Group Limited successively. Prior to joining the Group, Mr. Feng was responsible for investment and financing of Zhengzhou Yutong Bus Co., Ltd. (鄭州宇通客車股份有限公司) and Zhengzhou Branch of 21 Century Real Estate in the PRC (21世紀不動產（中國）鄭州區域分部). Mr. Feng obtained a bachelor's degree in International Trade from Southwestern University of Finance and Economics (西南財經大學) in the PRC in 2002, and obtained EMBA in Guanghua School of Management in Peking University (北京大學光華管理學院) in the PRC in 2015.

Ms. Li Tao (李濤女士), aged 46, is an executive Director and deputy general manager of the Company. She joined the Group in April 2011 and is responsible for the financial management of the Group. Ms. Li has years of experience in corporate finance management. Prior to joining the Group, Ms. Li had served as the head of finance of SDIC Henan Coal Transportation & Sales Co., Ltd (國投河南煤炭運銷有限公司). Ms. Li obtained a bachelor's degree in Economics from Henan University of Economics and Law (河南財經政法大學) in the PRC in 1994, and obtained a master's degree in applied accounting and finance from Hong Kong Baptist University on 13 November 2014. She is a senior accountant and a Certified Public Accountant in the PRC.

Mr. Sun Heng (孫恒先生), aged 60, resigned as an executive Director and deputy general manager of the Company on 26 March 2018. He has 24 years of experience in the management of gas enterprises. Mr. Sun joined the Group in 2004 and acted as the general manager and a director of certain subsidiaries of the Company successively. Prior to joining the Group, Mr. Sun was responsible for operation and management of Luoyang Liquidified Gas Co., Ltd (洛陽市液化氣公司). Mr. Sun was qualified as a Registered Senior Consultant for Oil and Gas Business (石油燃氣註冊高級諮詢師) by Henan Consultant Association of Science & Technology (河南省科技諮詢業協會) and Henan Provincial Department of Science and Technology (河南省科學科技廳) in 2006. Mr. Sun received a diploma of Economics from the Party School of the Henan Committee of CPC (中國共產黨河南省委黨校) in 1991.

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Director

Mr. Wang Jiansheng (王建盛先生), aged 62, is a non-executive Director. Mr. Wang worked as an economist in the International Monetary Fund and as an investment officer in the World Bank Group in Washington DC. He was a partner in a private equity management firm, and did philanthropic work in energy and environment fields. Mr. Wang has served on the board of several banks and non-bank financial institutions. Mr. Wang graduated from New York University in 1988 with a PhD in Development Economics.

Independent Non-executive Directors

Mr. Li Liuqing (李留慶先生), aged 43, is an independent non-executive Director. Mr. Li has over ten years of experience in accounting and auditing, and was a senior manager and vice branch manager of Henan Branch of Ascenda Certified Public Accountants Ltd. (天健正信會計師事務所有限公司河南分所). He is currently a director and Chief Financial Officer of Henan Suntront Tech Co., Ltd. (河南新天科技股份有限公司). Mr. Li obtained a bachelor's degree in Accounting from Henan University of Economics And Law (河南財經政法大學) in 1998 and a postgraduate certificate majoring in Corporate Management from Tianjin University of Finance and Economics (天津財經大學) in 2000. Mr. Li is a Certified Public Accountant on securities, a Certified Public Valuer and a Certified Tax Agent in the PRC.

Mr. Yeung Yui Yuen Michael (楊耀源先生), aged 63, is an independent non-executive Director. Mr. Yeung is experienced in the development and growth of fast-moving consumer products (gum, chocolate, and confections) in emerging markets, and was the president of Wrigley Asia Pacific Ltd. He worked in R.J Reynolds Tobacco Co. Ltd., SC Johnson Co. Ltd., and Hong Kong TVB Co. Ltd. Mr. Yeung is a fellow member of the Hong Kong Institute of Directors and a council member of the Gerson Lehman Group (Asia) Ltd. Mr. Yeung obtained a bachelor's degree in Business Administration and Commerce (Distinction) from the University of Alberta, Canada in 1977.

Ms. Zhao Jun (趙軍女士), aged 55, is an independent non-executive Director. Ms. Zhao worked in the Post Office of Zhengzhou City (鄭州市郵政局) and Postal Transportation Bureau of Henan Province (河南省郵政運輸局) and served as a Senior Lecturer, Education Officer (教育主管) and Occupational Testing Officer (職業技能鑒定站主任) successively. Ms. Zhao had been the human resources director of Shanghai Shibang Machinery Co., Ltd. Beijing Office (上海世邦機器有限公司北京辦事處). She is currently a supervisor of Beijing Kelushi Heavy Industrial Technology Co., Ltd. (北京克魯士重工科技有限公司). Ms. Zhao obtained a bachelor's degree majoring in Agricultural Machinery Repair from Agricultural Machinery Department of Henan Agricultural University (河南農學院) in the PRC in 1984.

Mr. Cao Zhibin (曹志斌先生), aged 72, resigned as an independent non-executive Director on 27 November 2017. Mr. Cao had been the prefectural party committee secretary of Lou Di, Hunan Province, vice secretary general of the provincial party committee of Hunan Province and vice secretary general of the provincial party committee of Heilongjiang Province. From April 2010 to May 2011, Mr. Cao served as an independent director of Macrolink Real Estate Co. Ltd (新華聯不動產股份有限公司) (a company the shares of which are listed on the Shenzhen Stock Exchange, stock code: 000620). Mr. Cao graduated from MBA Management Institute of Hunan University (湖南大學) in 1995.

SENIOR MANAGEMENT

Mr. Qian Yewen (錢葉文先生), aged 34, is the chief operating officer of the Company. He joined the Group in 2017, responsible for the Group's capital market operations. Mr. Qian has extensive experience in corporate financing and capital market. Prior to joining the Group, Mr. Qian worked at China International Capital Corporation Limited as executive general manager of the investment banking department, at Citigroup Global Markets Asia Limited as vice president for investment banking of China Region, and at China Harmony New Energy Auto Holding Limited as an executive Director and chief financial officer. Mr. Qian obtained a bachelor degree in philosophy from Peking University in 2004 and a master degree in economics (majoring in finance) from Peking University in 2006. Mr. Qian holds chartered financial analyst (CFA) qualification.

Mr. Xue Zhi (薛智先生), aged 54, is a deputy general manager of the Company. He joined the Group in 2017, responsible for the operation and management of the Group. Mr. Xue has accumulated 33 years of technical experience in gas projects. Prior to joining the Group, Mr. Xue worked at Beijing Huacheng Gas Company (北京華成燃氣公司) as chief technology officer and at ENN Energy Group as vice president and engineer. Mr. Xue obtained a bachelor degree from Chongqing Jianzhu University (重慶建築大學), majoring in gas engineering, in 1984 and a master's degree in management from Nanyang Technology University, Singapore in 2009.

Mr. Li Xincheng (李新成先生), aged 37, is a deputy general manager of the Company. He joined the Group in 2017, responsible for the human resource management of the Group. Mr. Li has extensive experience in human resource management. Prior to joining the Group, Mr. Li worked at CIMG Group and its members as director of human resources and operation, and at Xinneng Energy Co., Ltd. under Enn Energy as director of human resources. Mr. Li obtained a bachelor degree from Taiyuan University of Technology, majoring in industrial design, in 2002.

COMPANY SECRETARY

Ms. Zhang Dongmei (張東梅女士), aged 33, resigned as the company secretary of the Company on 1 October 2017. Ms. Zhang joined the Group in April 2013 as an investor relations director. Ms. Zhang is a member of the Hong Kong Institute of Chartered Secretaries and a member of the Institute of Chartered Secretaries and Administrators. She obtained a master's degree in Professional Accounting and Corporate Governance from City University of Hong Kong. Before joining the Group, Ms. Zhang worked as a senior marketing director of a company the shares of which are listed on the Main Board of the Stock Exchange.

Mr. Hung, Man Yuk Dicson (洪旻旭先生), aged 42, was appointed as the company secretary of the Company on 1 October 2017. Prior to joining the Company, Mr. Hung has over 10 years of experience as a corporate secretary. Mr. Hung was the qualified accountant and company secretary of Zhongtian International Limited (Stock Code: 2379). He is currently the general manager of Lead & Partners Limited, a secretarial company in Hong Kong; a director of the Professional Consultancy and Advisory Services Department of LEAD CPA Limited, a chartered public accountant firm in Hong Kong; and the company secretary of Come Sure Group (Holdings) Limited (Stock Code: 794). Mr. Hung obtained a master's degree majoring in Finance from Curtin University of Technology in 2002. Mr. Hung was admitted as an associate member of Hong Kong Institute of Certified Public Accountants in 2004 and a fellow member of the Association of Chartered Certified Accountants in United Kingdom in 2006.

DIRECTORS' REPORT

The Directors are pleased to present the annual report for the year ended 31 December 2017 together with the audited consolidated financial statements to the shareholders of the Company.

PRINCIPAL BUSINESS

The Company is an investment holding company whose subsidiaries are principally engaged in the investment, operation and management of gas pipeline connections, transportation, distribution and sales of gas, construction and operation of gas filling stations, and production and sales of LNG in the People's Republic of China (the "PRC"). Further details of the principal business and subsidiaries of the Company are set out in Note 11 to the consolidated financial statements in this annual report.

BUSINESS REVIEW

The Group's business review for the year ended 31 December 2017, and discussion about the Group's future business development, are set out in the section headed "Chairman's Statement" on pages 14 to 16 and the section headed "Management Discussion and Analysis" on pages 17 to 31 of this annual report.

MAJOR RISKS AND UNCERTAINTIES

The Directors are aware that the Group's financial position, operating results and business outlook may be subject to many risks and uncertainties directly or indirectly relating to the business of the Group, and have put in place the relevant policies to ensure continuous identification and management of the adverse impacts such risks might have on the Group. The major risks and uncertainties currently facing the Group are set out below.

Finance risks

The Group may be exposed to finance risks including foreign currency risk, interest rate risk and liquidity risk. Management of the Group monitors market changes and will adopt various means to mitigate such risks as and when appropriate.

Business risk

The performance of major business of the Group is subject to many factors, including but not limited to overall market and economic conditions, and the performance of property, industry and commerce market where the Group operates its business. The Group will adjust its development plan in a timely manner in line with the development of its local users and in accordance with the relevant policies.

Growth strategy

The Group's business growth objectives will be achieved through internal growth, strategic investments and acquisitions. In the event of change in market condition, insufficient funds generated from operation or other reason, the Group will consider delaying, revising or abandoning its growth strategy in certain aspects.

Human resources risk

The Group may be subject to the risk of loss and recruitment of staff and talents with requisite skills. The Group will provide competitive remuneration packages and career development plans to suitable candidates and employees based on market standard, individual experience and individual performance. The Group will also recognise and encourage employees' contribution to the Group through performance appraisal system and adoption of share option scheme.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group has adopted the relevant environmental protection standards in the PRC, formulated occupational health and environmental protection measures, and established regulated operation procedures to ensure compliance with the laws and regulations relating to environmental protection. During the year, the Group obtained OHSAS18001 (occupational health and safety management system) certification.

As a gas supplier, the Group is committed to environmental protection and improving air pollution. In 2017, the Group's city gas operation and transmission business distributed a total of 1,927,417,670 cubic metres of natural gas. Based on the gas sales volume, the Group helped reduce emissions from approximately 3,200,000 tonnes of coal, representing a reduction of emissions of approximately 4,600,000 tonnes of carbon dioxide, 30,000 tonnes of sulfur dioxide and 20,000 tonnes of nitrogen oxide. For transportation gas, as at the end of 2017, the Group had a total of 59 gas refilling stations, of which 51 had been put into operation and 8 were under construction. Gas sales volume was 151,167,967 cubic metres, which helped reduce the consumption of approximately 100,000 tonnes of gasoline and 20,000 tonnes of CO2 and represented a reduction of emissions of approximately 300,000 tonnes of carbon dioxide.

In its day-to-day business operation, the Group continues to promote green measures and improve employees' awareness of environmental protection and advocates the concept of recycling for use. It uses energy-saving lamps for lighting and requires employees to turn off the lights before leaving office so that no lights will be left always on. It requires turning off the faucet after using to avoid water waste. It promotes electronic office and expand the functions of our OA online office system to improve use efficiency. It encourages double-sided printing to reduce resource waste so as to reduce the impacts on the environment.

The Group will review its environmental protection work on a regular basis and adopt more environmental protection measures in respect of business operation to strengthen the environmental sustainability.

IMPORTANT RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group has always considered employees as essential for its continuous business growth, pays great attention to the safety of employee's working environment, and has in place health and safety systems and measures. The Group also organises induction and on-the-job trainings on a regular basis based on the needs of employee position and career development. In addition, the Group has established a fair and effective performance appraisal system and incentive plan to motivate employees to exhibit their talents and achieve performance objectives.

With customer needs in mind and by adhering to the principle of "putting customers above all else", the Group has developed a customer service guidebook and customer complaint management measures, and continues to provide customers with value-added services in order to improve customer satisfaction.

The Group selectively chooses suppliers by setting out requirements for suppliers participating in its public tender in areas such as experience, reputation and production capacity, and assesses successful bidders on a half-yearly basis. The Group has established long-term good cooperation with many suppliers.

Compliance with laws and regulations

The Group's business is mainly conducted by the Company's subsidiaries in Mainland China, and the Company is listed on the Stock Exchange. As such, during the year ended 31 December 2017 and up to the date of this report, the Group has been in compliance with the relevant laws and regulations in the PRC and Hong Kong, such as the Environmental Protection Law, the Air Pollution Control Law, the Laour Law, the Labour Contract Law, the Special Provisions on Labor Protection of Female Workers and the Production Safety Law of the People's Republic of China.

SUMMARY FINANCIAL INFORMATION

A summary of the annual results of the Group for the last five financial years is set out on the last page of this report. The summary does not form part of the consolidated financial statements in this annual report.

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.

RESERVES

Details of movements of reserves of the Company and the Group during the year are set out in Notes 24, 26 and 39 to the consolidated financial statements.

As at 31 December 2017, the distributable reserves of the Company was RMB876,075,000 being the sum of the amounts of share premium and accumulated losses.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 15 to the consolidated financial statements.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographies of Directors and senior management of the Group are set out in the section headed "Directors and Senior Management" in this annual report.

BANK BORROWINGS

Details of bank borrowings of the Group are set out in Note 29 to the consolidated financial statements.

DIRECTORS AND SERVICE CONTRACTS

The Directors during the year ended 31 December 2017 and as at the date of this report were as follows:

Executive Directors

Mr. Zhang Yingcen *(Chairman)*
Mr. Xian Zhenyuan
Mr. Zhang Suwei (appointed on 26 March 2018)
Mr. Feng Yi
Mr. Sun Heng (resigned on 26 March 2018)
Ms. Li Tao

Non-executive Director

Mr. Wang Jiansheng

Independent Non-executive Directors

Mr. Cao Zhibin (resigned on 27 November 2017)
Mr. Li Liuqing
Mr. Yeung Yui Yuen Michael
Ms. Zhao Jun

The Company has maintained appropriate directors and senior management liability insurance policies for all Directors and members of senior management and reviews the coverage on an annual basis.

Each Director has entered into a service contract with the Company. Each of the executive Directors has entered into a service contract with the Company for an initial term of 3 years commencing from 10 November 2016 and subject to termination by either party upon giving no less than 3 months' prior written notice to the other party.

Mr. Wang Jiansheng, a non-executive Director, has entered into a service contract with the Company for a term of 3 years commencing from 21 September 2015 and subject to termination by either party upon giving no less than one month's prior written notice to the other party.

Each of Mr. Li Liuqing and Ms. Zhao Jun, being independent non-executive Directors, had entered into a service contract with the Company for a term of three years commencing from 10 November 2015 and subject to termination by either party upon giving no less than 3 months' prior written notice to the other party. Mr. Yeung Yui Yuen Michael, an independent non-executive Director, has entered into a service contract with the Company for a term of 3 years commencing from 1 September 2015 and subject to termination by either party upon giving no less than one month's prior written notice to the other party.

As at 31 December 2017, none of the Directors had a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under "RELATED PARTY TRANSACTIONS" below, none of the Company or any of its subsidiaries had entered into any contract of significance in which a Director had a material interest, whether directly or indirectly, as at the end of the year or at any time during the year.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into by the Company or existed during the year.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board confirmed that it has received from each of the independent non-executive Directors an annual written confirmation of his or her independence and considered, based on the confirmations received, pursuant to Rule 3.13 of the Listing Rules the independent non-executive Directors remained independent during the year.

REMUNERATION POLICY

The Directors and senior management of the Company receive compensation in the form of fees, salaries, allowances, benefits in kind or discretionary bonuses relating to the performance of the Group. The Group also reimburses the Directors and senior management for expenses which are necessarily and reasonably incurred for providing services to the Group or discharging their duties in relation to the operation of the Group. When reviewing and determining the specific remuneration packages for the executive Directors and senior management, the Remuneration Committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment elsewhere in the Group and desirability of performance-based remuneration.

Details of the remuneration of the Directors are set out in Note 40 to the consolidated financial statements.

Details of the remuneration of the five highest paid individuals are set out in Note 9 to consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

1. Long Positions in the Shares of the Company (the "Shares"):

Name of Director	Capacity/ Nature of Interest	Number of Shares held	Number of underlying Shares held	Approximate percentage of the Company's total issued share capital
Mr. Zhang Yingcen ("Mr. Zhang")	Beneficial owner (Note 1)	—	181,689,608	18.36%
	Interest of controlled corporation (Notes 2 and 3)	534,889,300	545,068,824	109.13%
	Interest of spouse (Note 4)	5,722,500	181,689,608	18.94%
Mr. Xian Zhenyuan ("Mr. Xian")	Beneficial owner (Note 5)	—	11,000,000	1.11%
	Interest of controlled corporation (Note 6)	12,829,500	—	1.30%
Mr. Feng Yi	Beneficial owner (Note 7)	—	3,300,000	0.33%
Ms. Li Tao	Beneficial owner (Note 8)	—	3,300,000	0.33%
Mr. Sun Heng	Beneficial owner (Note 9)	—	300,000	0.03%

2. Long Positions in the Ordinary Shares of the Associated Corporation:

Name of Director	Name of the associated corporation	Capacity/Nature of interest	Number of Shares held	Approximately percentage of interests in the associated corporation
Mr. Zhang Yingcen	Tian Lun Group Limited	Interest of controlled corporation	10	100%

Notes:

1. On 27 March 2015, (i) Mr. Zhang, Ms. Sun Yanxi ("Ms. Sun") and Mr. Zhang Daoyuan, as sponsors (collectively, the "Sponsors"), (ii) Chequers Development Limited, Gold Shine Development Limited and Tian Lun Group Limited (formerly known as Fortune Hill Group Limited) as special purpose vehicles owned directly and/or indirectly by one or more Sponsors (those special purpose vehicles, together with the Sponsors, the "Grantors"); and (iii) International Finance Corporation ("IFC") and IFC Global Infrastructure Fund, LP ("IFC Fund", "IFC" and "IFC Fund" collectively, the "Investors") entered into a sponsors' agreement (the "Sponsors' Agreement"), pursuant to which the Grantors have, inter alia, granted the Put Option (as defined in the circular of the Company dated 21 April 2015) to IFC and IFC Fund.

   The Grantors assume joint and several obligations to purchase the Put Shares (as defined in the circular of the Company dated 21 April 2015). Accordingly, assuming the Investors elect to exercise the Put Option (as defined in the circular of the Company dated 21 April 2015) in full against Mr. Zhang only, Mr. Zhang is obliged to purchase the Put Shares, being 181,689,608 Shares.

2. Gold Shine Development Limited is interested in 471,171,300 Shares through its wholly-owned subsidiary, namely Tian Lun Group Limited. The entire issued share capital of Gold Shine Development Limited is owned as to 60% by Mr. Zhang. Therefore, Mr. Zhang is deemed or taken to be interested in all the Shares and underlying Shares held by Tian Lun Group Limited for the purposes of the SFO.

   Mr. Zhang wholly-owns Chequers Development Limited, which is interested in 63,728,000 Shares. Therefore, Mr. Zhang is also deemed or taken to be interested in all the Shares and underlying Shares held by Chequers Development Limited for the purposes of the SFO.

   Mr. Zhang is the director of Gold Shine Development Limited, Tian Lun Group Limited and Chequers Development Limited.

3. The Grantors assume joint and several obligations to purchase the Put Shares under the Sponsors' Agreement. Accordingly, assuming the Investors elect to exercise the Put Option in full against the Sponsors' SPVs (as defined in the circular of the Company dated 21 April 2015) only, the Sponsors' SPVs, as a group, is obliged to purchase the Put Shares, being 181,689,608 Shares. Such underlying 545,068,824 Shares represent the aggregation of the maximum number of the Put Shares that may be put by the Investors to each of the Sponsors' SPVs in such circumstances.

4. Ms. Sun the spouse of Mr. Zhang holds 5,722,500 Shares through her individual security account. Therefore, Mr. Zhang is deemed or taken to be interested in all the Shares held by Ms. Sun for the purpose of the SFO.

   The Grantors assume joint and several obligations to purchase the Put Shares under the Sponsors' Agreement. Accordingly, assuming the Investors elect to exercise the Put Option in full against Ms. Sun only, Ms. Sun is obliged to purchase the Put Shares, being 181,689,608 Shares.

5. These 4,000,000 underlying Shares represent the 4,000,000 Shares which may be allotted and issued to Mr. Xian Zhenyuan upon full exercise of the share options granted to him under the share option scheme of the Company effective on 13 October 2010 (each share option granted under the share option scheme is referred to as "Share Option" and each Share Option shall entitle the holder thereof to subscribe for one Share).

6. Mr. Xian beneficially owns 90.0% of the issued share capital of Pleasant New Limited, which in turn owns 12,829,500 Shares. Therefore, Mr. Xian is deemed or taken to be interested in all the Shares held by Pleasant New Limited for the purposes of the SFO. Mr. Xian is the sole director of Pleasant New Limited.

7. These 3,300,000 underlying Shares represent the 3,300,000 Shares which may be allotted and issued to Mr. Feng Yi upon full exercise of the Share Options granted to him.

8. These 3,300,000 underlying Shares represent the 3,300,000 Shares which may be allotted and issued to Ms. Li Tao upon full exercise of the Share Options granted to her.

9. These 300,000 underlying Shares represent the 300,000 Shares which may be allotted and issued to Mr. Sun Heng upon full exercise of the Share Options granted to him.

