



天伦燃气
TIANLUN GAS



2016

Annual Report

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

A stylized graphic of a green vine with several leaves and dotted spiral patterns, positioned on the left side of the page. The vine starts from the bottom left and curves upwards and to the right, ending in a small spiral. There are four leaves of varying sizes along the vine. Dotted lines form spiral patterns around the leaves and the main vine.

WE ARE HERE TO PROVIDE
CLEAN
ENERGY



CONTENTS

1. Company Profile	2
2. Business Regions	4
3. Project Operation Information	6
4. Operation & Financial Highlights	10
5. Chairman's Statement	14
6. Management Discussion and Analysis	19
7. Directors and Senior Management	33
8. Directors' Report	37
9. Corporate Governance Report	48
10. Independent Auditor's Report	56
11. Consolidated Statement of Comprehensive Income	64
12. Consolidated Balance Sheet	65
13. Consolidated Statement of Changes in Equity	67
14. Consolidated Statement of Cash Flows	68
15. Notes to the Consolidated Financial Statements	69
16. Five Year Financial Summary	166

COMPANY PROFILE

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Yingcen (*Chairman*)
Mr. Xian Zhenyuan (*Chief Executive*)
Mr. Feng Yi
Mr. Sun Heng
Ms. Li Tao

Non-executive Director

Mr. Wang Jiansheng

Independent Non-executive Directors

Mr. Cao Zhibin
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 (*Chairman*)
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
Ms. Zhang Dongmei

COMPANY SECRETARY

Ms. Zhang Dongmei

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

Unit 1603, 16th Floor
100 Queen's Road Central
Central
Hong Kong

REGISTERED OFFICE

Clifton House
75 Fort Street
PO Box 1350
Grand Cayman
KY1-1108
Cayman Islands

COMPANY PROFILE

CAYMAN ISLANDS SHARE TRANSFER OFFICE

Estera Trust (Cayman) Ltd
Clifton House
75 Fort Street
PO Box 1350
Grand Cayman
KY1-1108
Cayman Islands

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

Telephone : 86 371 6370 7151
Fax : 86 371 6397 9930
E-mail : ir@tianlungas.com
Website : www.tianlungas.com
Address : Department of Investor Relations,
4th Floor, Tian Lun Group Building,
No.6 Huang He East Road,
Zheng Dong Xin District,
Zhengzhou City, Henan Province,
the PRC
Zip Code : 450003

BUSINESS REGIONS



BUSINESS REGIONS

Urban
Gas Project ●Transportation
Gas Project ●Gas Source
Base ●Long-haul
Transmission Pipeline ●

Henan

Hebi City ●●

Shilin Industrial Assemble Zone ●

Heqi Industrial Assemble Zone ●

Xuchang City ●●

Xuchang New Area ●

Shangjie District in

Zhengzhou City ●●

High-tech District

in Puyang City ●

Shangqiu City ●

Minquan County ●●

Song County ●●

Xinye County ●●

Weishi County ●●

Xinwei Industrial Park ●

Gangwei New District ●

Weibei Technology and

Food Industrial Parks ●

Lankao County ●●

Pingdingshan City ●

Xichuan County ●●

Baofeng 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 ●

Honghe Prefecture ●

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 ●

Hubei

Harbour Industrial Park, Songzi City ●●

Chongqing

Kai County ●

Hebei

Xingtai City ●

Guangdong

Ceramic Industrial Park in Chaozhou City ●

Chenghai District in Shantou City ●

Chaoyang District in Shantou City ●

Lechang City ●

Shaanxi Province

Qian County ●●

Liquan County ●●

Jiangsu

Wujiang City ●

Sichuan Province

Xindu District in Chengdu City ●

Fujian Province

Sanming City ●

PROJECT OPERATION INFORMATION

Place of operation		Time of establishment	Connectable urban population (10,000 persons)	Length of existing pipelines (KM)	Number of existing gas stations and stations under construction
Province	Project				
Henan	Xuchang	September 2003	107	233	1
	Shangjie	July 2007	31	89	2
	Xinye	November 2011	29	61	2
	Minquan, Shangqiu	March 2011	38	79	2
	Lankao	May 2012	41	74	1
	Song County	June 2011	32	38	1
	Weishi	May 2012	33	81	3
	Xichuan	September 2015	23	43	1
	Hebi	January 2002	71	585	5
Shandong	Puyang	March 2010	31	78	1
	Cao County	September 2012	76	71	1
	Shan County	October 2012	72	80	1
	Heze	November 2013	51	88	1
Gansu	Dongming	December 2013	41	90	1
	Baiyin	July 2011	47	78	1
Shaanxi	Gulang	November 2012	16	19	1
	Qian County	January 2015	40	76	1
Hunan	Liquan	January 2015	44	92	3
	Dongkou	October 2012	25	31	1
Guangxi	Fenghuang	October 2015	18	16	—
	Luzhai	January 2012	14	15	1
Yunnan	Guanyang	September 2013	—	10	1
	Gejiu	August 2013	—	9	1
	Guangnan	August 2013	18	21	1
	Hekou	August 2013	11	12	1
	Honghe Prefecture Industrial Park	August 2013	—	—	—
	Huize	August 2013	21	35	1
	Ludian	August 2013	—	—	—
Guangdong	Yanshan	August 2013	10	16	1
	Chaozhou	January 2014	—	70	—
	Chaoyang	May 2014	56	59	2
	Lechang	May 2016	29	15	2
Fujian	