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, the underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" above and the section haeded "Share Option Scheme" below, at no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTEREST AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to the Directors, as at 31 December 2017, as recorded in the register required to be kept by the Company under Section 336 of the SFO, the following persons (except the Directors and chief executives of the Company) had interests or short positions in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity/Nature of Interest	Number of Shares held	Number of underlying Shares held	Approximate percentage of issued share capital of the Company
Tian Lun Group Limited (Notes 1, 2 and 3)	Beneficial owner	471,171,300	181,689,608	65.97%
Gold Shine Development Limited (Notes 1, 2 and 4)	Beneficial owner	—	181,689,608	18.36%
	Interest of controlled corporation	471,171,300	181,689,608	65.97%
Chequers Development Limited (Notes 2 and 5)	Beneficial owner	63,728,000	181,689,608	24.80%
Ms. Sun Yanxi (Notes 2 and 6) ("Ms. Sun")	Beneficial interest	5,722,500	181,689,608	18.94%
	Interest of spouse	534,899,300	726,758,432	127.49%
Zhang Daoyuan (Notes 2 and 7)	Beneficial interest	—	181,689,608	18.36%
IFC Asset Management Company, LLC (Note 8)	Investment manager	90,844,804	—	9.18%
IFC Fund (Note 8)	Beneficial owner	90,844,804	—	9.18%
IFC (Note 8)	Interest of controlled corporation	90,844,804	—	9.18%

Notes:

(1) The entire issued share capital of Tian Lun Group Limited is held by Gold Shine Development Limited. Tian Lun Group Limited owns 471,171,300 Shares. Therefore, Gold Shine Development Limited is deemed or taken to be interested in all the Shares and underlying Shares held by Tian Lun Group Limited for the purposes of the SFO.

(2) The Grantors assume joint and several obligations to purchase the Put Shares under the Sponsors' Agreement.

(3) Such 181,689,608 underlying Shares represent the maximum number of the Put Shares that may be put by the Investors to Tian Lun Group Limited under the Sponsors' Agreement.

(4) Such 181,689,608 underlying Shares represent the maximum number of the Put Shares that may be put by the Investors to Gold Shine Development Limited under the Sponsors' Agreement.

(5) Such 181,689,608 underlying Shares represent the maximum number of the Put Shares that may be put by the Investors to Chequers Development Limited under the Sponsors' Agreement.

(6) Gold Shine Development Limited is owned as to 60% by Mr. Zhang. Together with Notes (1), (3) and (4) above, Mr. Zhang is deemed or taken to be interested in all the Shares and the underlying Shares held by Tian Lun Group Limited for the purposes of the SFO.

Chequers Development Limited is wholly-owned by Mr. Zhang and owns 63,728,000 Shares. Together with Note (5) above, Mr. Zhang is also deemed or taken to be interested in all the Shares and underlying Shares held by Chequers Development Limited for the purposes of the SFO.

Mr. Zhang may be obliged to purchase the 181,689,608 underlying Shares, representing the maximum number of the Put Shares that may be put by the Investors to Mr. Zhang under the Sponsors' Agreement.

Ms. Sun is the spouse of Mr. Zhang, and therefore Ms. Sun is deemed or taken to be interested in all the Shares and the underlying Shares in which Mr. Zhang is interested and may be obliged to purchase respectively for the purpose of the SFO.

Ms. Sun holds 5,722,500 Shares through her individual security account and may be obliged to purchase the 181,689,608 underlying Shares, representing the maximum number of the Put Shares that may be put by the Investors to Ms. Sun under the Sponsors' Agreement.

(7) Such 181,689,608 underlying Shares represent the maximum number of the Put Shares that may be put by the Investors to Mr. Zhang Daoyuan under the Sponsors' Agreement.

(8) These 90,844,804 Shares are held by IFC Fund, which is owned as to 100% by IFC. IFC also owns the entire issued share capital of IFC Asset Management Company, LLC. IFC is deemed or taken to be interested in all the Shares held by IFC Fund for the purposes of the SFO.

Save as disclosed above, as at 31 December 2017, the Directors were not aware of any interests or short positions in the Shares, underlying shares, debentures of the Company which falls to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

In order to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group, the Company conditionally adopted a share option scheme (the "Scheme") on 13 October 2010 whereby the Board was authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe for the shares of the Company (the "Shares") to, inter alia, any employees (full-time or part-time), directors, consultants, advisers, major shareholders, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group. The Scheme became unconditional on 10 November 2010 and shall be valid and effective for a period of ten years commencing on 13 October 2010, subject to the early termination provisions contained in the Scheme.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00. The exercise price of a Share in respect of any particular option granted under the Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

The Company shall be entitled to issue options, provided that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme does not exceed 10.0% of the shares in issue on the date of approval of the Scheme. The Company may at any time refresh such limit, subject to the shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the Shares in issue at the time.

The total number of shares available for issue under the Scheme as at the date of this report was 79,800,000 Shares which represented 8% of the issued share capital of the Company as at the date of this report. The total number of Shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1.0% of the Shares in issue.

An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

On 27 January 2014, the Company granted a total of 20,000,000 share options to executive Directors and certain employees of the Company to subscribe for up to a total of 20,000,000 ordinary shares of HK$0.01 each of the Company under a share option scheme adopted on 13 October 2010. Among the Share options granted above, 7,300,000 share options were granted to the Directors to subscribe for a total of 7,300,000 Shares. Subsequently on 18 July 2017, the Company granted a total of 15,000,000 share options to three executive Directors of the Company to subscribe for a total of 15,000,000 ordinary shares of HK$0.01 each in accordance with the share option scheme adopted on 13 October 2010. For details, please refer to the announcements of the Company dated 22 January 2014 and 18 July 2017 respectively.

The following table discloses the movements in the Company's share options during the year ended 31 December 2017:

Grantees	As at 1 January 2017	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding as at 31 December 2017	Date of grant	Exerciseable period	Exercise price
Xian Zhenyuan	2,000,000	—	—	(2,000,000)	—	27 January 2014	27 January 2016 - 26 January 2017	HK$7.142
	2,000,000	—	—	—	2,000,000	27 January 2014	27 January 2017 - 26 January 2018	HK$7.142
	—	3,000,000	—	—	3,000,000	18 July 2017	18 July 2018 - 17 July 2019	HK$4.97
	—	3,000,000	—	—	3,000,000	18 July 2017	18 July 2019 - 17 July 2020	HK$4.97
	—	3,000,000	—	—	3,000,000	18 July 2017	18 July 2020 - 17 July 2021	HK$4.97
Feng Yi	300,000	—	—	(300,000)	—	27 January 2014	27 January 2016 - 26 January 2017	HK$7.142
	300,000	—	—	—	300,000	27 January 2014	27 January 2017 - 26 January 2018	HK$7.142
	—	1,000,000	—	—	1,000,000	18 July 2017	18 July 2018 - 17 July 2019	HK$4.97
	—	1,000,000	—	—	1,000,000	18 July 2017	18 July 2019 - 17 July 2020	HK$4.97
	—	1,000,000	—	—	1,000,000	18 July 2017	18 July 2020 - 17 July 2021	HK$4.97
Sun Heng	300,000	—	—	(300,000)	—	27 January 2014	27 January 2016 - 26 January 2017	HK$7.142
(resigned on 26 March 2018)	300,000	—	—	—	300,000	27 January 2014	27 January 2017 - 26 January 2018	HK$7.142
Li Tao	300,000	—	—	(300,000)	—	27 January 2014	27 January 2016 - 26 January 2017	HK$7.142
	300,000	—	—	—	300,000	27 January 2014	27 January 2017 - 26 January 2018	HK$7.142
	—	1,000,000	—	—	1,000,000	18 July 2017	18 July 2018 - 17 July 2019	HK$4.97
	—	1,000,000	—	—	1,000,000	18 July 2017	18 July 2019 - 17 July 2020	HK$4.97
	—	1,000,000	—	—	1,000,000	18 July 2017	18 July 2020 - 17 July 2021	HK$4.97
Other employees	6,350,000	—	—	(6,350,000)	—	27 January 2014	27 January 2016 - 26 January 2017	HK$7.142
	6,350,000	—	—	—	6,350,000	27 January 2014	27 January 2017 - 26 January 2018	HK$7.142
Total	18,500,000	15,000,000	—	(9,250,000)	24,250,000			

RELATED PARTY TRANSACTIONS

The material related party transactions entered into by the Company and subsisting during the year ended 31 December 2017 are set out in Note 37 to the consolidated financial statements. Such related party transactions do not fall under the definition of "connected transaction" or "continuity connected transaction" under Chapter 14A of the Listing Rules and the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

DISCLOSURE PURSUANT TO 13.21 OF THE LISTING RULES

On 30 November 2017, the Company, as borrower, Upsky Holdings Limited (a direct wholly-owned subsidiary of the Company) and Tian Lun New Energy Limited (an indirect wholly-owned subsidiary of the Company), both as corporate guarantors, and Mr. Zhang Yingcen, an executive Director, our Chairman and a controlling shareholder of the Company (as defined under the Listing Rules), as personal guarantor, entered into a facility agreement (the "Facility Agreement") with a number of banks, as lenders (the "Lenders") in relation to a five-year term loan facility in the amount of HK$1,250,000,000 at an aggregate interest rate of 3% per annum and Hong Kong interbank offered rate (the "Facility").

Pursuant to the Facility Agreement, if Mr. Zhang Yingcen fails to (i) be the single largest beneficial shareholder of the Company together with his family members; or (ii) be the chairman of the Board; or (iii) have management control (which shall be construed as having the ability to direct the affairs or policies of the Company and/or to control the composition of the majority of the members of the Board) over the Company, this will trigger mandatory prepayment and will constitute an event of default under the Facility Agreement, thereupon, the Lenders may, among others, cancel the Facility forthwith and/or declare that all outstanding amount (including all accrued interest) in respect of the Facility be immediately due and payable.

For further details, please refer to the announcement of the Company dated 30 November 2017.

MATERIAL ACQUISITIONS, DISPOSAL AND SIGNIFICANT INVESTMENTS

Save as disclosed in this report, during the year ended 31 December 2017 and as at the date of this report, the Group had no material acquisition, disposal or significant investments.

PERMITTED INDEMNITY PROVISION

The articles of association of the Company provides that every Director shall be entitled to be of the Company indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Company has adopted and maintained appropriate insurance to provide protection for possible legal action against its directors.

MAJOR CUSTOMERS AND SUPPLIERS

In 2017, sales to the five largest customers of the Group accounted for approximately 23.64% of the turnover of the Group, in which sales to the largest customer accounted for approximately 10.83%, while purchases from the five largest suppliers of the Group accounted for approximately 58.27% of the purchases of the Group in which purchases from the largest supplier accounted for approximately 40.60%. To the best of the Board's knowledge having made all enquiries with all Directors, neither the Directors, their close associates (as defined in the Listing Rules), nor any shareholders owning more than 5% of the Company's issued share capital had any beneficial interests in the Group's five largest customers or suppliers during the year.

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.

PRE-EMPTIVE RIGHTS

There are no relevant provisions for pre-emptive rights in the Company's articles of association or the laws of Cayman Islands.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the public float of the Company is not less than 25% as prescribed under the Listing Rules.

CORPORATE GOVERNANCE

The Company has implemented the code provisions set out in the Corporate Governance Practice Code (the "CG Code") contained in Appendix 14 to the Listing Rules. The Company has been in compliance with the CG Code throughout the year ended 31 December 2017.

AUDITOR

The Company has appointed PricewaterhouseCoopers as auditor of the Company for the year ended 31 December 2017. A resolution will be proposed in the forthcoming annual general meeting of the Company for the re-appointment of PricewaterhouseCoopers as the Company's auditor.

For and on behalf of the Board of
China Tian Lun Gas Holdings Limited
Zhang Yingcen
Chairman

26 March 2018

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

BASIS FOR PREPARATION OF THE REPORT

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Guide") set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

SCOPE OF THE REPORT

The data and information in this report are derived from various archived questionnaires, records, statistics and studies of China Tian Lun Gas Holdings Limited (the "Company", together with its subsidiaries, the "Group"). This report covers the period from 1 January 2017 to 31 December 2017 (the "Reporting Period"), which is consistent with the financial year covered by the Group's 2017 annual report.

CONTACTS

If you have any question or feedback about this report and its content, please contact us through the following methods:

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1 OVERVIEW OF THE GROUP

Established in 2002, the Group became listed on the main board of the Hong Kong Stock Exchange in 2010 and is a leading city gas operator in the PRC. With the mission of "developing clean energy and improving people's living environment", the Group is committed to promoting people's livelihood. Its scope of business mainly comprises the following five areas: city gas operation, gas refilling stations, LNG plants, long-haul pipelines and direct supply to industrial users. Its operation covers 16 provinces and six major city gas regions in the PRC, including 57 city gas projects, 51 operating gas refilling stations, 2 LNG plants and 6 long-haul pipelines.

2 ENVIRONMENT

The acceleration of utilisation of gas has become an important development trend for China's air pollution control in recent years. As an enterprise committed to developing clean energy, the Group fully responds to the government's call for air pollution control and insists on the utilisation and promotion of natural gas. By seizing 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 advances 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 a response to the government's call for energy-saving and emission-reduction and developing green economy with practical actions.

2.1 Emissions

As a gas supplier, the Group is committed to protecting environment and controlling air pollution. The Group actively participates in the promotion of utilisation of natural gas as a type of clean energy, fully responds to the relevant policy, and has shown its determination for the sustainable development strategy and environmental protection. In 2017, the Group's city gas operation and transmission business distributed a total of 1,927,417,670 cubic metres of natural gas. Based on the gas sales volume, the Group helped reduce emissions from approximately 3,200,000 tonnes of coal, representing a reduction of emissions of approximately 4,600,000 tonnes of carbon dioxide, 30,000 tonnes of sulphur dioxide and 20,000 tonnes of nitrogen oxide. For transportation gas, as at the end of 2017, the Group had a total of 59 gas refilling stations, of which 51 had been put into operation and 8 were under construction. Gas sales volume was 151,167,967 cubic metres, which helped reduce the consumption of approximately 100,000 tonnes of gasoline and 20,000 tonnes of diesel and represented a reduction of emissions of approximately 300,000 tonnes of carbon dioxide.

Case: "coal-to-gas conversion" helped Hebi transform into a "green city" from "coal city"

Located in the northern part of Henan Province, Hebi is a typical resource city which emerged and prospered as a result of coal. With long-term reliance on coal resources, an extensive economic growth model of high mining, high consumption, high pollution and low efficiency has developed, which not only caused waste of resources but also brought heavy pressure on the ecological environment development. As one of the "2+26" cities for air pollution prevention and control, Hebi focused on the implementation of "coal-to-gas conversion". The Group vigorously carried out "coal-to-gas conversion" in Hebi in recent years and Hebi Group conducted "coal-to-gas conversion" in 2016. In 2017, Hebi Subsidiary made significant achievements in developing industrial users from coal-to-gas conversion. It successfully developed Jiaxin Ceramics, Ruixingbao Construction Materials, Jinjishan Construction Materials and Yuhang Road and Bridge Construction, each with a designed daily gas consumption of 30,000 cubic metres, and Huabang Ceramics and Hexin Chemicals, each with a designed daily gas consumption of 10,000 cubic metres, as well as many industrial and commercial users including Jinghe Tongli

Building Materials. In the meantime, the township gas development was also progressing. During the year, the Group developed a total of 6,331 rural coal-to-gas conversion users, actively responded to the call of the government and assisted in air pollution control, which has produced significant results. In 2017, air quality in Hebi continued to improve, and good air quality was recorded for 221 days in the year, representing an increase of 103 days from 2016 and good air ratio of 60.5%.

2.2 Use of Resources

The Group's business and management strictly comply with the requirements of the Constitution of the People's Republic of China and the Environmental Protection Law of the People's Republic of China, and the Group strictly implements the requirements of the laws and regulations and local rules relating to environmental protection including the Environmental Impact Assessment Law of the People's Republic of China, the Energy Conservation Law of the People's Republic of China and the Environmental Impact Assessment Planning Regulations. As an energy enterprise, the Group highly values and understands the importance of environmental protection and sustainable development. It promotes green operation, advocates the concept of green office, and incorporates environmental protection, energy saving and emission reduction and reasonable and efficient use of resources into the Group's day-to-day operation. We placed relevant banners, pictures and words in the offices and construction sites for promotion to help employees develop a thinking of "taking care of the earth, protecting natural ecology and starting environmental protection from ourselves". We use energy-saving lamps for lighting and require employees to turn off the lights before leaving office so that no lights will be left always on. We require turning off the faucet after using to avoid water waste. We promote electronic office and expand the functions of our OA online office system to improve its use efficiency. We encourage double-sided printing to reduce resource waste. In the future, the Group will continue to develop its sustainable development policies and designs and continue to contribute to environmental protection.

2.3 Environment and Natural Resources

The Group is well aware that environmental protection is an important social responsibility for an enterprise citizen and provides training and education about the laws and regulations including the Environmental Protection Law, the Environmental Noise Pollution Prevention Law, the Water Pollution Prevention Law, the Air Pollution Prevention Law and the Solid Waste Pollution and Environmental Prevention and Control Law, as well as the requirements of local governments relating to environmental protection on a regular basis. During the construction process, we classify and store construction materials or construction waste at separate places, timely clean them up for delivery, and adopt appropriate measures such as watering, close covering or placing indoors to reduce dust. The procurement department keeps strict control over the procurement of basic materials and avoids the selection of construction materials generating poisonous and harmful gas emissions in order to protect the safety of employees and prevent environmental pollution. In order to maximize the effectiveness of the environmental protection system, the Group includes the implementation of environmental protection measures as a performance assessment indicator and issues awards and punishments based on the assessment results.

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. 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. The Group organised 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, set out clear safety objectives and strengthened responsibility assessment. By carrying out the “Month of Production Safety” program, 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 organised a 100-day safety inspection, whereby the Group’s headquarter office, city gas regions and members conducted mutual supervision and cross-assessment, which had effectively identified and eliminated safety risks.

3 RESPONSIBILITY COMMUNICATION

3.1 Industry Responsibility

As a clean energy enterprise committed to improving people's living, since its establishment, the Group has been accelerating its presence in the natural gas market with "developing clean energy and improving people's living environment" as its mission. Currently the Group has 57 gas projects in 16 provinces across China. Based on customer's needs and in order to achieve their satisfaction, the Group provides various gas users in the regions in which it operates with high-quality and steady natural gas services and continues to improve its service system. In addition, it promotes the development of gas business and economic growth in the third- and fourth-tier cities of China and surrounding townships, which has effectively increased local taxation income, alleviated employment pressure and accelerated the progress of local urbanization. The Group effectively performs its social responsibility and economical responsibility and strives to become a national energy distribution enterprise "worth customers' trust and the respect of the society".

3.2 Employee Responsibility

The Group has long been sticking to the people-oriented management philosophy and cares for the career development and personal growth of employees. It has created a healthy and comfortable working environment with equality, mutual trust and cooperation, helps employees understand their own rights and obligations, encourages employees to actively conduct innovations, team cooperation and to continue to learn and grow with the Group. In order to further improve its human resource system and establish an effective assessment 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, during the year to further improve the construction of its human resource system.

3.3 Public Responsibility

Adhering to the principle of "developing and enjoying Tian Lun together", the Group actively gave returns to the community and participated in various charitable activities. Mr. Zhang Yingcen, the controlling shareholder of the Group, was elected vice president of Henan Charity General Federation. In 2017, the Group established a special Tian Lun charity fund to help children with serious illness in Lushi County, Sanmenxia City, Henan Province receive medical treatment in time. It actively carried out a public relay run with the theme of "Walking thousands of miles and donating thousands of books" to donate books to poor primary schools. The Group participated in the "Help poverty alleviation and light students' hope" event held by Henan Charity General Federation and make the dream of poor students of going to college become true. The Group will continue to participate in public service and practice its social responsibility.

3.4 Identification of and Communication with Stakeholders

The Group has provided a number of communication channels to shareholders/investors, customers, employees, government, suppliers and community in order to enable stakeholders to effectively understand and monitor the Group's operation and to enable the Group to more actively and positively respond to the topics concerned by the stakeholders. During the Reporting Period, the Group maintained close communication with shareholders/investors, customers, employees, government, suppliers and community through multiple forms including results conferences, general meetings, investor meetings and field research.

In particular, for investor relations, the Group further strengthened its efforts and investment into investor relation work in 2017. The Company strengthened its communication with investors through various forms such as one-on-one meetings, teleconferences, group meetings, results conferences, investment strategy seminars and field research, which have enabled it to timely understand the needs of investors, to capture industry dynamics, to maintain investors' strong focus on and understanding of the business of the Group and has in turn improved the recognition of the Group in the capital market.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Major topics of concern for stakeholders and response

Stakeholders	Major topics of concern	Method and channel of communication	Response and feedbacks
Shareholders/investors	Development strategies of the Company Growth potential of the Company Investment returns Timely information disclosure Corporate compliance	Results conferences General meetings Roadshows Interim and annual reports Project research	Disclosure of announcements, resolutions of general meetings and financial reports as required Strive to improve profitability Timely disclosure information Actively organise field research of projects
Customers	Safe and steady supply of gas Service quality Protection of personal information of customers Reasonable price	Customer satisfaction survey Complaints and advices from multiple channels	Regular safety inspections for customers Improvement in service quality Timely handling of complaints and advices
Employees	Compensation and benefits Training and development Working environment Relationship with employees	Staff representatives Internal and external training for employees Staff activities	Establish a fair remuneration and promotion mechanism Expand the types and methods of training Care for employee health Organise staff activities Provide a healthy and safe working environment
Government	Pay taxation in accordance with the law Timely and regulated information disclosure Safe operation in compliance with the law Control regulations Environmental protection	Institution visits Give work reports Daily communication Information disclosure	Operation in compliance with the laws and regulations Accept government inspections and visits Truthful and accurate information disclosure Carry out operating activities in accordance with policies Actively facilitate coal-to-gas conversion
Suppliers	Punctual performance of contractual obligations Transparent procurement Corporate reputation	Supplier discussion meetings Daily communication Strategic cooperation	Open tender and performance of contracts as agreed
Community	Facilitate regional development Business ethics Carry out public welfare	Charity events Volunteer activities	Tian Lun Charity Fund Take part in public welfare Actively promote safe gas use

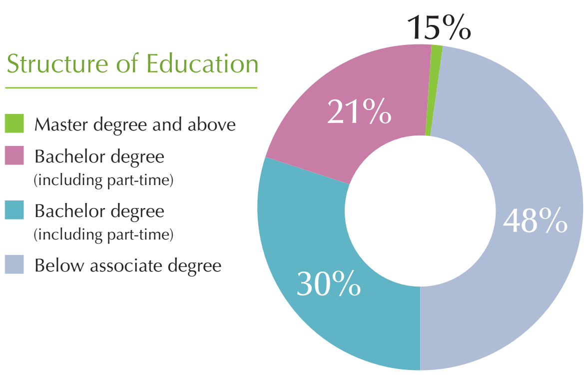
4 SOCIAL

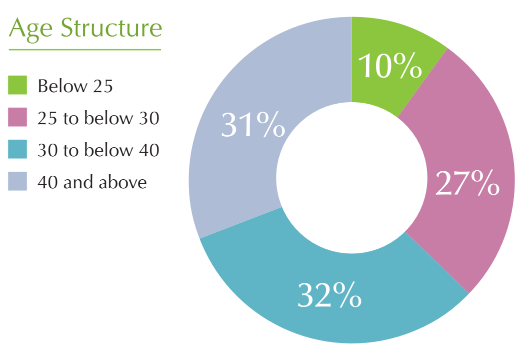
4.1 Employment and Labour Practices

4.1.1 Employment

The Group has been in strict compliance with the Labour Law, the Employment Promotion Law, the Labour Contract Law, the Social Insurance Law, the Interim Provisions on Salary Payment, the Production Safety Law, the Interim Provisions on Salary Payment, the Housing Provident Fund Management Regulations of the People's Republic of China and local laws and regulations in recruiting employees, determining the remuneration and benefits of employees. The Group actively performs its obligations and responsibilities as an enterprise and makes social insurance and housing provident fund contributions for employees of its members. The Group actively implements the Special Requirements for Labour Protection of Female Employees and the Female Interest Protection Law and protects the lawful interests of female employees. In addition to protecting the lawful interests of all employees, the Group has effectively protected special interests of female employees and established a diversified and equal team of employees. As at the end of the Reporting Period, the Group had a total of 2,571 employees.

During the year, in order to further improve its human resource system and establish an effective assessment 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. First, through face-to-face survey and interviews with the management and low-level employees, it initially understood the current situations of the human resource system of the Group. Later, in view of the development objectives of the Group, the Group's strategy map was drawn from four dimensions including finance, customer, internal process, learning and growth, through which the strategic map, balance scorecards and action plans for the regions, members and departments were reviewed level by level to further





clarify the directions and measures to realize the goals of the Group. In addition, employees established their own annual assessment, action plans and development plans in view of the strategic map of the departments to which they belong, in order to ensure that each employee has a clear understanding of the goals of the Group and the scope of their own work responsibilities. In this way, the remuneration is closely linked to individual capability and performance and effectively stimulates employee teams.

For recruitment, the Group's recruitment is divided into social recruitment and campus recruitment. It has developed the relevant rules and workflows for each type and strictly follows these rules and workflows in the work. In various links including developing plans, determining standards, selecting resumes, written tests and interviews, decision-making for recruitment, internship period and probation period, the Group adopts strict control to ensure impartial and rigorous recruitment and provide various talents to the Group. 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. For remuneration and benefits, the Group strictly follows the relevant national and local laws and policies including the Labour Law and determines the remuneration of employees according to their work performance, work experience and prevailing market standards. In addition, the Group further motivated its employees' work enthusiasm and cohesion through holding "Quarterly Bravery Award", "Annual Outstanding Employees" and "Outstanding Management Award". For internal selection, the Group held a talent selection program to select young cadres and a reserve manager training camp targeting middle-level cadres in order to open up career promotion path and provide a fair promotion platform for employees. The Group also organises culture, sports and tourism activities to enrich employees' career and life.

Case: Employees sports games to enhance cohesion

In August 2017, the Group held its sixth employee sports games. Employees from over 50 members of the Group across China came to Zhengzhou and participated in the grand carnival. The theme of the sports games is "enjoying the youth", which consists of traditional track and field and ball games and six fun events including "Land Dragon Ship" and "Go Tian Lun". Such sports games have enhanced the spirits of mutual care and help and the firm determination of employees of the Group.

4.1.2 Health and Safety

The Group has been in strict compliance with the Labour Law, the Environmental Protection Law, the Occupational Health and Safety Management System, the Labour Security Supervision Ordinance, the Special Regulations on Labour Protection for Female Employees, the Work-related Injury Insurance Regulations, the Work-related Injury Identification Measures of the People's Republic of China and other laws and regulations, and has developed the Occupational Health Management Measures of Tian Lun Gas. It considers the health and safety of employees as top priority, creates a warm, safe and healthy working environment and implements strict risk management and safety management.

The Group has scheduled health examinations for all employees on an annual basis, established staff health records and monitors occupational hazard factors at workplaces. The head of the safety department is responsible for the health records and no one shall have access to the records without permission in order to ensure the protection of personal privacy of employees. In order to protect the health and safety of employees, the Group requires all existing employees to obtain labour protection suppliers in accordance with the rules of the Group. The places with high noise are equipped with noise reduction equipment. The places with hazardous gas are equipped with gas masks and respirators, and the working hours of the relevant employees are reduced in order to avoid damages caused to the health of employees. Insulation measures are adopted at the places with high or low temperature, and the working hours of the relevant employees are adjusted or reduced as appropriate and cooling and heating subsidies are provided to the relevant employees.

4.1.3 Development and Training

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. In addition, the Group attaches great importance to the establishment and development of the lecturer team. On 10 September 2017, the Teachers' Day, the Group held activities of the third "Tian Lun Teachers' Day" for all internal lecturers with the theme of "Learning, Sharing and Growth".

Case: Induction training camp for university graduates to cultivate new talents

In July 2017, the Group held the eighth induction training camp for university graduates, and 33 students from over 20 universities such as Tongji University and Xi'an Jiaotong University participated in the training. The training was in the form of a fully closed camp for 10 days and comprised two parts, being outward training and internal training. The innovative programs such as "Leadership Style" and "Treasure Hunt" under the outward training had greatly enhanced the team awareness and disciplines, enabled the university graduates to fully experience the style of work of fast response and strengthened their exploration spirit and innovation consciousness. Subsequent internal training enabled the university graduates to fully understand the development history, corporate culture, development strategies and rules of the Group and gas knowledge. Courses to improve personal quality such as those on business etiquette and document

writing were also provided to enable participants to conduct successful career transformation.

4.1.4 Labour Standards

The Group strictly complies with the laws and regulations including the Labour Law, the Labour Contract Law, the Juvenile Protection Act and the Provisions on the Prohibition against the Use of Child Labour of the People's Republic of China in recruitment. It conducts strict examinations of personal information of candidates in the recruitment process and strictly prohibits illegal activities and has never conducted any illegal behaviours such as child labour or forced labour.

4.2 Operation Management

4.2.1 Supply Chain Management

The Group has its own engineering companies, transport companies and trading companies and its major suppliers are gas suppliers and construction material suppliers. In 2017, the Group maintained good and steady relationship with its suppliers, conducted open bidding, performed obligations in a timely manner, and carried out transparent procurement. It has established strong corporate reputation to ensure the steady business growth of the Group. The Group held supplier discussion meetings from time to time, fully communicated with suppliers, optimised cooperation plans, and discussed with them about issues in the operation of the Company to exchange opinions and realise win-win results through cooperation.

4.2.2 Product Responsibility

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 arranges training to enhance employees' service awareness and ability. The Group improved the use efficiency of its marketing service system, realised full coverage of its city gas member companies, and organised the relevant customer service information training, including those on the marketing service system and the easy connection cloud system, and conducted inspections on the use of the systems from time to time. In the meantime, the Group completed the development of high-quality courses on customer service training, including those on market survey, development of marketing strategies, business etiquette, business negotiation, development of large industrial users, quick quotation for small commercial users and contract management. It improved customer service training system and the professional quality of customer services personnel and standardised work flow. 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.

4.2.3 Anti-embezzlement and Anti-corruption

By sticking to the strategic thinking of "cannot", "dare not" and "efficiency" and developing effective rules, process and systems, the Group has established an operation environment in which no employees can be involved in corruption. By strictly punishing embezzlement and corruption cases, the Group has built a control atmosphere in which no employees dare to be involved in corruption. By strong efficiency monitoring and operation monitoring, the Group has improved its corporate efficiency and realised "efficient" operation. A supervision department was established under the audit and supervision centre of the Group to be mainly engaged in the investigation into and punishment of embezzlement and corruption cases, consisting of two dedicated supervisors.

The Group has adopted a series of measures to fight corruption and embezzlement. For example, it has developed the Supervision Work Management Measures and the Rewarding and Punishment System for Reporting which set out clear provisions on reporting embezzlement and corruption. The Group has maintained records for complaints and whistleblowing and verifies them based on investigations. For areas of frequent embezzlement and corruption such as recruitment and procurement and project management, it has created a fraud risk database. The Group includes a special provision on anti-embezzlement and anti-corruption in procurement contracts to state its confidence in anti-embezzlement and anti-corruption and makes public the telephone number and mail address of the audit and supervision centre. It hangs audit promotion boards of "Regulated and Transparent Operation" at the business halls of its members to promote the concept of operation in compliance with the law and provide the contacts of auditing. It has printed and placed complaint contact cards at conspicuous places for customers.

Case: Procurement position transfer to eliminate corruption and frauds

Under the continuous monitoring and recommendations of the audit and supervision centre, the Group transferred employees holding procurement positions and changed the positions of 22 out of 58 employees holding procurement positions and replaced them with a number of high-quality young cadres in 2017. Through long-term procurement position rotation and adjustment, the procurement prices have significantly decreased. The possible corruption risks have been eliminated and a stage has been provided for young employees to show their talents and capability.

4.2.4 Community

The Group has always been sticking to its core values of "developing and enjoying Tian Lun together" and actively participated in various charitable activities. Mr. Zhang Yingcen, the controlling shareholder of the Group, was elected a vice president of Henan Charity General Federation. In 2016, Mr. Zhang Yingcen helped the charity cause by donating RMB50 million to Henan Charity General Federation to help treat children with serious illness and targeted poverty alleviation in Lushi County, Sanmenxia City, Henan Province, purchase serious illness insurance for children in the county and help the children there with serious illness such as leukemia and congenital heart disease and their families accept medical treatment in time. In 2017, Tian Lun Group, Henan Charity General Federation and Lushi County Charity General Federation jointly decided to use RMB18 million out of the donations in setting up a special Tian Lun charity fund to help children with serious illness in Lushi County. To date, 14 children with serious illness in Lushi County had received the aid. The Group also actively organises social public welfare activities. In 2017, the Group organised public relay run activities. It successively conducted a charity relay run across China in which the Group operates with the theme of "Walking thousands of miles and donating thousands of books" and Hebi as the first station. In the form of popular fitness run, it attracted nearly ten thousand persons in participating in the event and gave books to children. In addition, The Group participated in the "Help poverty alleviation and light students' hope" event held by Henan Charity General Federation and make the dream of poor students of going to college become true.

Case: "Walking thousands of miles and donating thousands of books" public relay run to help poor primary schools

In March 2017, the first station of "Walking thousands of miles and donating thousands of books" public relay run commenced in Hebei. Subsequently, the relay run was successively completed across China in which the Group operates, and nearly ten thousand persons participated in the public relay run. The Group identified 20 poor primary schools across China in need of books including Gancao Red Army Primary School in Lushi County and donated 500 books to each school. A total of 10,000 books were given to children who yearn for knowledge.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The Company recognises the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the confidence of shareholders and the public. The Board strives to adhere to the principles of corporate governance and adopt sound corporate governance practices to meet the legal and commercial standards by focusing on areas such as internal control, fair disclosure and accountability to all shareholders.

The Company has adopted and complied with all code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the year from 1 January 2017 to 31 December 2017.

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 of all Directors of the Company, each of them confirmed that they strictly complied with the required standards set out in the Model Code during the Reporting Period.

BOARD OF DIRECTORS

Members of the Board of Directors

As at the date of this annual report, the Board of the Company comprised (i) Mr. Zhang Yingcen (Chairman), Mr. Xian Zhenyuan, Mr. Zhang Suwei, Mr. Feng Yi and Ms. Li Tao as executive Directors; (ii) Mr. Wang Jiansheng as non-executive Director; and (iii) Mr. Li Liuqing, Mr. Yeung Yui Yuen Michael and Ms. Zhao Jun as independent non-executive Directors.

The biographies of all the Directors are set out in the section headed "Directors and Senior Management" in this annual report. All executive Directors of the Company have sufficient experiences for their positions to effectively carry out their duties.

The Company has appointed three independent non-executive Directors and at least one of them has accounting expertise to assist the management in formulating development strategies of the Group, and to ensure that the preparation of the financial reports and other mandatory reports by the Board are in strict adherence to appropriate systems in order to protect the interests of the shareholders and the Company. Each independent Director has confirmed in accordance with the guidelines specified in Rule 3.13 of the Listing Rules that they are independent of the Company, and the Company considers that they were independent in accordance with the Listing Rules as at the date of this annual report.

There are no relationships (including financial, business, family or other material/relevant relationship) among the members of the Board, and in particular, between the chairman of the Board and the chief executive of the Company.

CORPORATE GOVERNANCE DUTIES

The Board is responsible for performing the corporate governance duties as set out in revised code provision D.3.1 of the Code. During the year ended 31 December 2017, the Board had reviewed and discussed the corporate governance policy of the Group and was satisfied with the effectiveness of the corporate governance policy of the Group.

RESPONSIBILITIES OF DIRECTORS AND PROFESSIONAL DEVELOPMENT

All appointed Directors received comprehensive, formal training on the first occasion of their appointments and were ensured to have a proper understanding of the businesses and development of the Group and that they were fully aware of their responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company. To facilitate the Directors to discharge their responsibilities, they are continuously updated with regulatory developments, business and market changes and the strategic development of the Group. All Directors, namely Mr. Zhang Yingcen, Mr. Xian Zhenyuan, Mr. Feng Yi, Mr. Sun Heng, Ms. Li Tao, Mr. Wang Jiansheng, Ms. Zhao Jun, Mr. Yeung Yui Yuen Michael and Mr. Li Liuqing, have participated in a training course on the PRC Company Law organized by the PRC legal adviser to the Company, to develop and refresh their knowledge and skills and provided their training records for the financial year ended 31 December 2017 to the Company.

SUPPLY OF AND ACCESS TO INFORMATION

In respect of regular Board meetings, and so far as practicable in all other cases, an agenda accompanied by the relevant Board papers are sent to all Directors in a timely manner and at least 3 days before the specified date of a Board meeting. All Directors are entitled to have access to Board papers, Board minutes and related materials.

THE OPERATION OF THE BOARD

The Board supervises the management of the business and affairs of the Company. The Board's primary duty is to ensure the viability of the Company and to ensure that it is managed in the best interests of the shareholders as a whole while taking into account the interests of other stakeholders. The Group has adopted internal guidelines in setting forth matters that require the Board's approval. Apart from its statutory responsibilities, the Board is also responsible for making decisions of formulating the development targets and strategies, material acquisitions and disposals, material capital investment, dividend policies, the appointment and removal of directors and senior management, remuneration policies and other major operation and financial issues of the Company. The powers and duties of the Board include convening shareholders' meetings and reporting the Board's work at shareholders' meetings, implementing resolutions passed at shareholders' meetings, determining business plans and investment plans, formulating annual budget and final accounts, formulating proposals for profit distributions and for the increase or reduction of registered capital as well as exercising other powers, functions and duties as conferred by the memorandum and articles of association of the Company. The daily business operations and administrative functions of the Group are delegated to the management.

Code provision A.1.1 of the Code stipulates that the Board shall convene meetings regularly with at least 4 board meetings every year (approximately once a quarter).

The Board held 9 meetings during the year ended 31 December 2017.

The attendance of the Directors at the Board meetings is as follows:

Directors	Attendance/Board Meetings held
Executive Directors	
Mr. Zhang Yincen *(Chairman)*	9/9
Mr. Xian Zhenyuan	9/9
Mr. Feng Yi	9/9
Mr. Sun Heng	9/9
Ms. Li Tao	9/9
Non-executive Director	
Mr. Wang Jiansheng	9/9
Independent non-executive Directors	
Mr. Cao Zhibin (resigned on 27 November 2017)	7/9
Ms. Zhao Jun	9/9
Mr. Yeung Yui Yuen Michael	9/9
Mr. Li Liuqing	9/9

In general, the notices of meetings of the Board are sent to all Directors through email and fax before the dates of meetings. In order to enable the Directors to consider the issues to be approved in the meetings with adequate time, the notices of regular Board meetings will be sent to all Directors at least 14 days prior to the convening of the meeting while prior notification of the convening of ad hoc Board meetings will be made to Directors in due course. In order to provide all Directors with a full picture of the latest operating conditions of the Company, the management representatives of the Company will report the latest operating conditions of the Company and the implementation of the issues resolved in the last Board meeting to all the Directors before the convening of the meeting.

COMMITTEES UNDER THE BOARD

The Audit Committee, the Remuneration Committee and the Nomination Committee were established under the Board. These committees perform supervision and control of the Company based on their written terms of reference.

Audit Committee

The primary duties of the Audit Committee are to make recommendations on the appointment, re-appointment and removal of external auditor, to review financial statements and making recommendations on the financial reporting, and to review and supervise the financial reporting and internal control procedures of the Group. The Audit Committee consists of three independent non-executive Directors, namely, Mr. Li Liuqing, Mr. Yeung Yui Yuen Michael and Ms. Zhao Jun. Mr. Li Liuqing is the chairman of the Audit Committee and has the appropriate professional qualifications. The Audit Committee shall meet at least twice a year.

The Audit Committee had reviewed the Group's internal control during the financial year ended 31 December 2017. The Group's final results for the year ended 31 December 2017 had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee had also reviewed this annual report, and confirmed that this annual report is complete and accurate, and complies with all relevant rules and regulations, including but not limited to the Listing Rules. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditor.

The Audit Committee held 2 meetings during the year ended 31 December 2017.

The attendance of the members of the Audit Committee at the committee meetings is as follows:

Member	Attendance/Committee Meetings held
Mr. Li Liuqing *(Chairman)*	2/2
Mr. Yeung Yui Yuen Michael	2/2
Ms. Zhao Jun	2/2

Nomination Committee

The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of Directors and management of the Board's succession, to ensure that the candidates to be nominated as Directors are experienced, high caliber individuals. The Nomination Committee consists of two independent non-executive Directors, namely, Mr. Yeung Yui Yuen Michael and Ms. Zhao Jun, and Mr. Zhang Yingcen, an executive Director and the chairman of the Board, who is also the chairman of the Nomination Committee.

The Nomination Committee shall meet at least once every year.

The Nomination Committee held one meeting during the year ended 31 December 2017 for reviewing the structure of the Board, size and composition of the Board, assessing the independence of the independent non-executive Directors and other related matters.

The attendance of the members of the Nomination Committee at the committee meetings is as follows:

Member	Attendance/Committee Meetings held
Mr. Zhang Yingcen *(Chairman)*	1/1
Mr. Yeung Yui Yuen Michael	1/1
Ms. Zhao Jun	1/1

Board Diversity

The Stock Exchange introduced certain amendments to the Code set out in Appendix 14 to the Listing Rules which are effective from 1 September 2013 in relation to the Board diversity. In order to achieve the diversity of members of the Board, the Board will take into account a number of factors including gender, age, cultural and educational background and length of service. The terms of reference of the Nomination Committee had been amended to set out its responsibility for overseeing the implementation of the Board diversity policy.

The Group has adopted the policy on Board diversity which is summarized as follows:

(1) Election of members of the Board shall be based on a series of diversified bases, including but not limited to gender, age, cultural and educational background, expertise, skills, knowledge and length of service; and

(2) The Nomination Committee will monitor the implementation of the diversity policy in order to ensure that the policy produces desirable results.

Remuneration Committee

The primary duties of the Remuneration Committee include (i) reviewing the terms of the remuneration package of each Director and member of senior management, and making recommendations to the Board regarding any adjustment thereof; and (ii) reviewing and evaluating the performance of individual executive Directors for determining the amount of bonus (if any) payable to them.

The Remuneration Committee comprises two independent non-executive Directors, namely Ms. Zhao Jun and Mr. Yeung Yui Yuen Michael, and one executive Director, namely Mr. Zhang Yingcen. Ms. Zhao Jun is the chairperson of the Remuneration Committee. The Remuneration Committee shall meet at least once every year for reviewing the remuneration policies.

The Remuneration Committee held one meeting during the year ended 31 December 2017.

The attendance of the members of the Remuneration Committee at the committee meetings is as follows:

Member	Attendance/Committee Meetings held
Ms. Zhao Jun *(Chairperson)*	1/1
Mr. Zhang Yingcen	1/1
Mr. Yeung Yui Yuen Michael	1/1

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of Mr. Zhang Yingcen, Mr. Xian Zhenyuan, Mr. Feng Yi, Mr. Sun Heng and Ms. Li Tao, all being the executive Directors had entered into a service contract with the Company for an initial term of 3 years commencing from 10 November 2016 and subject to termination by either party upon giving no less than 3 months' prior written notice to the other party. Mr. Zhang Suwei, an executive Director, has entered into a service contract with the Company for a term of 3 years commencing from 26 March 2018 and subject to termination by either party upon giving no less than one month's prior written notice to the other party.

Mr. Wang Jiansheng, a non-executive Director, had entered into a service contract with the Company for a term of 3 years commencing from 21 September 2015 and subject to termination by either party upon giving no less than one month's prior written notice to the other party.

Each of Mr. Li Liuqing and Ms. Zhao Jun, being independent non-executive Directors, had entered into a service contract with the Company for a term of 3 years commencing from 10 November 2015 and subject to termination by either party upon giving no less than 3 months' prior written notice to the other party. Mr. Cao Zhibin, an independent non-executive Director, has entered into a service contract with the Company for a term of 2 years commencing from 26 July 2015 and subject to termination by either party upon giving no less than 3 months' prior written notice to the other party. Mr. Yeung Yui Yuen Michael, an independent non-executive Director, has entered into a service contract with the Company for a term of 3 years commencing from 1 September 2015 and subject to termination by either party upon giving no less than one month's prior written notice to the other party.

In accordance with Article 108(a) of the Articles of Association, at each annual general meeting, at least one-third of the Directors shall retire from office by rotation. Each Director shall retire at least once every three years and such Directors shall include those who have assumed the longest term of office since their last appointment or re-election.

GENERAL MEETINGS

The 2017 annual general meeting (the "2017 AGM") was held on 24 May 2017. The attendance record of the Directors at the 2017 AGM is as follows:

Directors	Attendance/General Meetings held
Executive Directors	
Mr. Zhang Yincen *(Chairman)*	1/1
Mr. Xian Zhenyuan	1/1
Mr. Feng Yi	1/1
Mr. Sun Heng	–/1
Ms. Li Tao	1/1
Non-executive Director	
Mr. Wang Jiansheng	–/1
Independent Non-executive Directors	
Mr. Cao Zhibin	–/1
Mr. Li Liuqing	–/1
Mr. Yeung Yui Yuen Michael	–/1
Ms. Zhao Jun	–/1

The Company's external auditor attended the 2017 AGM.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

All Directors acknowledge their responsibility for preparing the accounts and the financial statements for the year ended 31 December 2017.

The auditor to the Company acknowledges its reporting responsibilities in the auditor's report on the financial statements for the year ended 31 December 2017. The Directors are not aware of any material uncertainties relating to events or conditions that may raise significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing financial statements.

AUDITOR'S REMUNERATION

For the year ended 31 December 2017, the Group's audit expenses amounted to RMB3,300,000. There were no significant non-audit service assignments performed by the auditor of the Group.

INTERNAL CONTROL

The Board is responsible for maintaining operation of the effective internal control system of the Group. The Board performs annual review of the effectiveness of all material controls of the internal control system, including financial supervision, operating supervision, compliance supervision and risk management system through the Audit Committee. Internal review personnel are responsible for assisting the Audit Committee in reviewing the effectiveness of the internal control system. Internal review personnel perform internal review and other relevant review regularly. They report the review results to the Audit Committee and provide the members of the committee with advice to optimize internal control for the Audit Committee's consideration. During the year, internal review personnel mainly reviewed the major risk management systems based on the internal control advice in the report formulated by external audit institutions, and reported the review results to the Board. With the support of the Board, the internal review personnel carried out improvement for the operation of the Group. The Board had conducted a review of the effectiveness of the internal control system of the Group during the year ended 31 December 2017.

PROCEDURES FOR CONVENING AN EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS

Pursuant to Article 64 of the articles of association of the Company, extraordinary general meetings shall be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, no less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Pursuant to Article 72 of the Articles of Association, the number of Shareholders necessary for putting forward a proposal at a Shareholders' meetings is as follows:

(i). at least 2 Shareholders entitled to vote at any general meeting; or

(ii). any Shareholder or Shareholders representing no less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the general meeting; or

(iii). any Shareholder or Shareholders holding Shares conferring a right to vote at the general meeting being Shares on which an aggregate sum has been paid up equal to no less than one-tenth of the total sum paid up on all the Shares conferring that right.

Pursuant to Article 113 of the Articles of Association, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

The procedures for shareholders to propose a person for election as a Director are posted on the website of the Company.

INVESTOR RELATIONS

The Group has already set up the Investor Relations Department to be responsible for investor relations management work and established various channels for the communication with investor, including direct line and mail so as to ensure smooth communication between the Company and investors. In addition, in order to provide a full picture of the business development and prospects of the Company to the media, securities analysts, fund managers and investors, the Company held call conferences and luncheons for them, organized visits to the Company from time to time and answered their inquires in a timely manner.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavors to maintain an on-going dialogue with its shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation. The Company will ensure that there are separate resolutions for separate issues proposed at the general meetings. The Company will continue to maintain an open and effective investor communication policy and to update investors on relevant information on the Group's business in a timely manner, subject to relevant regulatory requirement.

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may at any time put their enquiries to the Board in writing to the Company whose contact details are as follows:

China Tian Lun Gas Holdings Limited
4th Floor, Tian Lun Group Building
No.6 Huang He East Road
Zheng Dong Xin District
Zhengzhou City
Henan Province, the PRC
Email: hk@tianlungas.com
Telephone and Fax no.: 86 371 6397 7151

MATERIAL CHANGES IN CONSTITUTIONAL DOCUMENTS

There were no material changes in the Company's constitutional documents during the year ended 31 December 2017.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of China Tian Lun Gas Holding Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Tian Lun Gas Holding Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 79 to 185, which comprise:

- the consolidated balance sheet 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.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") 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.

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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:

- Revenue recognition
- Goodwill impairment assessment

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition	
Refer to Note 5 (segment information) in the consolidated financial statements. During the year, the Group recognised revenue of approximately RMB3,109,014,000, majority of which was related to sales of gas and gas pipeline connections. In relation to sales of gas, significant effort was spent auditing the revenue recognised due to the large volume of transactions. The sales price was controlled by the PRC regulators, and sales volume was determined by reading meters at the period end. The revenue was highly dispersed and derived from a large number of customers in residential, vehicles, commercial and industrial sectors.	Our procedures in relation to the recognition of revenue derived from sales of gas included: • Testing the design and operating effectiveness of key controls; • Testing, on targeting and sampling basis, the transaction records that revenue was recognised to the underlying documents, such as invoices and meter reading records, and evidence of cash receipts; and • Assessing if any unreasonable difference by comparing the total gas sales volume per management with the total gas purchase volume per suppliers during the reporting period.

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KEY AUDIT MATTERS *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition *(continued)*	
In relation to revenue derived from gas pipeline connections, it was recognised according to the percentage of completion of the related contracts. Revenue was measured with reference to estimates of the contract costs incurred to date and the total estimated contract costs, which involved management judgment.	Our procedures in relation to the recognition of revenue derived from gas pipeline connections included: • Testing the design and operating effectiveness of key controls; • Testing, on targeting and sampling basis, the total contract revenue by examining the contracts with customers and invoices; • Testing, on targeting and sampling basis, the amount of contract cost incurred to date and total estimated contract cost to the underlying documents, such as the approved budgeted contract cost, delivery notes of raw materials and invoices and billings from sub-contractors, and assessing the accuracy of percentage of completion, and if any over-run of the related contracts; and • Assessing if gross profit margins of the related gas pipeline connection contracts fell into a reasonable range by benchmarking against the actual results of similar contracts of the Group that had been completed. We found the revenue recorded were supported by the evidence we obtained.

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KEY AUDIT MATTERS *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment	
Refer to Note 4 (Critical accounting estimates and judgments) and Note 17 (Intangible assets) of the consolidated financial statements. As at 31 December 2017, the Group had recorded goodwill of approximately RMB1,771,954,000. We focused on it because the amount is significant and critical judgement was used by management to assess whether goodwill was impaired or not. Goodwill was allocated to each respective legal entity of the Group, which was referred as cash generating unit ("CGU"), and the recoverable amount of each CGU was determined by management based on value-in-use calculations using cash flow projections. In carrying out the impairment assessments, significant management judgement was used to appropriately identify CGUs and to determine the underlying key assumptions, including operating margins, revenue growth rates and discount rates, being applied in the value-in-use calculations. Management has concluded that there is no impairment in respect of the goodwill.	Our procedures in relation to management's goodwill impairment assessment included: • Assessing management's identification of CGUs based on how independent cash flows are generated and our understanding of the Group's business; • Assessing the value-in-use calculations methodology adopted by management; • Comparing the current year actual cash flows with the prior year cash flow projections to consider if the projections included assumptions that were overly optimistic; • Assessing the reasonableness of key assumptions (including operating margins, revenue growth rates and discount rates) based on our understanding of the Group's business and benchmarking against the available industry data; and • Reconciling input data to supporting evidence, such as approved budgets and capital expenditure ("Capex"), considering the reasonableness of these budgets and Capex, and testing mathematical accuracy of the computation. We considered that the conclusion on management's goodwill impairment assessment was supported by the evidence we obtained.

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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.

RESPONSIBILITIES OF DIRECTORS AND 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 is responsible for overseeing the Group's financial reporting process.

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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, 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 HKSAs 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.

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.

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AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- 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.

- 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 the audit committee 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 Lam Siu Wing, Benny.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi ("RMB") thousands unless otherwise stated)

		Year ended 31 December	
		2017	2016
	Notes	**RMB'000**	RMB'000
Revenue	5	**3,109,014**	2,693,094
Cost of sales	8	**(2,341,070)**	(2,000,745)
Gross profit		**767,944**	692,349
Distribution expenses	8	**(29,449)**	(23,541)
Administrative expenses	8	**(134,060)**	(117,205)
Other income	6	**27,115**	12,153
Other gains — net	7	**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	10	**(84,421)**	(183,798)
Share of post-tax profit of associates	11(b)	**23,371**	20,768
Profit before income tax		**575,839**	444,708
Income tax expense	12	**(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
Other comprehensive income:			
Item that may be reclassified to profit or loss			
Change in value of available-for-sale financial assets	26	**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
Earnings per share for profit attributable to owners of the Company for the year (expressed in RMB per share)			
— Basic earnings per share	13	**0.41**	0.31
— Diluted earnings per share	13	**0.41**	0.31

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

(All amounts in RMB thousands unless otherwise stated)

		As at 31 December	
		2017	2016
	Notes	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Lease prepayments	14	**223,872**	233,842
Property, plant and equipment	15	**2,353,795**	2,124,140
Investment properties	16	**30,827**	18,210
Intangible assets	17	**3,407,638**	2,999,084
Investments accounted for using the equity method	11(b)	**501,775**	271,571
Deferred income tax assets	30	**27,431**	26,271
Financial assets at fair value through profit or loss	22(a)	**—**	19,786
Available-for-sale financial assets	18	**61,395**	40,145
Prepayments and other receivables	19	**69,661**	56,315
Prepayments related to other non-current assets	20	**81,705**	30,331
		6,758,099	5,819,695
Current assets			
Inventories	21	**46,625**	41,892
Trade and bills receivables	19	**381,986**	350,019
Prepayments and other receivables	19	**284,563**	253,145
Dividend receivables		**—**	4,642
Available-for-sale financial assets	18	**—**	2,000
Financial assets at fair value through profit or loss	22(a)	**300,000**	335,267
Cash and cash equivalents	23	**678,237**	755,390
Restricted cash	23	**22,739**	71,362
		1,714,150	1,813,717
Total assets		**8,472,249**	7,633,412
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	24	**8,340**	8,340
Share premium	24	**1,264,114**	1,264,114
Reserves	26	**153,526**	78,416
Retained earnings	26	**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

CONSOLIDATED BALANCE SHEET

(All amounts in RMB thousands unless otherwise stated)

	Notes	As at 31 December 2017 RMB'000	2016 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	29	**2,898,385**	2,739,953
Other payables and accruals	27	**136,598**	136,598
Deferred income		**1,472**	1,472
Deferred income tax liabilities	30	**419,881**	370,414
		3,456,336	3,248,437
Current liabilities			
Trade and bills payables	27	**180,754**	188,280
Other payables and accruals	27	**346,965**	342,128
Dividend payables		**—**	6,143
Advances from customers	28	**253,618**	150,690
Current income tax liabilities		**125,128**	97,531
Borrowings	29	**968,747**	848,494
Financial liabilities at fair value through profit or loss	22(b)	**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

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 79 to 185 were approved by the Board of Directors on 26 March 2018 and were signed on its behalf.

Mr. Zhang Yingcen	**Mr. Xian Zhenyuan**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in RMB thousands unless otherwise stated)

	Attributable to owners of the Company						
	Share capital RMB'000 (Note 24)	Share premium RMB'000 (Note 24)	Reserves RMB'000 (Note 26)	Retained earnings RMB'000 (Note 26)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016	8,512	1,366,774	95,987	877,091	2,348,364	434,014	2,782,378
Comprehensive income							
Profit for the year	—	—	—	313,379	313,379	21,030	334,409
Other comprehensive income							
Available-for-sale financial assets	—	—	(204)	—	(204)	—	(204)
Total comprehensive income	—	—	(204)	313,379	313,175	21,030	334,205
Transactions with owners							
Appropriation	—	—	36,887	(36,887)	—	—	—
Repurchase of shares (Note 24)	(172)	(102,660)	—	—	(102,832)	—	(102,832)
Acquisition of subsidiaries	—	—	—	—	—	4,930	4,930
Acquisition of additional interests of subsidiaries (Note 35)	—	—	(59,497)	—	(59,497)	(134,003)	(193,500)
Interim dividends paid (Note 31)	—	—	—	(73,251)	(73,251)	—	(73,251)
Dividends paid to non-controlling interests	—	—	—	—	—	(7,464)	(7,464)
Capital contribution from non-controlling interests	—	—	—	—	—	2,000	2,000
Employee share option scheme:							
— Value of employee services	—	—	5,243	—	5,243	—	5,243
Total transactions with owners	(172)	(102,660)	(17,367)	(110,138)	(230,337)	(134,537)	(364,874)
Balance at 31 December 2016	8,340	1,264,114	78,416	1,080,332	2,431,202	320,507	2,751,709
Balance at 1 January 2017	8,340	1,264,114	78,416	1,080,332	2,431,202	320,507	2,751,709
Comprehensive income							
Profit for the year	—	—	—	404,250	404,250	24,907	429,157
Other comprehensive income							
Available-for-sale financial assets	—	—	15,937	—	15,937	—	15,937
Total comprehensive income	—	—	15,937	404,250	420,187	24,907	445,094
Transactions with owners							
Appropriation	—	—	54,580	(54,580)	—	—	—
Interim dividends paid (Note 31)	—	—	—	(77,629)	(77,629)	—	(77,629)
Dividends paid to non-controlling interests	—	—	—	—	—	(5,964)	(5,964)
Employee share option scheme:							
— Value of employee services	—	—	4,593	—	4,593	—	4,593
Total transactions with owners	—	—	59,173	(132,209)	(73,036)	(5,964)	(79,000)
Balance at 31 December 2017	**8,340**	**1,264,114**	**153,526**	**1,352,373**	**2,778,353**	**339,450**	**3,117,803**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in RMB thousands unless otherwise stated)

	Notes	Year ended 31 December 2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash generated from operations	32(a)	**809,917**	739,170
Interest paid		**(231,126)**	(195,213)
Income tax paid		**(136,842)**	(109,793)
Net cash generated from operating activities		**441,949**	434,164
Cash flows from investing activities			
Purchases of property, plant and equipment		**(298,196)**	(176,694)
Increase in lease prepayments		**(6,508)**	(73,387)
Proceeds from disposal of property, plant and equipment and lease prepayments	32(b)	**25,415**	8,462
Purchase of intangible assets		**(2,975)**	(598)
Purchases of available-for-sale financial assets		**(400,000)**	(91,000)
Proceeds from disposal of available-for-sale financial assets		**420,000**	92,000
Purchases of financial assets at fair value through profit or loss		**(300,000)**	—
Proceeds from disposal of financial assets at fair value through profit or loss		**318,882**	—
Net cash outflow for the acquisition of subsidiaries	36	**(379,756)**	(256,905)
Prepayments related to share purchase agreements		**(56,817)**	—
Dividend income from available-for-sale financial assets		**17,587**	—
Investment income on financial assets at fair value through profit or loss		**26,235**	32,266
Interest received		**9,678**	10,600
Capital injection to associates		**(206,600)**	(200,000)
Changes in restricted cash		**10,113**	4,658
Loan to third parties		**(280,000)**	(165,000)
Repayment of loan from third parties		**280,000**	165,000
Settlement of cross currency swap		**(5,365)**	—
Net cash used in investing activities		**(828,307)**	(650,598)
Cash flows from financing activities			
Repurchase of shares	24	**—**	(102,832)
Proceeds from borrowings	32(c)	**1,619,880**	2,018,501
Repayments of borrowings	32(c)	**(1,207,253)**	(1,303,355)
Acquisition of additional interests in subsidiaries		**—**	(172,500)
Dividends paid to owners of the Company	31	**(77,629)**	(73,251)
Dividends paid to non-controlling interests		**(12,107)**	(3,813)
Changes in restricted cash		**38,510**	(40,811)
Loan from non-controlling interests		**—**	4,125
Payments related to other financing activities		**(36,881)**	—
Net cash generated from financing activities		**324,520**	326,064
Net (decrease)/increase in cash and cash equivalents		**(61,838)**	109,630
Cash and cash equivalents at beginning of the year	23	**755,390**	609,385
Exchange (losses)/gains on cash and cash equivalents		**(15,315)**	36,375
Cash and cash equivalents at end of the year	23	**678,237**	755,390

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

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

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

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

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

2.1 Basis of preparation *(continued)*

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2.1.1 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

(All amounts in RMB thousands unless otherwise stated)

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

2.1 Basis of preparation *(continued)*

2.1.2 New standards and interpretations not yet adopted by the Group

The following new standards and amendments to standards relevant to the Group's operations have been issued and are effective for the financial year beginning 1 January 2018 or after.

		Effective for accounting periods beginning on or after
HKAS 28 (amendments)	Investments in associates and joint ventures	1 January 2018
HKAS 40 (amendments)	Transfers of investment property	1 January 2018
HKFRS 1 (amendments)	First time adoption of HKFRS	1 January 2018
HKFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 4 (amendments)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HK (IFRIC) — Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HKFRS 16	Leases	1 January 2019
HK (IFRIC) — Interpretation 23	Uncertainty over Income Tax Treatments	1 January 2019
HKFRS 10 and HKAS 28 (amendments)	Sale or Contribution of assets between an investor and its associate or joint venture	To be determined

The Group's assessment of the impact of these new standards is set out below.

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 equity instruments that are currently classified as available-for-sale financial assets for which a fair value through other comprehensive income ("FVOCI") election is available and hence there will be no change to the accounting for these assets.

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

2.1 Basis of preparation *(continued)*

2.1.2 New standards and interpretations not yet adopted by the Group (continued)

HKFRS 9, "Financial instruments" *(continued)*

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 earnings.

With respect to the investment in trust that is currently classified as financial assets at fair value through profit or loss, determined based on the business model and the contractual cash flow characteristics of the trust investment product, there will be no change to the accounting for the asset on transition to HKFRS 9.

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 ("FVPL") 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 hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Group does not involve any hedging accounting, it does not expect a significant impact on the accounting for its hedging relationships.

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 debtors.

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

The adoption of this new standard is mandatory 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. Comparative for 2017 will not be restated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

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

2.1 Basis of preparation *(continued)*

2.1.2 New standards and interpretations not yet adopted by the Group (continued)

HKFRS 15, "Revenue from contracts with customers"

Nature of change

The HKICPA 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

Management has concluded that it will have no significant impact to the sale of gases business, and is in the process of making an assessment of the impact of the new standard to the connection of gas pipelines business and has not concluded whether it would have a significant impact on the Group's results of operations and financial position.

Date of adoption by the Group

The adoption of this new 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, if any, will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

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 balance sheet, 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.

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

2.1 Basis of preparation *(continued)*

2.1.2 New standards and interpretations not yet adopted by the Group (continued)

HKFRS 16, "Leases" *(continued)*

Impact

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB6,349,000 (Note 34(b)). The Group estimates those related to payments for short-term and low value lease which will be recognised on 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.

Date of adoption by the Group

The adoption of 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.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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

2.2 Principles of consolidation and equity accounting

2.2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls entities when the Group is exposed to, or has rights to, variable returns from its involvement with the entities and has the ability to affect those returns through its power to direct the activities of the entities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.3).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated balance sheet respectively.

2.2.2 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (2.2.3) below), after initially being recognised at cost.

2.2.3 Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.11.

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

2.2 Principles of consolidation and equity accounting *(continued)*

2.2.4 Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable HKFRSs.

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

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

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

2.3 Business combinations *(continued)*

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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 remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.4 Separate financial statements

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

2.5 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 steering committee that makes strategic decisions.

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

2.6 Foreign currency translation

2.6.1 Functional and presentation currency

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

2.6.2 Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other gains-net'.

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. Translation 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 equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

2.6.3 Group companies

The results and financial position of 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:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this 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

(iii) all resulting exchange differences are recognised in other comprehensive income.

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 closing rate. Currency translation differences arising are recognised in other comprehensive income.

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

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. 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 any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values at a range of 0% — 5% of the cost, over their estimated useful lives, as follows:

—	Buildings	20-30 years
—	Equipment and machinery	5-10 years
—	Gas pipelines	16-30 years
—	Office equipment and motor vehicles	3-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 2.11).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost. Cost includes the costs of construction of buildings and costs of plant and machinery. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2.8 Investment properties

Investment properties, principally freehold office buildings, are held for rental yields and are not occupied by the Group. Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and impairment losses, if any.

Depreciation is calculated using the straight-line method to write-off the cost of the assets to their residual values over their estimated useful lives of 25 years.

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

2.8 Investment properties *(continued)*

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are recorded within 'other gains — net' in profit or loss.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its cost for accounting purposes.

If an item of property, plant and equipment becomes an investment property because its use has changed, the transfer does not change the carrying amount of the property transferred, nor does it change the cost of that property for measurement or disclosure purposes.

2.9 Lease prepayments

Lease prepayments represent upfront prepayments made for the land use rights. Lease prepayments are stated at costs and are amortised on a straight-line basis over the remaining period of the land use rights, net of any impairment losses.

2.10 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquirees and the acquisition-date fair value of any previous equity interest in the acquirees 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 or 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 costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

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

2.10 Intangible assets *(continued)*

(b) Operating rights for city pipeline network and gas station

Operating rights for city pipeline network and gas station represent the rights for distribution of gas in certain cities or districts in the PRC, and are stated at cost less accumulated amortisation and impairment losses, if any. The cost incurred for the acquisition of operating rights is capitalised and amortised on a straight-line basis over their estimated useful lives (10-50 years).

(c) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3-5 years).

(d) Network

Network acquired in a business combination is the distribution network of pipelined gas and is recognised at fair value at the acquisition date. The network is carried at cost less accumulated amortisation and impairment losses, if any. Amortisation is calculated using the straight-line method to allocate the cost over the estimated lives of 30 years.

(e) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives (23-25 years) which are determined by the length of the adjusted lengths based on the existing sales contracts with its customers while taking into account the possibility of renewals by the management.

2.11 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

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

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(a) 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.

(b) 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 'trade and bills receivables', 'prepayments and other receivables', 'restricted cash', and 'cash and cash equivalents' in the consolidated balance sheet.

(c) Available-for-sale financial assets

Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long-term. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are also included in the available-for-sale category.

The financial assets are presented as non-current assets unless they mature, or management intends to dispose of them within 12 months of the end of the reporting period.

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

2.12 Financial assets *(continued)*

2.12.2 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 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. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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 profit or loss within 'finance expenses — net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss within 'finance expenses — net' 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 profit or loss as 'other gains — net'.

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

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

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.14 Impairment of financial assets

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. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

(a) Assets carried at amortised cost

For loans and receivables, 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 profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

Impairment testing of trade and bills receivables, prepayments and other receivables is described in Note 19.

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

2.14 Impairment of financial assets *(continued)*

(b) 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 reclassified 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 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 reclassified from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

2.15 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument are recognised immediately in profit or loss.

2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises materials for gas pipelines, spare parts, 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 applicable variable selling expenses.

2.17 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or 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. See Note 2.12 for further information about the Group's accounting for trade receivables and Note 2.14 for a description of the Group's impairment policies.

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

2.18 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.19 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.

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

2.21 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 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.

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

2.22 Borrowings 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.

Borrowing costs include interest expense, finance charges and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

2.23 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

2.23.1 Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's entities 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.

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

2.23 Current and deferred income tax *(continued)*

2.23.2 Deferred income tax

Deferred income tax is provided in full, 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. Deferred income tax is also 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 substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associates' undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates, 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in 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.

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

2.24 Employee benefits

(a) Pension obligations

The Group's subsidiaries in the PRC contribute on a monthly basis to various defined contribution retirement schemes managed by the PRC Government. The contributions to the schemes are charged to profit or loss as and when incurred. The Group's obligations are determined at a certain percentage of the salaries of the employees.

(b) Housing fund and other benefits

All full-time employees of the Group's subsidiaries in the PRC are entitled to participate in various government-sponsored housing and other benefits funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

2.25 Share-based payments

(a) Equity-settled share-based payment transactions

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

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

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

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 (and share premium).

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

2.25 Share-based payments *(continued)*

(b) Share-based payment transactions among Group entities

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 in the parent entity accounts.

2.26 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Connection of gas pipelines

Revenue in respect of the connection and construction of gas pipelines 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. The average time required for the Group to complete a gas pipeline construction project is approximately two to four months.

(b) Sale of gases

Revenue from the sale of gases, including pipelined gases, CNG and LNG, is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the gas is delivered to customers and title has passed, and is based on the gas consumption derived from metre readings.

(c) Rental income

Rental income from investment properties is recognised in profit or loss on a straight-line basis over the period of the leases.

(d) Service income

Service income represents income from engineering designing and consulting services provided to customers and is recognised when services are rendered.

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

2.27 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 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 profit or loss on a straight- line basis over the expected lives of the related assets.

2.28 Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.29 Dividend income

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

2.30 Provisions

Provisions for legal claims and make good obligations 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 can be reliably estimated. 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 management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

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

2.31 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments 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.

2.32 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.33 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by Group finance department under the policies approved by the board of directors. Group finance department identifies and evaluates financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and use of non-derivative and derivative financial instruments, and investment of excess liquidity.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar ("USD"). Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Management has set up a policy to require the Group companies to manage their foreign exchange risk against their functional currency, and the Group companies may mitigate the foreign exchange risk through entering into foreign exchange forward or cross-currency swap contracts.

During 2016, the Group entered into two Euro/USD cross currency swap contracts with notional principal amounts of USD40,000,000 and USD50,000,000, respectively, so as to deconcentrate the foreign exchange risk arising from the borrowings denominated in USD.

During 2017, one Euro/USD cross currency swap contract with notional principal amount of USD40,000,000 was settled upon its maturity, the other Euro/USD cross currency swap contract with notional principal amount of USD50,000,000 was outstanding at the reporting period end, and no additional cross currency swap contracts were entered into by the Group.

As at 31 December 2017, if RMB had weakened/strengthened by 1% (2016: 1%) against the USD with all other variables held constant, the Group's post-tax profit for the year then ended would have been approximately RMB12,707,000 (2016: RMB15,220,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated bank borrowings and cash and cash equivalents.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from borrowings and bank deposits. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. As at 31 December 2017, the Group's borrowings of RMB3,590,321,000 (2016: RMB3,374,857,000) bore interest at variable rates and borrowings of RMB276,811,000 (2016: RMB213,590,000) at fixed rates. The Group currently does not use any interest rate swaps to hedge its exposure to interest rate risk.

As at 31 December 2017, if interest rates on borrowings at variable rates had been 0.3% (2016: 0.3%) higher/lower with all other variables held constant, profit before income tax for the year would have been approximately RMB10,771,000 (2016: RMB10,125,000) lower/higher, respectively, mainly as a result of higher/lower interest expense on variable rate borrowings.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk *(continued)*

As at 31 December 2017, if interest rates on all interest-bearing bank deposits within cash and cash equivalents had been 0.3% (2016: 0.3%) higher/lower with all other variables held constant, profit before income tax for the year would have been approximately RMB2,033,000 (2016: RMB2,261,000) higher/lower, respectively, mainly as a result of higher/lower interest income earned.

(b) Credit risk

The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents, restricted cash, trade and bills receivables, prepayments and other receivables, available-for-sale financial assets and the financial assets at fair value through profit or loss.

As at 31 December 2017 and 2016, all of the Group's bank deposits are deposited in major financial institutions which management believes are of high credit quality without significant credit risk.

The Group closely monitors the trust investment classified as financial assets at fair value through profit or loss. The Group assesses the credit quality of the trust investment by reviewing the investment report prepared by the trust agency, focusing on the quality of the investment product, past performance and the collateral. The financial department is responsible for such monitoring procedures.

Available-for-sale financial assets include non-derivative financial products purchased from major listed banks in the PRC with comparatively lower risk and equity investment on an investee who also operates in the gas industry that do not pose any significant credit risk to the Group.

The Group has no significant concentration of credit risk in relation to trade and bills receivables, prepayments and other receivables, with exposure spread over a large number of counterparties and customers.

The Group generally requests advances from customers in relation to the gas pipeline connection business, and grants credit periods up to two months to the customers in relation to the transportation and sales of gases business. In circumstances of credit sales, to manage the credit risk in respect of trade and bills receivables, prepayments 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 periodic 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.

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For the year ended 31 December 2017

(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of undrawn borrowing facilities and cash and cash equivalents deemed adequate by the management to finance the Group's operations, mitigate the effects of fluctuations in cash flows, and meet its financial obligations when they fall due. The Group expects to fund its future cash flow needs through internally generated cash flows from operations, borrowings from financial institutions, as well as equity financing through shareholders when necessary. The Group also reviews the utilisation of borrowings and ensures the compliance of loan covenants.

The table below analyses the Group's non-derivative and derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group	**Less than 1 year RMB'000**	**Between 1 and 2 years RMB'000**	**Between 2 and 5 years RMB'000**	**Over 5 years RMB'000**
At 31 December 2017				
Non-derivatives				
Bank borrowings	**1,118,225**	**677,510**	**1,725,769**	**397,248**
Other borrowings	**20,339**	**149,543**	**296,621**	**4,353**
Trade and bills payables	**180,754**	**—**	**—**	**—**
Other payables and accruals (i)	**321,664**	**12,192**	**160,448**	**54,000**
Total non-derivatives	**1,640,982**	**839,245**	**2,182,838**	**455,601**
Derivatives				
Cross currency swap contract	**22,898**	**—**	**—**	**—**
At 31 December 2016				
Non-derivatives				
Bank borrowings	981,733	843,453	1,591,901	120,582
Other borrowings	18,690	17,640	300,913	143,606
Trade and bills payables	188,280	—	—	—
Other payables and accruals (i)	324,981	13,411	160,448	54,000
Total non-derivatives	1,513,684	874,504	2,053,262	318,188

(i) Other payables and accruals include amounts due to related parties, contingent consideration payables, other payables and interest payables as stated in Note 27.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital risk on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt. The Group aims to maintain the gearing ratio at a reasonable level.

The gearing ratios as at 31 December 2017 and 2016 were as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Total borrowings (Note 29)	**3,867,132**	3,588,447
Less: cash and cash equivalents (Note 23)	**(678,237)**	(755,390)
Net debt (Note 32(c))	**3,188,895**	2,833,057
Total equity	**3,117,803**	2,751,709
Total capital	**6,306,698**	5,584,766
Gearing ratio	**51%**	51%

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2017 and 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2017.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
— Investment in a trust	—	—	300,000	300,000
Available-for-sale financial assets				
— Bank financial products	—	—	—	—
— Unlisted equity securities in gas industry	—	—	61,395	61,395
Total assets	—	—	361,395	361,395
Liabilities				
Financial liabilities at fair value through profit or loss				
— Cross currency swap contract	—	22,898	—	22,898
Other payables				
— Contingent consideration	—	—	294,021	294,021
Total liabilities	—	22,898	294,021	316,919

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
— Investment in a trust	—	—	318,882	318,882
— Cross currency swap contracts	—	36,171	—	36,171
Available-for-sale financial assets				
— Bank financial products	—	—	2,000	2,000
— Unlisted equity securities in gas industry	—	—	40,145	40,145
Total assets	—	36,171	361,027	397,198
Liabilities				
Other payables				
— Contingent consideration	—	—	220,594	220,594

There were no transfers among levels 1, 2 and 3 during the year.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(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 balance sheet date. 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.

(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.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The valuation technique used to value the financial instrument is discounted cash flow analysis.

Specific valuation techniques used to value financial instruments include:

- The fair value of cross currency swap contracts is determined using forward exchange rates and forward LIBOR rates at the balance sheet date, with the resulting value discounted back to present value.

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3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

(c) *Financial instruments in level 3*

The following table presents the changes in level 3 instruments for the year ended 31 December 2017.

	Financial assets at fair value through profit or loss RMB'000	Available-for-sale financial assets RMB'000	Contingent consideration RMB'000	Total RMB'000
Balance at 1 January	318,882	42,145	(220,594)	140,433
Acquisition of subsidiaries (Note 36)	—	18,000	(129,771)	(111,771)
Additions	300,000	400,000	—	700,000
Net gain transfer to other comprehensive income	—	21,250	—	21,250
Disposals	(318,882)	(420,000)	—	(738,882)
Cash paid	—	—	56,344	56,344
Balance at 31 December	300,000	61,395	(294,021)	67,374
Total gains for the year for assets and liabilities held at the end of the year included in:				
Profit or loss	26,235	12,945	—	39,180
Other comprehensive income	—	21,250	—	21,250
	26,235	34,195	—	60,430

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

(c) *Financial instruments in level 3 (continued)*

The following table presents the changes in level 3 instruments for the year ended 31 December 2016.

	Financial assets at fair value through profit or loss RMB'000	Available-for-sale financial assets RMB'000	Contingent consideration RMB'000	Total RMB'000
Balance at 1 January	318,882	43,417	(237,212)	125,087
Acquisition of subsidiaries	—	—	(50,482)	(50,482)
Additions	—	91,000	—	91,000
Changes in fair value recognised in profit or loss	—	—	37,858	37,858
Net losses transfer to other comprehensive income	—	(272)	—	(272)
Disposals	—	(92,000)	—	(92,000)
Cash paid	—	—	29,242	29,242
Balance at 31 December	318,882	42,145	(220,594)	140,433
Total gains/(losses) for the year for assets and liabilities held at the end of the year included in:				
Profit or loss	32,266	4,642	37,858	74,766
Other comprehensive income	—	(272)	—	(272)
	32,266	4,370	37,858	74,494

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually 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 Group makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.10. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 17).

In the opinion of the Company's directors, the recoverable amounts of the CGUs will not be lower than the carrying amount even if taking into account a reasonably possible change in a key assumption on the calculations of recoverable amounts of CGUs.

(b) Income taxes

The Group's subsidiaries that operate in the PRC are subject to corporate income tax in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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

Deferred tax liabilities are generally recognised for all taxable temporary differences, except that the temporary differences arise from the initial recognition of goodwill, or arise 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.

(c) Purchase price allocation for business combinations other than common control combinations

Accounting for business combinations requires the Group to allocate the cost of the acquisition to the specific assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The Group undertakes a process to identify all assets and liabilities acquired, including any identified intangible assets where appropriate. The judgments made in identifying all acquired assets, determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as assets useful lives, may materially impact the Group's financial position and results of operation. In determining the fair values of the identifiable assets acquired and liabilities assumed, valuations were conducted by an independent valuer and estimated fair values are based on information available near the acquisition date and on expectations and assumptions that have been deemed reasonable by management.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(d) Useful life and residual value of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are depreciated or amortised on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group assesses annually the residual value and the useful life of the property, plant and equipment and intangible assets and if the expectation differs from the original estimates, such differences from the original estimates will impact the depreciation or amortisation charges in the year in which the estimates change.

5. 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, which are determined by using the accounting policies which are the same as disclosed in Note 2 above. 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.

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5. 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**

5. 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 approximately 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.

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6. 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

7. 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 (Note 32(b))	**(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

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8. 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 (Note 15)	**109,203**	99,725
Depreciation on investment properties (Note 16)	**1,312**	1,021
Amortisation of lease prepayments (Note 14)	**4,764**	4,374
Amortisation of intangible assets (Note 17)	**73,075**	67,594
Employee benefit expenses (Note 9)	**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

9. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Wages and salaries	**110,922**	96,923
Pension costs — defined contribution plans	**13,824**	12,624
Social security benefits costs	**12,252**	10,685
Share options granted to directors and employees (Note 25)	**4,593**	5,243
Others	**7,520**	7,036
	149,111	132,511

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9. EMPLOYEE BENEFIT EXPENSES *(continued)*

(a) Five highest paid individuals

The five individuals whose emoluments were highest in the Group for the year ended 31 December 2017 included three (2016: two) directors whose emoluments are reflected in the analysis shown in Note 40. The emoluments paid to the remaining two individuals for the year ended 31 December 2017 (2016: three) are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Basic salaries, and allowances	**730**	942
Retirement benefit contributions	**137**	61
	867	1,003

The emoluments of the above individual fell within the following bands:

	Year ended 31 December	
	2017	2016
Nil to HK$1,000,000 (approximate to RMB836,000)	**2**	3

No emoluments were paid by the Group to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

10. 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

11(a) INVESTMENTS IN SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2017:

Name	Country/ Place and date of incorporation	Type of legal entity	Issued/ paid-in capital (RMB'000)	Effective interest held	Principal activities and place of operation
Upsky Holdings Limited ("Upsky Holdings")	BVI/ 8 July 2003	Limited liability company	7*	100%**	Intermediary holding company in BVI
Tian Lun New Energy Limited ("Tian Lun New Energy")	Hong Kong/ 10 May 2010	Limited liability company	—*	100%	Intermediary holding company in HK
Hebi Tian Lun New Energy Limited ("Hebi New Energy") (鶴壁市天倫新能源有限公司)	PRC/ 13 May 2010	Limited liability company	15,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Henan Tian Lun Gas Group Limited ("Henan Tian Lun Gas") (河南天倫燃氣集團有限公司)	PRC/ 1 November 2002	Limited liability company	1,600,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Hebi Tian Lun Vehicle-use Gas Limited ("Hebi Tian Lun Vehicle") (鶴壁市天倫車用燃氣有限公司)	PRC/ 29 October 2007	Limited liability company	10,000	100%	Sales of CNG in the PRC
Xuchang Tian Lun Gas Limited ("Xuchang Tian Lun") (許昌市天倫燃氣有限公司)	PRC/ 29 September 2003	Limited liability company	25,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Xuchang Tian Lun Vehicle-use Gas Limited ("Xuchang Tian Lun Vehicle") (許昌市天倫車用燃氣有限公司)	PRC/ 12 September 2008	Limited liability company	10,000	100%	Sales of CNG in the PRC
Zhengzhou Shangjie Tian Lun Gas Limited ("Shangjie Tian Lun") (鄭州市上街區天倫燃氣有限公司)	PRC/ 18 July 2007	Limited liability company	15,000	90%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Baiyin Natural Gas Limited ("Gansu Baiyin") (白銀市天然氣有限公司)	PRC/ 16 June 2003	Limited liability company	30,361	98.97%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Baiyin Wantong Gas Limited ("Baiyin Wantong") (白銀市萬通燃氣有限公司)	PRC/ 15 October 2009	Limited liability company	8,500	100%	Sales of CNG in the PRC

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11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued/ paid-in capital (RMB'000)	Effective interest held	Principal activities and place of operation
Jilin Zhongji Dadi Gas Group Limited ("Jilin Zhongji") (吉林省中吉大地燃氣集團有限公司)	PRC/ 25 March 2005	Limited liability company	140,000	87%	Sales of pipelined natural gas, construction and connection of gas pipelines and sales of CNG in the PRC
Jiutai Dadi Gas Limited ("Jiutai Dadi") (九台市大地燃氣有限公司)	PRC/ 8 July 2008	Limited liability company	24,000	87%	Sales of pipelined natural gas in the PRC
Panshi Dadi Gas Limited ("Panshi Dadi") (磐石市大地燃氣有限公司)	PRC/ 26 October 2006	Limited liability company	10,000	87%	Sales of pipelined natural gas and CNG in the PRC
Da'an Dadi Gas Limited ("Da'an Dadi") (大安市大地燃氣有限公司)	PRC/ 25 January 2008	Limited liability company	12,000	87%	Sales of pipelined natural gas and CNG in the PRC
Baicheng Dadi Natural Gas Limited ("Baicheng Dadi") (白城市大地天然氣有限公司)	PRC/ 23 March 2006	Limited liability company	6,000	87%	Sales of CNG in the PRC
Zhenlai County Dadi Gas Limited ("Zhenlai County Dadi") (鎮賚縣大地燃氣有限公司)	PRC/ 30 September 2009	Limited liability company	16,000	87%	Sales of pipelined natural gas in the PRC
Tongyu County Dadi Gas Limited ("Tongyu County Dadi") (通榆縣大地燃氣有限公司)	PRC/ 30 November 2005	Limited liability company	10,000	87%	Sales of pipelined natural gas in the PRC
Puyang Tian Lun Gas Limited ("Puyang Tianlun") (濮陽市天倫燃氣有限公司)	PRC/ 9 November 2009	Limited liability company	20,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Dunhua Dadi Gas Limited ("Dunhua Dadi") (敦化市大地天然氣有限公司)	PRC/ 15 January 2007	Limited liability company	13,000	87%	Sales of pipelined natural gas in the PRC
Baicheng Zhongji Gas Distribution Limited ("Baicheng Zhongji") (白城市中吉燃氣經銷有限公司)	PRC/ 10 November 2007	Limited liability company	5,000	87%	Natural gas transportation service in the PRC
Changchun Zhongji Dadi Trade Limited ("Changchun Zhongji") (長春市中吉大地經貿有限公司)	PRC/ 22 June 2010	Limited liability company	100	87%	Sales of gas equipment in the PRC

11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued/ paid-in capital (RMB'000)	Effective interest held	Principal activities and place of operation
Jilin Dadi Technology Consultancy Limited ("Jilin Dadi") (吉林市大地技術諮詢有限公司)	PRC/ 7 March 2002	Limited liability company	5,000	87%	Engineering design and consulting services in the PRC
Xinye County Tian Lun Gas Limited ("Xinye Tian Lun") (新野縣天倫燃氣有限公司)	PRC/ 2 November 2011	Limited liability company	10,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Henan Luyuan Gas Limited ("Henan Luyuan") (河南綠源燃氣有限公司)	PRC/ 6 January 2005	Limited liability company	33,330	70%	Sales of pipelined natural gas, construction and connection of gas pipelines and sales of CNG in the PRC
Song County Tian Lun Gas Limited ("Henan Songxian") (嵩縣天倫燃氣有限公司)	PRC/ 24 June 2011	Limited liability company	13,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Shangqiu Luyuan Vehicle Gas Limited ("Shangqiu Luyuan Vehicle") (商丘市綠源汽車燃氣有限公司)	PRC/ 22 August 2006	Limited liability company	1,060	70%	Sales of CNG in the PRC
Dongkou Senbo Gas Limited ("Dongkou Senbo") (洞口森博燃氣有限公司)	PRC/ 6 January 2011	Limited liability company	10,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Kaifeng Xi'Na Natural Gas Limited ("Kaifeng Xi'Na") (開封西納天然氣有限公司)	PRC/ 28 October 2004	Limited liability company	30,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Cao County Zhongtian Gas Limited ("Caoxian Zhongtian") (曹縣中天燃氣有限公司)	PRC/ 9 May 2012	Limited liability company	10,000	80%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Shan County Zhongtian Gas Limited ("Shanxian Zhongtian") (單縣中天燃氣有限公司)	PRC/ 27 April 2006	Limited liability company	12,000	80%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC

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11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued/ paid-in capital (RMB'000)	Effective interest held	Principal activities and place of operation
Guangxi Luzhai Tianlun Gas Limited ("Luzhai Tianlun") (廣西鹿寨天倫燃氣有限公司)	PRC/ 6 January 2012	Limited liability company	30,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Xingtai Tianlun Yunyu Vehicle Gas Limited ("Xingtai Tianlun") (邢臺天倫運輿車用燃氣有限公司)	PRC/ 31 May 2012	Limited liability company	20,000	70%	Sales of CNG in the PRC
Gulang Tianlun Gas Limited ("Gulang Tianlun") (古浪天倫燃氣有限公司)	PRC/ 30 November 2012	Limited liability company	10,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Chongqing Tianlun Kaida New Energy Gas Limited ("Tianlun Kaida") (重慶天倫凱達新能源燃氣有限公司)	PRC/ 22 October 2012	Limited liability company	20,000	70%	Sales of liquefied natural gas in the PRC
Jilin Changling County Tianlun Gas Limited ("Changling Tianlun") (吉林長嶺縣天倫燃氣有限公司)	PRC/ 4 December 2013	Limited liability company	10,000	70%	New energy technology development services in the PRC
Dongming Wanji Natural Gas Industrial Limited ("Dongming Wanji") (東明萬吉天然氣實業有限公司)	PRC/ 3 June 2005	Limited liability company	10,000	80%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Heze Guanghe Natural Gas Limited ("Heze Guanghe") (菏澤市廣菏天然氣有限公司)	PRC/ 24 January 2002	Limited liability company	10,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Guangxi Guanyang Tianlun Gas Limited ("Guanyang Tianlun") (廣西灌陽天倫燃氣有限公司)	PRC/ 27 November 2013	Limited liability company	10,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Zhengzhou Shangjie Tianlun Vehicle Gas Limited ("Shangjie Tianlun Vehicle") (鄭州市上街區天倫車用燃氣有限公司)	PRC/ 18 April 2013	Limited liability company	10,000	100%	Sales of CNG in the PRC
Yunnan Datong Natural Gas Limited ("Yunnan Datong) (雲南大通天然氣有限公司)	PRC/ 24 March 2013	Limited liability company	30,000	100%	Engineering design and consulting services in the PRC

11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued/ paid-in capital (RMB'000)	Effective interest held	Principal activities and place of operation
Huize Datong Natural Gas Limited ("Huize Datong") (會澤縣大通天然氣有限公司)	PRC/ 21 December 2007	Limited liability company	8,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Gejiu Datong Natural Gas Limited ("Gejiu Datong") (個舊大通天然氣有限公司)	PRC/ 15 January 2009	Limited liability company	10,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Guangnan Datong Natural Gas Limited ("Guangnan Datong") (廣南縣大通天然氣有限公司)	PRC/ 2 September 2010	Limited liability company	6,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Hekou Datong Natural Gas Limited ("Hekou Datong") (河口縣大通天然氣有限公司)	PRC/ 24 September 2013	Limited liability company	6,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Yanshan Datong Natural Gas Limited ("Yanshan Datong") (硯山縣大通天然氣有限公司)	PRC/ 10 May 2011	Limited liability company	5,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Honghe Datong Natural Gas Limited ("Honghe Datong") (紅河大通天然氣有限公司)	PRC/ 25 August 2009	Limited liability company	10,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Ludian Datong Natural Gas Limited ("Ludian Datong") (魯甸縣大通天然氣有限公司)	PRC/ 22 July 2010	Limited liability company	5,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Weishi Tianlun Gas Limited ("Weishi Tianlun") (尉氏縣天倫燃氣有限公司)	PRC/ 30 July 2013	Limited liability company	10,000	100%	Sales of pipelined natural gas in the PRC
Jilin Yitong Tianlun Gas Limited ("Yitong Tianlun") (吉林伊通天倫燃氣有限公司)	PRC/ 26 August 2013	Limited liability company	10,000	100%	Engineering design and consulting services in the PRC
Hong Kong Xin Rong Limited ("HK Xin Rong") (香港信融有限公司)	Hong Kong/ 13 June 2013	Limited liability company	610*	100%	Trading of natural gas equipment in HK

11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued/ paid-in capital (RMB'000)	Effective interest held	Principal activities and place of operation
Shantou Chaoyang District Minan Pipelined Gas Limited ("Shantou Chaoyang") (汕頭市潮陽區民安管道燃氣有限公司)	PRC/ 15 October 2008	Limited liability company	10,000	90%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Shantou Chenghai Gas Construction Limited ("Shantou Chenghai") (汕頭市澄海燃氣建設有限公司)	PRC/ 24 June 1994	Limited liability company	17,250	90%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Chaozhou Huamao Energy Distribution Limited ("Chaozhou Huamao") (潮州市華茂能源配送有限公司)	PRC/ 6 September 2010	Limited liability company	133,224	60%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Tangyin Yuneng Gas Limited ("Tangyin Yuneng") (湯陰豫能燃氣有限公司)	PRC/ 30 May 2013	Limited liability company	10,000	100%	Provision of designing service of gas pipelines in the PRC
Wah Shing Century Limited ("Wah Shing Century") (華盛世紀有限公司)	Hong Kong/ 5 August 2014	Limited liability company	79*	100%	Investment in equity and assets in HK
Beijing Tian Lun Investment Company Limited ("Beijing Tian Lun Investment") (北京天倫投資有限公司)	PRC/ 23 May 2006	Limited liability company	70,000	100%	Intermediary holding in the PRC
Beijing Hui Ji Energy Holdings Limited ("Hui Ji Energy") (北京慧基能源控股有限公司)	PRC/ 2 April 2014	Limited liability company	343,320	100%	Intermediary holding in the PRC
Henan Tianlun Pipeline Company Limited ("Tianlun Pipeline") (河南天倫燃氣管網有限公司)	PRC/ 19 February 2008	Limited liability company	265,411	90%	Sales and transportation gas/PRC
Sanming Hui Ji Energy Company Limited ("Sanming Huiji") (三明慧基能源有限公司)	PRC/ 9 January 2012	Limited liability company	24,000	100%	Sales and transportation gas, gas pipeline connections/PRC
Suzhou Tianlun Natural Gas Pipeline Network Company Limited ("Suzhou Tianlun") (蘇州天倫燃氣管網有限公司)	PRC/ 17 March 2008	Limited liability company	50,000	85%	Sales and transportation gas/PRC
Li Quan County Hong Yuan Natural Gas Company Limited ("Liquan Hongyuan") (禮泉縣宏遠天然氣有限公司)	PRC/ 12 December 2005	Limited liability company	3,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC

11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued/ paid-in capital (RMB'000)	Effective interest held	Principal activities and place of operation
Qian County Hong Yuan Natural Gas Company Limited ("Qianxian Hongyuan") (乾縣宏遠天然氣有限公司)	PRC/ 18 September 2006	Limited liability company	3,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Jilin Qian'an Tianlun Gas Company Limited ("Jilin Qian'an") (吉林乾安天倫燃氣有限公司)	PRC/ 21 May 2010	Limited liability company	19,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Hunan Zhongyou Zhiyuan Gas Company Limited ("Hunan Zhongyou") (湖南中油致遠燃氣有限公司)	PRC/ 31 March 2011	Limited liability company	10,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Jingzhou Tian Lun Clean Energy Company Limited ("Jingzhou Tianlun") (荊州天倫清潔能源有限公司)	PRC/ 25 December 2015	Limited liability company	10,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Sichuan Mingsheng Natural Gas Company Limited ("Sichuan Mingsheng") (四川省明聖天然氣有限責任公司)	PRC/ 20 December 2000	Limited liability company	30,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Xichuan Longcheng Natural Gas Company Limited ("Xichuan Longcheng") (淅川縣龍成天然氣有限責任公司)	PRC/ 1 September 2015	Limited liability company	39,800	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Lechang Anshunda Pipeline Nature Gas Company Limited ("Lechang Anshunda") (樂昌市安順達管道天然氣有限公司)	PRC/ 15 February 2007	Limited liability company	20,000	85%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Sichuan Jintang County Tian Lun Gas Company Limited ("Jintang Gas") (四川省金堂縣天倫燃氣有限公司)	PRC/ 12 May 1993	Limited liability company	51,145	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Nantong Tian Lun Gas Company Limited ("Nantong Gas") (南通天倫燃氣有限公司)	PRC/ 22 January 2017	Limited liability company	10,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Anshan City Tian Lun Gas Company Limited ("Anshan Gas") (鞍山市天倫燃氣有限公司)	PRC/ 17 March 2017	Limited liability company	10,000	100%	Construction and maintenance of gas pipelines in the PRC

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11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

* The issued capital of Upsky Holdings is USD1,000.
The issued capital of Tian Lun New Energy is HK$2.
The issued capital of HK Xin Rong is USD100,000.
The issued capital of Wah Shing Century is HK$100,000.

** Shares hold directly by the Company.

(a) Material non-controlling interests

The total non-controlling interests as at 31 December 2017 are approximately RMB339,450,000 (2016: RMB320,507,000), of which approximately RMB58,962,000 (2016: RMB53,501,000) is attributed to Jilin Zhongji, approximately RMB96,273,000 (2016: RMB98,975,000) is attributed to Chaozhou Huamao, approximately RMB38,861,000 (2016: RMB39,134,000) is attributed to Tianlun Pipeline, and approximately RMB43,280,000 (2016: RMB37,829,000) is attributed to Suzhou Tianlun. The non-controlling interests in respect of other subsidiaries are not material.

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. See Note 35 for transactions with non-controlling interests.

Summarised balance sheets

	Jilin Zhongji		Chaozhou Huamao		Tianlun Pipeline		Suzhou Tianlun	
	As at 31 December		As at 31 December		As at 31 December		As at 31 December	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current								
Assets	**205,346**	178,129	**38,850**	15,445	**82,880**	51,217	**55,184**	42,543
Liabilities	**(80,566)**	(99,888)	**(104,492)**	(90,814)	**(242,776)**	(137,665)	**(97,623)**	(138,401)
Total net current assets/(liabilities)	**124,780**	78,241	**(65,642)**	(75,369)	**(159,896)**	(86,448)	**(42,439)**	(95,858)
Non-current								
Assets	**257,071**	258,599	**176,944**	188,114	**421,227**	389,232	**183,765**	193,436
Liabilities	**–**	—	**–**	—	**–**	(40,000)	**–**	—
Total net non-current assets	**257,071**	258,599	**176,944**	188,114	**421,227**	349,232	**183,765**	193,436
Net assets	**381,851**	336,840	**111,302**	112,745	**261,331**	262,784	**141,326**	97,578

11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

(a) Material non-controlling interests *(continued)*

Summarised statements of comprehensive income

	Jilin Zhongji		Chaozhou Huamao		Tianlun Pipeline		Suzhou Tianlun	
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue	**248,938**	141,401	**84,683**	42,438	**374,923**	420,790	**487,699**	488,882
Profit/(loss) before income tax	**60,242**	61,429	**(1,893)**	(11,610)	**24,083**	27,961	**58,358**	58,650
Income tax expense	**(15,231)**	(14,764)	**450**	2,879	**(5,850)**	(6,661)	**(14,610)**	(14,757)
Profit/(loss) for the year	**45,011**	46,665	**(1,443)**	(8,731)	**18,233**	21,300	**43,748**	43,893
Other comprehensive income	**–**	—	**–**	—	**–**	—	**–**	—
Total comprehensive income/(loss)	**45,011**	46,665	**(1,443)**	(8,731)	**18,233**	21,300	**43,748**	43,893
Total comprehensive income allocated to non-controlling interests	**5,851**	8,097	**(577)**	(3,492)	**1,823**	2,130	**6,562**	6,584
Dividends paid to non-controlling interests	**–**	—	**–**	—	**1,547**	—	**–**	3,651

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11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

(a) Material non-controlling interests *(continued)*

Summarised statements of cash flows

	Jilin Zhongji Year ended 31 December		Chaozhou Huamao Year ended 31 December		Tianlun Pipeline Year ended 31 December		Suzhou Tianlun Year ended 31 December	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Cash flows from operating activities								
Cash generated from/ (used in) operations	**94,069**	15,938	**(17,416)**	7,034	**191,138**	157,431	**69,046**	57,456
Interest paid	**(1,662)**	—	**(2,878)**	—	**(10,342)**	(10,312)	**(4,046)**	(5,847)
Income tax paid	**(16,117)**	(13,234)	**–**	—	**(2,831)**	(2,831)	**(14,610)**	(14,577)
Net cash generated from/ (used in) operating activities	**76,290**	2,704	**(20,294)**	7,034	**177,965**	144,288	**50,390**	37,032
Net cash (used in)/generated from investing activities	**(87,146)**	(13,259)	**28,686**	(8,822)	**(57,487)**	(28,266)	**6,913**	(13,019)
Net cash generated from/ (used in) financing activities	**254**	129	**22**	13	**(121,480)**	(174,147)	**(40,858)**	(24,901)
Net (decrease)/increase in cash and cash equivalents	**(10,602)**	(10,426)	**8,414**	(1,775)	**(1,002)**	(58,125)	**16,445**	(888)
Cash and cash equivalents at beginning of year	**11,807**	22,233	**5,367**	7,142	**1,457**	59,582	**10,788**	11,676
Cash and cash equivalents at end of year	**1,205**	11,807	**13,781**	5,367	**455**	1,457	**27,233**	10,788

The information above is the amount before inter-company eliminations.

11(b) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the consolidated balance sheet are as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Investments in associates	**501,775**	271,571

The amounts recognised in profit and loss are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Share of post-tax profit of associates	**23,371**	20,768

Set out below are the associates of the Group as at 31 December 2017. The associates as listed below have share capital consisting solely of ordinary shares, which are held by the Group directly; the country of incorporation is also the principal place of business.

Nature of investment in associates as at 31 December 2017

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
Inner Mongolia Petroleum and Gas Investment Corporation Limited ("Inner Mongolia Petroleum and Gas") (內蒙古油氣投資股份有限公司)	Inner Mongolia, the PRC	33.33	Note 1	Equity
Suzhou Ping Zhuang Industrial Gas Co., Ltd ("Suzhou Ping Zhuang") (蘇州平莊工業天然氣有限公司)	Jiangsu, the PRC	20.00	Note 2	Equity
Henan Jiuding Financial Leasing Company Limited ("Henan Jiuding") (河南九鼎金融租賃股份有限公司)	Henan, the PRC	20.00	Note 3	Equity
Chengdu Huaizhou Xincheng Gas Company Limited ("Huaizhou Gas") (成都淮州新城燃氣有限責任公司)	Sichuan, the PRC	11.00	Note 4	Equity

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11(b) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

Nature of investment in associates as at 31 December 2017 *(continued)*

Note 1: Inner Mongolia Petroleum and Gas was incorporated on 11 December 2014 and mainly engages in the construction of long-distance petroleum and gas pipelines, and investment in the petroleum and gas industry. Inner Mongolia Petroleum and Gas is a strategic partner for the Group, providing access to new customers and markets of the upstream gas industry and creating synergies with the subsidiaries of the Group.

Note 2: Suzhou Ping Zhuang mainly engages in the sales of bottled gas. Suzhou Ping Zhuang provides access to new customers and markets.

Note 3: Henan Jiuding was incorporated on 23 March 2016 and mainly engages in financial leasing, financial leasing assets trading, fixed income securities investment, inter-bank borrowing investment and other financial business. Henan Jiuding is a strategic partner for the Group, and can finance potential industrial customers substituting its energy supply from coal and electricity to pipelined natural gas and create synergies with the subsidiaries of the Group.

Note 4: Huaizhou Gas mainly engages in the sales of natural gas, construction and connection of gas pipelines, and construction and operation of gas stations etc. Huaizhou Gas provides access to new customers and markets, and create synergies with the subsidiaries of the Group.

Inner Mongolia Petroleum and Gas, Suzhou Ping Zhuang, Henan Jiuding and Huaizhou Gas are unlisted companies and there are no quoted market prices available for the equities. There are no contingent liabilities relating to the Group's interests in the associates.

Summarised financial information for the associates

The tables below provide summarised financial information for those associates that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

11(b) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

Summarised financial information for the associates *(continued)*

Summarised balance sheets

	Inner Mongolia Petroleum and Gas As at 31 December		Henan Jiuding As at 31 December	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current				
Cash and cash equivalents	**15,785**	1,294	**244,319**	430,906
Other current assets	**145,427**	155,111	**10,918,188**	7,988,621
Total current assets	**161,212**	156,405	**11,162,507**	8,419,527
Other current liabilities (including trade payables)	**(2,320)**	(2,590)	**(8,557,706)**	(7,115,185)
Total current liabilities	**(2,320)**	(2,590)	**(8,557,706)**	(7,115,185)
Non-current				
Other non-current assets	**361**	407	**20,174**	3,762
Total non-current assets	**361**	407	**20,174**	3,762
Other non-current liabilities	**(2,653)**	—	**(413,679)**	(209,700)
Total non-current liabilities	**(2,653)**	—	**(413,679)**	(209,700)
Net assets	**156,600**	154,222	**2,211,296**	1,098,404

Summarised statements of comprehensive income

	Inner Mongolia Petroleum and Gas Year ended 31 December		Henan Jiuding	
			Year ended 31 December	Nine months period ended 31 December
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Revenue	**—**	—	**290,458**	249,592
Profit before income tax	**3,177**	3,762	**151,259**	131,818
Profit for the year/period	**2,378**	3,126	**112,892**	98,404
Total comprehensive income	**2,378**	3,126	**112,892**	98,404

11(b) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

Summarised financial information for the associates *(continued)*

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interests in associates:

Summarised financial information	Inner Mongolia Petroleum and Gas		Henan Jiuding	
	Year ended 31 December		Year ended 31 December	Nine months period ended 31 December
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Opening net assets	**154,222**	151,096	**1,098,404**	—
Capital contribution	**–**	—	**1,000,000**	1,000,000
Profit for the year/period	**2,378**	3,126	**112,892**	98,404
Closing net assets	**156,600**	154,222	**2,211,296**	1,098,404
Interest in associates (33.33%; 20%)	**52,195**	51,402	**442,259**	219,681
Carrying value	**52,195**	51,402	**442,259**	219,681

Individually immaterial associates

In addition to the interests in associates disclosed above, the Group also has interests in two of individually immaterial associates that are accounted for using the equity method.

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial associates	**7,321**	488
Aggregate amounts of the Group's share of:		
Profit from continuing operations	**–**	45
Post-tax profit or loss from discontinued operations	**–**	—
Other comprehensive income	**–**	—
Total comprehensive income	**–**	45

12. INCOME TAX EXPENSE

(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 Gansu Baiyin, Liquan Hongyuan, Qianxian Hongyuan, Baiyin Wantong, Gulang Tianlun, Sichuan Mingsheng and Jintang Gas 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 (Note 30)	**(18,792)**	(23,706)
	146,682	110,299

The difference between the actual income tax charge in profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit before income tax	**575,839**	444,708
Tax calculated at statutory tax rate applicable to each Group entity	**154,146**	103,246
Income not subject to tax	**(9,079)**	(6,353)
Expenses not deductible for tax purposes	**2,887**	1,075
Tax losses with no deferred tax assets recognised (i)	**530**	12,649
Utilisation of previously unrecognised tax losses	**(5,683)**	(318)
Withholding tax	**3,881**	—
	146,682	110,299

The weighted average effective tax rate for the year ended 31 December 2017 is 25% (2016: 25%).

(i) See Note 30(c) on the tax losses with no deferred tax assets recognised.

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12. INCOME TAX EXPENSE *(continued)*

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

The tax credit relating to components of other comprehensive income is as follows:

	Year ended 31 December					
	2017			2016		
	Before tax RMB'000	**Tax credit RMB'000**	**After tax RMB'000**	Before tax RMB'000	Tax credit RMB'000	After tax RMB'000
Fair value gains/(losses) on available-for-sale financial assets	**21,250**	**(5,313)**	**15,937**	(272)	68	(204)
Other comprehensive income	**21,250**	**(5,313)**	**15,937**	(272)	68	(204)
Deferred income tax (Note 30)	**–**	**5,313**	**–**	—	(68)	—

13. 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.

13. EARNINGS PER SHARE *(continued)*

(b) Diluted *(continued)*

	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.

14. LEASE PREPAYMENTS

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC, the net book values of which are analysed as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Opening net book value	**233,842**	170,745
Acquisition of subsidiaries (Note 36)	**8,910**	13,010
Additions	**6,508**	54,461
Disposals (Note 32)	**(20,624)**	—
Amortisation charge	**(4,764)**	(4,374)
Closing net book value	**223,872**	233,842

(a) All the amortisation of the Group's land use rights was charged to administrative expenses.

(b) As at 31 December 2017, the Group was in the process of obtaining the legal title of land use rights with carrying amount of approximately RMB36,072,000 (2016: RMB53,820,000).

(c) As at 31 December 2017, no land use right was secured for bank borrowings (2016: RMB11,396,000) (Note 29).

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15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Equipment and machinery RMB'000	Gas pipelines RMB'000	Office equipment and motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2016						
Cost	286,648	228,873	1,235,839	57,217	367,455	2,176,032
Accumulated depreciation	(27,473)	(54,060)	(122,631)	(28,112)	—	(232,276)
Net book amount	259,175	174,813	1,113,208	29,105	367,455	1,943,756
Year ended 31 December 2016						
Opening net book amount	259,175	174,813	1,113,208	29,105	367,455	1,943,756
Acquisition of subsidiaries	11,234	16,355	40,861	1,193	7,839	77,482
Additions	571	1,629	2,892	3,105	194,732	202,929
Transfer from CIP	28,711	21,387	113,998	27	(164,123)	—
Transfer from investment properties	2,182	—	—	—	—	2,182
Disposals (Note 32)	(271)	(1,036)	(326)	(851)	—	(2,484)
Depreciation charge (Note 8)	(12,526)	(25,661)	(53,673)	(7,865)	—	(99,725)
Closing net book amount	289,076	187,487	1,216,960	24,714	405,903	2,124,140
At 31 December 2016						
Cost	329,088	265,211	1,393,152	56,859	405,903	2,450,213
Accumulated depreciation	(40,012)	(77,724)	(176,192)	(32,145)	—	(326,073)
Net book amount	289,076	187,487	1,216,960	24,714	405,903	2,124,140

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

	Buildings RMB'000	Equipment and machinery RMB'000	Gas pipelines RMB'000	Office equipment and motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Year ended 31 December 2017						
Opening net book amount	289,076	187,487	1,216,960	24,714	405,903	2,124,140
Acquisition of subsidiaries (Note 36)	8,232	2,501	39,184	530	–	50,447
Additions	34	7,009	1,143	3,738	284,894	296,818
Transfer from CIP	67,435	63,598	200,131	138	(331,302)	–
Transfer to investment properties	(1,269)	–	–	–	–	(1,269)
Disposals (Note 32)	(1,269)	(4,177)	(1,055)	(122)	(515)	(7,138)
Depreciation charge (Note 8)	(14,835)	(29,958)	(60,607)	(3,803)	–	(109,203)
Closing net book amount	347,404	226,460	1,395,756	25,195	358,980	2,353,795
At 31 December 2017						
Cost	402,041	331,924	1,631,814	57,144	358,980	2,781,903
Accumulated depreciation	(54,637)	(105,464)	(236,058)	(31,949)	–	(428,108)
Net book amount	347,404	226,460	1,395,756	25,195	358,980	2,353,795

(a) Depreciation expense of approximately RMB97,796,000 (2016: RMB88,090,000) has been charged in cost of sales, RMB351,000 (2016: RMB225,000) in distribution expenses and RMB11,056,000 (2016: RMB11,410,000) in administrative expenses.

(b) As at 31 December 2017, no buildings of the Group was secured for bank borrowings (2016: RMB7,497,000) (Note 29).

(c) As at 31 December 2017, the Group was in the process of obtaining the legal title of buildings with carrying amount of approximately RMB103,410,000 (2016: RMB81,004,000).

(d) As at 31 December 2017 and 2016, the CIP mainly comprises the gas pipelines, LNG plant, LNG and CNG storage stations being constructed in the PRC.

(e) During the year ended 31 December 2017, the Group has capitalised borrowing costs amounting to RMB29,487,000 (2016: RMB30,599,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings at 6.26% (2016: 6.50%).

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16. INVESTMENT PROPERTIES

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At beginning of the year		
Cost	**26,587**	27,104
Accumulated depreciation	**(8,377)**	(7,442)
Net book amount	**18,210**	19,662
For the year		
Opening net book amount	**18,210**	19,662
Acquisition of subsidiaries (Note 36)	**12,660**	1,751
Transfer to property, plant and equipment	**—**	(2,182)
Transfer from property, plant and equipment	**1,269**	—
Depreciation charge	**(1,312)**	(1,021)
Closing net book amount	**30,827**	18,210
At end of the year		
Cost	**40,547**	26,587
Accumulated depreciation	**(9,720)**	(8,377)
Net book amount	**30,827**	18,210
Fair value at end of the year (b)	**55,241**	41,751

16. INVESTMENT PROPERTIES *(continued)*

(a) The following amounts have been recognised in profit or loss:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Rental income	**2,818**	2,592
Direct operating expenses from properties that generated rental income	**(1,312)**	(1,152)
	1,506	1,440

As at 31 December 2017 and 2016, the Group had no unprovided contractual obligations for future repairs and maintenance.

(b) The Group's investment properties are analysed as follows:

As at 31 December 2017 and 2016, the fair value of investment property is measured using significant unobservable inputs (Level 3).

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no transfers among levels 1, 2 and 3 during the years of 2017 and 2016.

Valuation techniques

The valuation of investment properties is determined using the direct comparison approach. Sales prices of comparable properties in close proximity are adjusted for property's size and the ageing degree.

The significant unobservable inputs adopted include:

Recent market price — Based on the actual market selling price of the properties;

Property's size — Based on the size of the properties;

The ageing degree — Based on the years of the properties used.

Description — Office building	**Fair value** RMB'000	**Valuation technique**	**Unobservable inputs**
At 31 December 2017	55,241	Direct comparison approach	RMB2,700 — RMB9,300 per square meter
At 31 December 2016	41,751	Direct comparison approach	RMB5,250 — RMB9,300 per square meter

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16. INVESTMENT PROPERTIES *(continued)*

(c) Depreciation expense of approximately RMB1,312,000 (2016: RMB1,021,000) has been charged in cost of sales.

(d) Leasing arrangements

Certain investment properties are leased to tenants under long-term operating leases with rental payable at regular intervals during the year based on the payment terms. Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the consolidated financial statements are receivable as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Within 1 year	**2,298**	1,800
Later than 1 year but no later than 3 years	**2,952**	1,714
	5,250	3,514

(e) As at 31 December 2017 and 2016, no investment properties were secured for bank borrowings.

17. INTANGIBLE ASSETS

	Goodwill RMB'000	Operating rights RMB'000	Computer software RMB'000	Network RMB'000	Contractual customer relationships RMB'000	Total RMB'000
At 1 January 2016						
Cost	1,214,631	646,151	1,527	319,789	401,910	2,584,008
Accumulated amortisation	—	(72,273)	(692)	(19,693)	(12,627)	(105,285)
Net book amount	1,214,631	573,878	835	300,096	389,283	2,478,723
Year ended 31 December 2016						
Opening net book amount	1,214,631	573,878	835	300,096	389,283	2,478,723
Acquisition of subsidiaries	310,901	276,456	—	—	—	587,357
Additions	—	—	598	—	—	598
Amortisation charge	—	(39,623)	(475)	(10,660)	(16,836)	(67,594)
Closing net book amount	1,525,532	810,711	958	289,436	372,447	2,999,084
At 31 December 2016						
Cost	1,525,532	922,607	2,125	319,789	401,910	3,171,963
Accumulated amortisation	—	(111,896)	(1,167)	(30,353)	(29,463)	(172,879)
Net book amount	1,525,532	810,711	958	289,436	372,447	2,999,084
Year ended 31 December 2017						
Opening net book amount	**1,525,532**	**810,711**	**958**	**289,436**	**372,447**	**2,999,084**
Acquisition of subsidiaries (Note 36)	**246,422**	**232,205**	**27**	**–**	**–**	**478,654**
Additions	**–**	**2,830**	**145**	**–**	**–**	**2,975**
Amortisation charge	**–**	**(45,009)**	**(570)**	**(10,660)**	**(16,836)**	**(73,075)**
Closing net book amount	**1,771,954**	**1,000,737**	**560**	**278,776**	**355,611**	**3,407,638**
At 31 December 2017						
Cost	**1,771,954**	**1,157,642**	**2,297**	**319,789**	**401,910**	**3,653,592**
Accumulated amortisation	**–**	**(156,905)**	**(1,737)**	**(41,013)**	**(46,299)**	**(245,954)**
Net book amount	**1,771,954**	**1,000,737**	**560**	**278,776**	**355,611**	**3,407,638**

(a) During the year ended 31 December 2017, amortisation of approximately RMB70,047,000 (2016: RMB65,363,000) was included in cost of sales, and RMB3,028,000 (2016: RMB2,231,000) was included in administration expenses.

(b) Impairment for goodwill

Management reviews the business performance based on subsidiaries and type of business. It has identified Jilin Zhongji, Puyang Tianlun, Henan Luyuan, Henan Songxian, Dongkou Senbo, Kaifeng Xi'Na, Caoxian Zhongtian, Shanxian Zhongtian, Gansu Baiyin, Yunnan Datong, Heze Guanghe, Dongming Wanji, Chaozhou Huamao, Shantou Chenghai, Beijing Tian Lun Investment Group, Hunan Zhongyou, Jilin Qian'an, Liquan Hongyuan, Qianxian Hongyuan, Sichuan Mingsheng, Xichuan Longcheng and Jintang Gas as the subsidiaries which are subject to the annual impairment testing on goodwill.

17. INTANGIBLE ASSETS *(continued)*

(b) Impairment for goodwill *(continued)*

The above subsidiaries all engaged in distribution and sale of natural gas, and connection of gas pipelines in the PRC. Goodwill is monitored by management at the operating segment level. The following is a summary of goodwill allocation for each CGU:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Jilin location		
Jilin Zhongji	**89,045**	89,045
Jilin Qian'an	**3,089**	3,089
Gansu location		
Gansu Baiyin	**86,715**	86,715
Henan location		
Puyang Tianlun	**6,167**	6,167
Henan Luyuan	**7,663**	7,663
Henan Songxian	**8,115**	8,115
Kaifeng Xi'Na	**10,079**	10,079
Xichuan Longcheng	**33,533**	33,533
Hunan location		
Dongkou Senbo	**7,572**	7,572
Hunan Zhongyou	**20,353**	20,353
Yunnan location		
Yunnan Datong	**16,778**	16,778
Shandong location		
Caoxian Zhongtian	**11,401**	11,401
Shanxian Zhongtian	**14,222**	14,222
Heze Guanghe	**61,656**	61,656
Dongming Wanji	**14,967**	14,967
Guangdong location		
Chaozhou Huamao	**166,070**	166,070
Shantou Chenghai	**65,937**	65,937
Beijing Tian Lun Investment Group		
Tianlun Pipeline	**265,503**	265,503
Suzhou Tianlun	**188,697**	188,697
Sanming Hui	**22,518**	22,518
Lechang Anshunda	**28,063**	28,063
Shaanxi location		
Liquan Hongyuan	**90,106**	90,106
Qianxian Hongyuan	**57,978**	57,978
Sichuan location		
Sichuan Mingsheng	**249,305**	249,305
Jintang Gas	**246,422**	—
	1,771,954	1,525,532

17. INTANGIBLE ASSETS *(continued)*

(b) Impairment for goodwill *(continued)*

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period, while in some circumstances, an eight-year period is taken into consideration. Cash flows beyond the five-year or eight-year period are extrapolated using the estimated growth rates stated below until the expiry of the relevant operation periods or operating rights. The growth rate does not exceed the long-term average growth rate for the gas business in which the CGU operates. In the opinion of the Company's directors, the recoverable amounts of the CGUs will not be lower than the carrying amount even if taking into account a reasonably possible change in a key assumption on the calculations of recoverable amounts of the CGUs.

Except for the CGUs in Beijing Tian Lun Investment Group, the other CGUs in the same geography share approximately the same compound annual volume growth rate, long term growth rate and pre-tax discount rate. The CGUs in Beijing Tian Lun Investment Group share approximately the same compound annual volume growth rate, long term growth rate and pre-tax discount rate, as their business models are similar to each other. The CGUs in Beijing Tian Lun Investment Group and the other CGUs in the same geography had been grouped together for presentation only, respectively.

The key assumptions used for value-in-use calculations in 2017 are as follows:

	Jilin Location	Gansu Location	Henan Location	Hunan Location	Yunnan Location	Shandong Location	Guangdong Location	Beijing Tian Lun Investment Group	Shaanxi Location	Sichuan Location
Sales volume (% annual growth rate)	24%	14%	14%	28%	64%	21%	43%	29%	18%	25%
Sales price (% annual growth rate)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other operating costs (RMB'000)	19,425	9,542	6,047	4,608	4,520	9,348	14,485	17,862	7,240	8,246
Annual capital expenditure (RMB'000)	6,094	3,622	7,310	1,849	2,806	3,802	7,710	17,439	4,339	3,708
Gross margin (% of revenue)	28%	29%	34%	28%	44%	30%	26%	14%	31%	33%
Long term growth rate	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Pre-tax discount rate	20%	18%	19%	18%	18%	19%	19%	17%	18%	16%

17. INTANGIBLE ASSETS *(continued)*

(b) Impairment for goodwill *(continued)*

The key assumptions used for value-in-use calculations in 2016 are as follows:

	Jilin Location	Gansu Location	Henan Location	Hunan Location	Yunnan Location	Shandong Location	Guangdong Location	Beijing Tian Lun Investment Group	Shaanxi Location	Sichuan Location
Sales volume (% annual growth rate)	20%	13%	13%	26%	86%	22%	51%	26%	19%	25%
Sales price (% annual growth rate)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other operating costs (RMB'000)	18,328	8,528	6,260	4,592	4,867	9,970	14,312	19,945	7,539	7,651
Annual capital expenditure (RMB'000)	7,171	3,984	8,053	1,839	4,582	3,660	9,737	16,684	4,068	4,250
Gross margin (% of revenue)	28%	31%	36%	29%	31%	31%	29%	13%	31%	31%
Long term growth rate	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Pre-tax discount rate	20%	18%	19%	18%	18%	19%	19%	17%	18%	16%

These assumptions have been used for the analysis of each CGU within the operating segment.

Sales volume is the average compound annual growth rate which is based on past performance and management's expectations of market development over the five-year or eight-year forecast period.

Sales price is the average annual growth rate over the five-year or eight-year forecast period, it is estimated to be stable during the forecast period.

Other operating costs are the fixed costs of the CGUs, which do not vary significantly with sales volumes or prices. Management forecasts these costs based on the current structure of the business, adjusting for inflationary increases and these do not reflect any future restructurings or cost saving measures. The amounts disclosed above are the average operating costs for the five-year or eight-year forecast period.

Annual capital expenditure is the expected cash costs in the subsidiaries of each group. This is based on the historical experience and the long-term assets investment plan of the management.

Gross margin is the average margin as a percentage of revenue over the five-year or eight-year forecast period. It is based on the current sales margin levels.

The long term growth rates are based on management's best estimates with consideration of both internal and external factors relating to the CGUs.

The discount rates used are pre-tax and reflect specific risks relating to the relevant locations.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

(a) Movements of the Group's available-for-sale financial assets are set out as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Balance at 1 January	**42,145**	43,417
Acquisition of subsidiaries (Note 36)	**18,000**	—
Additions	**400,000**	91,000
Disposals	**(420,000)**	(92,000)
Gains/(losses) transfer to other comprehensive income (Note 26)	**21,250**	(272)
Balance at 31 December	**61,395**	42,145
Less: non-current portion	**(61,395)**	(40,145)
Current portion	**—**	2,000

Available-for-sale financial assets include the following:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Unlisted securities:		
— Bank financial products	**—**	2,000
— Gas industry equity interest (i)	**61,395**	40,145
	61,395	42,145

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(continued)*

(b) All available-for-sale financial assets are denominated in RMB.

(i) As at 31 December 2017, the Group's total percentage shareholding in the investee was 19%.

This investment is classified as available-for-sale financial assets, rather than as an investment in an associate, because the Group does not have the power to exercise significant influence over the investee. Although one representative has been assigned to the investee as its director of the board, the Group's determination that it does not exercise a "significant influence" over the investee has been based on the following factors:

- The Group does not have a significant influence in respect of the voting power in the policy-making decisions of the investee due to the minority shareholding position;
- There are no interchange of management personnel or sharing of technical information between the Group and the investee;
- There are no potential voting rights that are currently exercisable or currently convertible;
- The access to the financial and operating information of the investee was very restrictive for the Group;
- In addition, the Group made a few proposals to the board of the investee in prior years, such as the dividends distribution plan and senior management assignment to the investee etc., and all of these proposals were vetoed.

Available-for-sale financial assets measured at fair value in the consolidated balance sheet are categorised by level according to the significance of the inputs used in making the measurements.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(continued)*

(b) (continued)

(i) (continued)

Recurring measurements	**Fair values** (RMB'000)	**Quoted prices in Active markets for identical instruments (Level I)** (RMB'000)	**Significant other observable inputs (Level 2)** (RMB'000)	**Significant unobservable inputs (Level 3)** (RMB'000)
Available-for-sale financial assets				
Unlisted equity investment	61,395	—	—	61,395
— As at 31 December 2017	61,395	—	—	61,395
Bank financial products	2,000	—	—	2,000
Unlisted equity investment	40,145	—	—	40,145
— As at 31 December 2016	42,145	—	—	42,145

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers in or out of Level 3 fair value measurements for available-for-sale financial assets during the year.

As at 31 December 2017, the fair values of unlisted equity investment are valued by independent professionally qualified valuation firm Asset Appraisal Limited and calculated by using the market approach to determine the fair value of the assets by reference to the transaction prices, or "valuation multiples" implicit in the transaction prices, of identical or similar assets on the market, which results in these measurements being classified as Level 3 in the fair value hierarchy.

In applying the market approach, a few valuation multiples are to be determined by dividing a financial parameter by the transaction price paid for similar business enterprises, such as historical or prospective turnover or profit at a given level. Valuation multiples are applied to the corresponding financial parameter of the subject asset in order to value it. Adjustments are required to the transaction prices or valuation multiples to reflect the differentiating characteristics of the business enterprises and the comparable business enterprises for which the transaction prices or valuation multiples are known. The multiples adopted in the valuation are among price/earnings and price/EBITDA, and the value of unlisted equity investment was determined by the average of the results calculated using the different multiples.

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(continued)*

(b) (continued)

(i) (continued)

Information about fair value measurements using significant unobservable inputs (Level 3)

Description	Fair value (RMB'000)	Valuation technique	Unobservable inputs	Unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Unlisted equity investment					
— As at 31 December 2017	61,395	Market approach	Price/earnings Price/EBITDA	14.90 10.17	The higher the ratios, the higher the fair value

Description	Fair value (RMB'000)	Valuation technique	Unobservable inputs	Unobservable inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Unlisted equity investment					
— As at 31 December 2016	40,145	Market approach	Price/earnings Price/EBITDA	19.19 9.91	The higher the ratios, the higher the fair value

(c) The maximum exposure to credit risk at the reporting date is the carrying value of the bank financial products and equity interest classified as available-for-sale.

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

19. 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) (Note 37)	**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

(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 approximately RMB354,004,000 (2016: RMB354,903,000) were fully performing.

19. TRADE AND BILLS RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

(a) (continued)

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.

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 approximately 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.

20. PREPAYMENTS RELATED TO OTHER NON-CURRENT ASSETS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Prepayments related to share purchase agreements (i)	**56,817**	—
Prepayments related to long-term assets construction	**24,888**	30,331
	81,705	30,331

(i) As at 31 December 2017, prepayments amounting to RMB56,817,000 were related to the prepayments made for purchasing the equity of other private companies in gas industry.

21. INVENTORIES

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Materials for gas pipelines	**39,511**	30,793
Consumables	**842**	1,066
Work in progress	**6,272**	10,033
	46,625	41,892

The costs of individual items of inventory are determined using weighted average costs.

As at 31 December 2017 and 2016, no inventories write-down was provided.

The cost of inventories recognised as the Group's expense and included in cost of sales amounted to approximately RMB2,003,027,000 (2016: RMB1,692,276,000).

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22. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Investment in a trust (i)	**300,000**	318,882
Cross currency swap (ii)	**—**	36,171
	300,000	355,053
Less: no-current portion of cross currency swap	**—**	(19,786)
Current portion	**300,000**	335,267

(b) Financial liabilities at fair value through profit or loss

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cross currency swap (ii)	**(22,898)**	—

(i) On 21 March 2017, the investment in trust with Zhongyuan Trust Company Limited ("Zhongyuan Trust"), which is ultimately owned by the People's Government of Henan Province, was matured and the respective principal and dividends were collected by the Group. On 7 April 2017, Henan Tian Lun Gas and Zhongyuan Trust, entered into a new trust investment agreement amounting to RMB300,000,000 in relation to the investment in a portfolio of trust financial products managed and maintained by Zhongyuan Trust for a term of two years. The investment in trust fund can be redeemed by the Group at its will, and therefore is classified as a current asset.

The fair value of the investment in trust is measured by the discounted cash flow model with key assumptions including expected return rate, counter-parties' credit risk and market interest rate.

(ii) Most of the Group's foreign currency exposure is arising from the Group's borrowings which are denominated in USD. In order to deconcentrate the Group's foreign exchange risk between USD and its functional currency RMB, the Group entered into two cross currency swap contracts to buy Euro for USD in 2016. In 2017, no additional cross currency contracts were entered into by the Group, and one cross currency contract with a notional amount of USD40,000,000 was matured and settled. At the end of the reporting period, the Group has one remaining outstanding cross currency swap contract with a notional amount of USD50,000,000 which was reclassified as "financial liabilities at fair value through profit or loss". The cross currency swap contracts are measured at fair value at the end of the reporting period which is determined by reference to the prices as quoted by the counterparty financial institution.

Changes in fair values of the financial assets and financial liabilities at fair value through profit or loss are recorded within 'finance expenses — net' in profit or loss (Note 10).

23. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Cash in hand	**444**	1,778
Cash at banks	**677,793**	753,612
	678,237	755,390

Cash in hand and at banks are denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**650,863**	439,557
USD	**26,443**	312,072
HK$	**931**	2,967
EUR	**—**	794
Cash and cash equivalents	**678,237**	755,390

The conversion of the RMB denominated balances into foreign currencies and the remittance of these funds out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Restricted cash

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**4,690**	18,673
USD	**10,508**	52,689
HK$	**7,091**	—
EUR	**450**	—
Restricted cash	**22,739**	71,362

As at 31 December 2017, USD1,608,000 (approximately RMB10,508,000), HK$8,455,000 (approximately RMB7,091,000) and EUR58,000 (approximately RMB450,000) are restricted deposits held at bank as reserve for serving of debt for loans provided by the bank (2016: USD7,595,000, approximately RMB52,689,000); RMB4,690,000 are restricted deposits held at bank for purchasing natural gas from the suppliers (2016: RMB4,690,000); as at 31 December 2016, RMB10,113,000 are restricted deposits held at bank as the deposits for obtaining the urban gas operating permits from the local governments, and RMB3,870,000 are held as the deposits of bank's acceptance bills.

24. 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 approximately 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**

25. SHARE-BASED PAYMENTS

In 2014, share options were granted to directors and selected employees. The exercise price of the granted options represents the highest of the closing price on the date of grant, the average closing price for the five trading days immediately preceding the date of the grant, and the nominal value of the share. 50% of the share options may be exercised within the period from 27 January 2016 to 26 January 2017 ("tranche 1") and the remaining 50% of the share options may be exercised within the period from 27 January 2017 to 26 January 2018 ("tranche 2"). The share options are conditional on the employee remaining in the entity's employ for a specified period of time. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

In 2017, share options were granted to three directors of the Company. The exercise price of the granted options represents the highest of the closing price on the date of grant, the average closing price for the five trading days immediately preceding the date of the grant, and the nominal value of the share. One third of the share options may be exercised within the period from 18 July 2018 to 17 July 2019 ("tranche 1"); another one third of the share options may be exercised within the period from 18 July 2019 to 17 July 2020 ("tranche 2"); and the remaining one third of the share options may be exercised within the period from 18 July 2020 to 17 July 2021 ("tranche 3"). The share options are conditional on the directors' remaining in the entity's employ for a specified period of time. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

	2017	
	Average exercise price in HK$ per share option	**Number of share options (thousands)**
At 1 January	**7.142**	**15,140**
Forfeited	**7.142**	**(7,570)**
Granted	**4.970**	**15,000**
At 31 December	**5.698**	**22,570**

	2016	
	Average exercise price in HK$ per share option	Number of share options (thousands)
At 1 January	7.142	15,620
Forfeited	7.142	(480)
At 31 December	7.142	15,140

As at 31 December 2017, out of the 22,570,000 outstanding options (2016: 15,140,000), 7,570,000 options (2016: 7,570,000) were exercisable. None of the share options were exercised in 2017 (2016: none).

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25. SHARE-BASED PAYMENTS *(continued)*

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price in HK$ per share option	Number of share options (thousands)	
		2017	2016
27 January 2017	7.142	**—**	7,570
27 January 2018	7.142	**7,570**	7,570
17 July 2019	4.970	**5,000**	—
17 July 2020	4.970	**5,000**	—
17 July 2021	4.970	**5,000**	—
		22,570	15,140

The fair value of options granted on 27 January 2014 to the directors and selected employees was determined by using the binomial valuation model. For the tranche 1, the fair value of options granted to the directors and selected employees was HK$1.84 per option; for the tranche 2, the fair value of options granted to the directors and selected employees was HK$2.18 per option. The significant inputs into the model were spot share price of HK$7.01 at the grant date, exercise price shown above, volatilities of 39.33% and 39.58% for tranche 1 and tranche 2 respectively, dividend yield of 0%, exercise multiples of 2.8 and 2.2 for directors and selected employees respectively, forfeiture rate of 20.00% and 15.71% for directors and selected employees respectively, and an annual risk-free interest rates of 0.65% and 1.03% for tranche 1 and tranche 2 respectively. The volatilities were based on the daily historical volatility of the Company.

The fair value of options granted on 18 July 2017 to three directors was determined by using the binomial valuation model. For the tranche 1, the fair value of options granted to the directors was HK$0.93 per option; for the tranche 2, the fair value of options granted to the directors was HK$1.11 per option; for the tranche 3, the fair value of options granted to the directors was HK$1.20 per option. The significant inputs into the model were spot share price of HK$4.97 at the grant date, exercise price shown above, volatilities of 36.21%, 35.67% and 34.17% for tranche 1, tranche 2 and tranche 3, respectively, dividend yield of 1.67%, exercise multiples of 2.8, forfeiture rate of 5.14%, and an annual risk-free interest rates of 0.78%, 0.90% and 1.03% for tranche 1, tranche 2 and tranche 3, respectively. The volatilities were based on the daily historical volatility of the Company.

See Note 9 for the total expenses recognised in profit or loss for share options granted to directors and employees.

26. RESERVES AND RETAINED EARNINGS

(a) Reserves

	Capital reserves RMB'000	Statutory reserves RMB'000	Available-for-sale investments RMB'000	Total RMB'000
At 1 January 2016	(6,416)	103,718	(1,315)	95,987
Revaluation-gross (Note 18)	—	—	(272)	(272)
Revaluation-tax (Note 30)	—	—	68	68
Appropriation (i)	—	36,887	—	36,887
Acquisition of additional interests of subsidiaries (Note 35)	(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 (Note 18)	**—**	**—**	**21,250**	**21,250**
Revaluation-tax (Note 30)	**—**	**—**	**(5,313)**	**(5,313)**
Appropriation (i)	**—**	**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**

(i) Statutory reserves

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, approximately RMB54,580,000 (2016: RMB36,887,000) were appropriated to the statutory surplus reserves funds from net profits of certain PRC subsidiaries.

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26. RESERVES AND RETAINED EARNINGS *(continued)*

(b) Retained earnings

	RMB'000
At 1 January 2016	877,091
Profit attributable to owners of the Company	313,379
Appropriation	(36,887)
Interim dividends paid (Note 31)	(73,251)
At 31 December 2016	1,080,332
At 1 January 2017	**1,080,332**
Profit attributable to owners of the Company	**404,250**
Appropriation	**(54,580)**
Interim dividends paid (Note 31)	**(77,629)**
At 31 December 2017	**1,352,373**

(c) Other comprehensive income, net of tax

	Other reserves RMB'000	Total other comprehensive income RMB'000
Year ended 31 December 2017		
Change in value of available-for-sale financial assets, net of tax	**15,937**	**15,937**
Total other comprehensive income	**15,937**	**15,937**
Year ended 31 December 2016		
Change in value of available-for-sale financial assets, net of tax	(204)	(204)
Total other comprehensive income	(204)	(204)

27. 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) (Note 37)	**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

(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

27. TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUALS *(continued)*

(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

(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.

28. ADVANCES FROM CUSTOMERS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Advances from customers	**253,618**	150,690

Advances from customers mainly represents payments received from customers for connections of gas pipeline and sales of gas.

29. BORROWINGS

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Non-current		
Bank borrowings		
— pledged (a)	**634,100**	325,200
— guaranteed (b)	**1,232,812**	1,474,113
— pledged and guaranteed (c)	**634,200**	467,850
— unsecured	**—**	50,819
Borrowings from a shareholder (d)	**392,052**	416,220
Other borrowings (e)	**5,221**	5,751
Total non-current borrowings	**2,898,385**	2,739,953
Current		
Bank borrowings		
— pledged (a)	**86,125**	58,000
— guaranteed (b)	**524,723**	545,124
— pledged and guaranteed (c)	**161,309**	148,350
— unsecured	**195,729**	95,874
Other borrowings (e)	**861**	1,146
Total current borrowings	**968,747**	848,494
Total borrowings	**3,867,132**	3,588,447

(a) As at 31 December 2017, the current and non-current bank borrowings were secured by the gas charging rights of Xuchang Tianlun, Shangjie Tianlun and Henan Tian Lun Gas.

As at 31 December 2016, the current and non-current bank borrowings were secured by certain of the Group's lease prepayments, property, plant and equipment (Note 14 and Note 15) and the gas charging rights of Xuchang Tian Lun and Shangjie Tian Lun.

(b) As at 31 December 2017 and 2016, the current and non-current bank borrowings were guaranteed by Mr. Zhang Yingcen (one of the shareholders of the Company).

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29. BORROWINGS *(continued)*

(c) As at 31 December 2017, the current and non-current bank borrowings were secured by the gas charging rights of Zhenlai County Dadi, Tongyu County Dadi, Da'an Dadi, Panshi Dadi, Jiutai Dadi, Baicheng Dadi, Dunhua Dadi, Tianlun Pipeline, Sanming Huiji, Suzhou Tianlun, Xuchang Tianlun and Sichuan Mingsheng, and guaranteed by the related parties of the Group, which were Henan Tian Lun Real Estate Limited, Mr. Zhang Yingcen and Ms. Sun Yanxi (a family member of Mr. Zhang Yingcen), the former shareholders of Tianlun Pipeline, Mr. Li Zifeng and Ms. Gao Hui.

As at 31 December 2016, the current and non-current bank borrowings were secured by the gas charging rights of Tianlun Pipeline, Sanming Huiji, Suzhou Tianlun, Xuchang Tianlun and Sichuan Mingsheng, and guaranteed by Mr. Zhang Yingcen and Ms. Sun Yanxi (a family member of Mr. Zhang Yingcen), the former shareholders of Tianlun Pipeline, Mr. Li Zifeng and Ms. Gao Hui.

(d) As at 31 December 2017 and 2016, borrowings of USD60,000,000, equivalent to approximately RMB392,052,000 (2016: RMB416,220,000) were from IFC, one of the Company's shareholders, which was guaranteed by Mr. Zhang Yingcen and two of his family members.

(e) As at 31 December 2017, such borrowings mainly represented (i) borrowings of RMB5,417,000 (2016: RMB5,952,000) from local government assumed by the Group to acquire the exclusive operating rights for city pipeline network in Xuchang City of Henan Province in 2003; (ii) borrowings due to certain employees of the Group of RMB665,000 (2016: RMB945,000) which were unsecured, bore interests at rate 12% per annum.

(f) The maturities of the Group's borrowings at respective end of reporting period are set out as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
— Within 1 year	**968,747**	848,494
— Between 1 and 2 years	**693,564**	748,753
— Between 2 and 5 years	**1,837,388**	1,743,884
— Over 5 years	**367,433**	247,316
	3,867,132	3,588,447

29. BORROWINGS *(continued)*

(g) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
RMB	**1,812,127**	1,247,038
USD	**1,720,645**	2,341,409
HK$	**334,360**	—
	3,867,132	3,588,447

(h) The carrying amounts and fair value of the non-current borrowings are as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Carrying amounts	**2,898,385**	2,739,953
Fair value	**2,909,979**	2,786,902

The carrying amounts of current borrowings approximated their fair value due to short maturities, as the impact of discounting was not significant.

The fair value of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics, which was 5.50% as at 31 December 2017 (2016: 6.08%) and is within level 3 of the fair value hierarchy.

(i) The effective interest rates of the Group's borrowings denominated in RMB, USD and HK$ at the end of each reporting date are set out as follows:

	As at 31 December	
	2017	2016
RMB	**4.35%~12.00%**	4.35%~12.00%
USD	**4.39%~5.17%**	4.19%~4.50%
HK$	**4.51%**	—

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30. DEFERRED INCOME TAX

(a) The analysis of deferred income tax assets and liabilities is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Deferred tax assets		
— Deferred tax assets to be recovered after more than 12 months	**8,028**	7,975
— Deferred tax assets to be recovered within 12 months	**19,403**	18,296
	27,431	26,271
Deferred tax liabilities		
— Deferred tax liability to be recovered after more than 12 months	**(402,019)**	(350,000)
— Deferred tax liability to be recovered within 12 months	**(17,862)**	(20,414)
	(419,881)	(370,414)
Deferred tax liabilities (net)	**(392,450)**	(344,143)

The gross movements on the deferred income tax account are as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
At 1 January	**(344,143)**	(302,846)
Acquisition of subsidiaries (Note 36)	**(61,786)**	(65,071)
Tax (charge)/credit relating to other comprehensive income (Note 12)	**(5,313)**	68
Credited to profit or loss (Note 12)	**18,792**	23,706
At 31 December	**(392,450)**	(344,143)

30. DEFERRED INCOME TAX *(continued)*

(b) The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets

	Provision for impairment of assets RMB'000	Accrued expenses RMB'000	Tax losses RMB'000	Depreciation RMB'000	Share option RMB'000	Total RMB'000
As at 1 January 2016	147	872	9,077	1,186	759	12,041
Acquisition of subsidiaries	—	—	2,370	—	—	2,370
(Charged)/credited to profit or loss	—	(52)	12,069	(157)	—	11,860
As at 31 December 2016	147	820	23,516	1,029	759	26,271
Acquisition of subsidiaries (Note 36)	230	—	—	—	—	230
Credited to profit or loss	601	126	203	—	—	930
As at 31 December 2017	978	946	23,719	1,029	759	27,431

Deferred tax liabilities

	Revaluation of financial assets at fair value through profit or loss RMB'000	Fair value adjustments related to business combinations RMB'000	Revaluation of available for sale financial assets RMB'000	Withholding tax relating to dividends to be distributed from the PRC subsidiaries RMB'000	Total RMB'000
As at 1 January 2016	221	315,104	(438)	—	314,887
Acquisition of subsidiaries	—	67,441	—	—	67,441
Credited to other comprehensive income	—	—	(68)	—	(68)
(Credited)/charged to profit or loss	—	(15,520)	—	3,674	(11,846)
As at 31 December 2016	221	367,025	(506)	3,674	370,414
Acquisition of subsidiaries (Note 36)	—	62,016	—	—	62,016
Charged to other comprehensive income	—	—	5,313	—	5,313
(Credited)/charged to profit or loss	(221)	(17,848)	—	207	(17,862)
As at 31 December 2017	—	411,193	4,807	3,881	419,881

As at 31 December 2017, deferred income tax liabilities of approximately RMB102,404,000 (2016: RMB136,071,000) had not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled approximately RMB2,048,086,000 as at 31 December 2017 (2016: RMB1,360,710,000). The Group does not intend to remit these unremitted earnings from the relevant subsidiaries to the Hong Kong holding entity in the foreseeable future.

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30. DEFERRED INCOME TAX *(continued)*

(c) The Group did not recognise deferred income tax assets of approximately RMB8,168,000 (2016: RMB14,292,000) in respect of losses amounting to approximately RMB249,606,000 (2016: RMB152,930,000) that can be carried forward against future taxable income. The unrecognised tax losses will expire in the following years:

	2017 **RMB'000**	2016 RMB'000
2022	**2,121**	—
No expiry date	**247,485**	152,930
	249,606	152,930

31. DIVIDENDS

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

	2017 **RMB'000**	2016 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 RMB22,761,000 (RMB2.30 cents per share) for the year ended 31 December 2017 (2016: nil), which was not recognised as a liability at year end.

32. CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to cash generated from operations

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Profit before income tax	**575,839**	444,708
Adjustments for:		
— Depreciation of property, plant and equipment and investment properties (Notes 15,16)	**110,515**	100,746
— Amortisation of intangible assets and lease prepayments (Notes 14,17)	**77,839**	71,968
— Finance income	**(47,280)**	(79,037)
— Finance costs	**130,183**	261,329
— Dividend income from available-for-sale financial assets	**(12,945)**	(4,642)
— Share of post-tax profit of associates	**(23,371)**	(20,768)
— Reversal of trade payables	**(3,615)**	—
— Changes on fair value of contingent consideration for acquisition of subsidiaries	**—**	(37,858)
— Losses/(gains) on disposal of property, plant and equipment and lease prepayments (b)	**2,347**	(5,978)
	809,512	730,468
Changes in working capital:		
— Inventories	**2,330**	22,046
— Restricted cash	**—**	(4,690)
— Trade and bills receivables, prepayments and other receivables	**(25,737)**	(30,339)
— Trade and bills payables, other payables and accruals	**(44,568)**	4,546
— Advance from customers	**68,380**	17,139
	405	8,702
Cash generated from operations	**809,917**	739,170

32. CASH GENERATED FROM OPERATIONS *(continued)*

(b) Proceeds from disposal of property, plant and equipment and lease prepayments

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment and lease prepayments comprise:

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Net book amount (Notes 14, 15)	**27,762**	2,484
(Losses)/gains on disposal of property, plant and equipment and lease prepayments (Note 7)	**(2,347)**	5,978
Proceeds from disposal of property, plant and equipment and lease prepayments	**25,415**	8,462

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Year ended 31 December	
	2017	2016
Net debt	**RMB'000**	RMB'000
Cash and cash equivalents	**678,237**	755,390
Liquid investment (i)	**300,000**	318,882
Borrowings — repayable within one year	**(968,747)**	(848,494)
Borrowings — repayable after one year	**(2,898,385)**	(2,739,953)
Net debt	**(2,888,895)**	(2,514,175)
Cash and liquid investment	**978,237**	1,074,272
Gross debt — fixed interest rates	**(276,811)**	(213,590)
Gross debt — variable interest rates	**(3,590,321)**	(3,374,857)
Net debt	**(2,888,895)**	(2,514,175)

32. CASH GENERATED FROM OPERATIONS *(continued)*

(c) Net debt reconciliation *(continued)*

	Other assets		Liabilities from financing activities		
	Cash and cash equivalents	**Liquid investment (i)**	**Borrowings due within 1 year**	**Borrowings due after 1 year**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net debt as at 1 January 2016	609,385	318,882	(849,508)	(1,887,102)	(1,808,343)
Cash flows	109,630	—	33,900	(749,046)	(605,516)
Foreign exchange adjustments	36,375	—	(32,886)	(103,805)	(100,316)
Net debt as at 31 December 2016	755,390	318,882	(848,494)	(2,739,953)	(2,514,175)
Cash flows	(61,838)	(18,882)	(169,589)	(243,038)	(493,347)
Foreign exchange adjustments	(15,315)	—	49,336	84,606	118,627
Net debt as at 31 December 2017	678,237	300,000	(968,747)	(2,898,385)	(2,888,895)

(i) Liquid investment is the investment in trust that is classified as "financial assets at fair value through profit or loss", which can be redeemed by the Group when necessary.

33. CONTINGENCIES

As at 31 December 2017 and 2016, the Group did not have any material contingent liabilities.

34. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of each reporting period, but not yet incurred is as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Share purchase consideration commitment	**162,000**	—
Capital investment to associate	**100,000**	100,000
Property, plant and equipment	**31,684**	61,476
	293,684	161,476

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34. COMMITMENTS *(continued)*

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Not later than one year	**1,645**	1,874
Later than one year and no later than five years	**3,237**	5,069
More than five years	**1,467**	3,016
	6,349	9,959

(c) Licensing fee commitments

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Not later than one year	**1,100**	1,100
Later than one year and no later than five years	**4,400**	4,400
Later than five years	**11,000**	12,100
	16,500	17,600

35. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Acquisition of additional interests in subsidiaries

On 31 May 2016, the Group acquired an additional 36% of the equity interests of Jilin Zhongji from its related party Henan Tian Lun Gas Engineering Investment Limited for a purchase consideration of RMB191,000,000. The carrying amount of the non-controlling interests in Jilin Zhongji on the date of acquisition was RMB179,431,000, and upon the acquisition, the non-controlling interests decreased to 13% of the total equity interests. The Group recognised a decrease in non-controlling interests of RMB131,827,000 and a decrease in equity attributable to owners of the Company of RMB59,173,000.

On 31 July 2016, the Group acquired an additional 10% of the equity interests of Jilin Qian'an for a purchase consideration of RMB2,500,000. The carrying amount of the non-controlling interests in Jilin Qian'an on the date of acquisition was RMB2,176,000. The Group recognised a decrease in non-controlling interests of RMB2,176,000 and a decrease in equity attributable to owners of the Company of RMB324,000.

35. TRANSACTIONS WITH NON-CONTROLLING INTERESTS *(continued)*

Acquisition of additional interests in subsidiaries *(continued)*

The effect of changes in the ownership interest of Jilin Zhongji and Jilin Qian'an on the equity attributable to owners of the Company during the year is summarised as follows:

	Year ended 31 December 2016 RMB'000
Carrying amount of non-controlling interests acquired	134,003
Consideration paid to non-controlling interests	(193,500)
Excess of consideration paid recognised within equity	(59,497)

36. BUSINESS COMBINATION

On 10 July 2017, the Group acquired 100% of the equity interests of Jintang Gas, an independent third party established in the PRC with limited liability, which is principally engaged in natural gas pipeline investment and construction, distribution and sales of natural gas in Jintang, Chengdu, Sichuan Province. The total consideration was approximately RMB500,000,000.

As a result of the abovementioned acquisition, the Group is expected to increase its presence in these markets. The goodwill of approximately RMB246,422,000 arising from the acquisition is attributable to the pre-existing and well positioned business operating in competitive markets, operating synergies with other existed operations of the Group, the expansion to and the strategic advantages of the upper stream of the industry, and economies of scale expected to be derived from combining the operations. None of the goodwill recognised is expected to be deductible for income tax purposes.

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

	Jintang Gas as at 10 July 2017 RMB'000
Consideration	
— Cash paid	370,229
— Contingent consideration	129,771
Total consideration	500,000

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36. BUSINESS COMBINATION *(continued)*

	Jintang Gas as at 10 July 2017 RMB'000
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	46,817
Property, plant and equipment	50,447
Intangibles:	
— Operating rights	232,205
— Others	27
Investment properties	12,660
Lease prepayments	8,910
Available-for-sale financial assets:	
— Bank financial products	18,000
Inventories	7,063
Trade and bills receivables, prepayments and other receivables	20,879
Deferred tax assets	230
Other current assets	513
Dividend payable	(36,881)
Current income tax liabilities	(1,900)
Trade and other payables	(8,828)
Advances from customers	(34,548)
Deferred tax liabilities	(62,016)
Total identifiable net assets acquired	253,578
Goodwill	246,422
	500,000

	Jintang Gas RMB'000	**Prior years acquisitions*** RMB'000	**Total** RMB'000
Outflows of cash to acquire businesses, net of cash acquired			
— cash paid	370,229	56,344	426,573
— cash and cash equivalents in subsidiaries acquired	(46,817)	—	(46,817)
	323,412	56,344	379,756
Cash outflows on acquisition	323,412	56,344	379,756

* During the year ended 31 December 2017, such cash consideration paid out included the amount of approximately RMB1,712,000, RMB23,000,000, RMB2,570,000, RMB24,812,000 and RMB4,250,000 for the acquisitions of Yunnan Datong, Sichuan Mingsheng, Hunan Zhongyou, Heze Guanghe and Xichuan Longcheng, respectively in prior years.

36. BUSINESS COMBINATION *(continued)*

(a) Acquisition-related costs of approximately RMB35,000 have been charged to administrative expenses in profit or loss for the year ended 31 December 2017.

(b) Contingent consideration

The contingent consideration arrangement requires the Group to pay in cash RMB129,771,000 to the former owners of Jintang Gas under the condition that within one year of the equity transfer of Jintang Gas, no dispute on the legal right of the equity and assets, no undisclosed obligations or unrecorded liabilities to be discovered by the Group and the revalued result of the assets and liabilities.

(c) Acquired receivables

The fair values of trade and bills receivables, prepayments and other receivables approximate their carrying amounts totalling RMB20,879,000.

(d) Revenue and profit contribution

The acquired businesses contributed aggregated revenues of approximately RMB93,226,000 and aggregated net profit of approximately RMB26,120,000 to the Group for the period from the respective acquisition date to 31 December 2017.

Had the respective acquisitions been consolidated from 1 January 2017, the consolidated statement of comprehensive income would show pro-forma revenue of RMB158,492,000 and net profit of RMB27,023,000, respectively.

37. RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The Group is controlled by Tian Lun Group Limited, a company incorporated in the British Virgin Islands ("BVI"), a direct wholly-owned subsidiary of Gold Shine Development Limited (incorporated in the BVI), and is ultimately controlled by Mr. Zhang Yingcen and his wife ("Controlling Shareholders").

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2017 and 2016, and balances arising from related party transactions as at 31 December 2017 and 2016.

(a) Name and relationship with related parties

Name of related party	Relationship
IFC	Shareholder of the Company
Henan Tian Lun Gas Engineering Investment Limited ("Henan Tian Lun investment")	Controlled by the Controlling Shareholders
Henan Guangwushan Urban and Rural Construction Limited ("Guangwushan Construction")	Controlled by the Controlling Shareholders
Suzhou Ping Zhuang	Associate of the Group

(b) Significant related party transactions

The Group had the following significant transactions with related parties.

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Sales of Gas		
Suzhou Ping Zhuang	**27,415**	13,741

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Pipeline connection services provision		
Guangwushan Construction	**–**	14,306

37. RELATED PARTY TRANSACTIONS *(continued)*

(b) Significant related party transactions *(continued)*

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Acquisition of subsidiary's equity interests		
Henan Tian Lun investment	**–**	191,000

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Interest charged by		
— IFC	**19,656**	18,144

These transactions are carried out on terms agreed with the counter party in the ordinary course of business.

(c) Balances with related parties

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade and other receivables		
— Henan Tian Lun investment	**13,618**	13,713
— Guangwushan Construction	**14,735**	14,735
— Suzhou Ping Zhuang	**115**	91
	28,468	28,539

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Trade and other payables		
— Henan Tian Lun investment	**21,227**	22,046
— Suzhou Ping Zhuang	**200**	204
— IFC	**9,260**	9,345
	30,687	31,595

37. RELATED PARTY TRANSACTIONS *(continued)*

(c) Balances with related parties *(continued)*

	As at 31 December	
	2017	2016
	RMB'000	RMB'000
Loan due to		
— IFC	**392,052**	416,220

(d) Key management compensation

	Year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Basic salaries and allowances	**12,651**	12,372
Discretionary bonuses	**1,894**	1,677
Retirement benefit contributions	**1,538**	1,396
	16,083	15,445

38. EVENT AFTER THE BALANCE SHEET DATE

On 19 December 2017, the Group entered into two acquisition agreements with third parties to purchase 100% equity interest of Mizhi County Changxing Natural Gas Company Limited, and 100% equity interest of Wubu County Changxing Natural Gas Company Limited, with considerations of RMB122,000,000 and RMB55,000,000, respectively. The acquirees engage in construction of natural gas pipelines, and the distribution and sales of natural gas in Shaanxi Province, the PRC. The acquisitions had not been completed as at 31 December 2017, and the acquirees are under valuation by a third-party valuer, and the valuation results have not been obtained up to date.

39. BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December **2017** RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Other receivables		**42,261**	41,124
Financial assets at fair value through profit or loss		**—**	19,786
Investments in subsidiaries	11(a)	**117,133**	112,540
		159,394	173,450
Current assets			
Other receivables		**2,382,829**	2,471,008
Financial assets at fair value through profit or loss		**—**	16,385
Restricted cash		**18,049**	52,689
Cash and cash equivalents		**26,970**	317,447
		2,427,848	2,857,529
Total assets		**2,587,242**	3,030,979
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**8,340**	8,340
Share premium	(Note (a))	**1,264,114**	1,264,114
Reserves	(Note (a))	**21,131**	16,538
Accumulated losses	(Note (a))	**(388,039)**	(181,464)
Total equity		**905,546**	1,107,528
LIABILITIES			
Non-current liabilities			
Borrowings		**1,232,813**	1,474,113
Current liabilities			
Borrowings		**424,723**	445,124
Financial liabilities at fair value through profit or loss		**22,898**	—
Other payables		**1,262**	4,214
		448,883	449,338
Total liabilities		**1,681,696**	1,923,451
Total equity and liabilities		**2,587,242**	3,030,979

The balance sheet of Company was approved by the Board of Directors on 26 March 2018 and was signed on its behalf.

Mr. Zhang Yingcen
Director

Mr. Xian Zhenyuan
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017
(All amounts in RMB thousands unless otherwise stated)

39. BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY *(continued)*

Note (a) Other reserves and accumulated losses movements of the Company

	Share premium RMB'000	Accumulated losses RMB'000	Reserves RMB'000
At 1 January 2016	1,366,774	(104,414)	11,295
Repurchase of shares	(102,660)	—	—
Loss for the year	—	(3,799)	—
Interim dividends paid	—	(73,251)	—
Value of employee services	—	—	5,243
At 31 December 2016	1,264,114	(181,464)	16,538
At 1 January 2017	**1,264,114**	**(181,464)**	**16,538**
Loss for the year	**—**	**(128,946)**	**—**
Interim dividends paid	**—**	**(77,629)**	**—**
Value of employee services	**—**	**—**	**4,593**
At 31 December 2017	**1,264,114**	**(388,039)**	**21,131**

40. 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)

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2017:

Name	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Allowances and benefits in kind RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking RMB'000	Total RMB'000
Mr. Zhang Yingcen	–	505	–	3	32	–	540
Mr. Sun Heng	–	360	–	3	11	–	374
Mr. Feng Yi	–	360	–	3	11	–	374
Ms. Li Tao	–	360	–	3	11	–	374
Mr. Cao Zhibin (i)*	54	–	–	–	–	–	54
Mr. Li Liuqing(i)	60	–	–	–	–	–	60
Mr. Wang Jiansheng (ii)	132	–	–	3	11	–	146
Ms. Zhao Jun(i)	60	–	–	–	–	–	60
Mr. Yang Yaoyuan(i)	131	–	–	–	–	–	131
Chief executive:							
Mr. Xian Zhenyuan	–	480	–	3	32	–	515
	437	2,065	–	18	108	–	2,628

* Mr. Cao Zhibin: resigned with effect on 27 November 2017.

40. 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' and chief executive's emoluments *(continued)*

For the year ended 31 December 2016:

Name	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Allowances and benefits in kind RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking RMB'000	Total RMB'000
Mr. Zhang Yingcen	—	480	—	3	29	—	512
Mr. Sun Heng	—	360	—	3	11	—	374
Mr. Feng Yi	—	360	—	3	11	—	374
Ms. Li Tao	—	360	—	3	11	—	374
Mr. Cao Zhibin (i)	60	—	—	—	—	—	60
Mr. Li Liuqing(i)	60	—	—	—	—	—	60
Mr. Wang Jiansheng (ii)	132	—	—	—	—	—	132
Ms. Zhao Jun(i)	60	—	—	—	—	—	60
Mr. Yang Yaoyuan(i)	139	—	—	—	—	—	139
Chief executive:							
Mr. Xian Zhenyuan	—	480	—	3	29	—	512
	451	2,040	—	15	91	—	2,597

(i) Independent non-executive directors

(ii) Non-executive director

40. 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

During the year, no retirement benefits were paid to or receivable by the directors in respect of their services as directors of the Company and its subsidiaries or other services in connection with the management of the affairs of the company or its subsidiary undertaking (2016: Nil).

(c) Directors' termination benefits

During the year, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2016: Nil).

(d) Consideration provided to third parties for making available directors' services

During the year, no consideration was provided to or receivable by third parties for making available directors' services (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

During the year, there are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2016: Nil).

(f) Directors' material interests in transactions, arrangements or contracts

During the year, 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).

FIVE YEAR FINANCIAL SUMMARY

RESULTS	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**3,109,014**	2,693,094	2,251,970	1,343,936	911,939
Gross profit	**767,944**	692,349	608,770	461,496	333,036
Profit before income tax	**575,839**	444,708	429,471	344,309	246,152
Income tax expense	**(146,682)**	(110,299)	(111,489)	(93,370)	(59,864)
Profit for the year	**429,157**	334,409	317,982	250,393	186,288

ASSETS, LIABILITIES AND EQUITY	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**8,472,249**	7,633,412	6,678,409	3,730,677	2,627,388
Total liabilities	**5,354,446**	4,881,703	3,896,031	2,253,709	1,536,992
Total equity	**3,117,803**	2,751,709	2,782,378	1,476,968	1,090,396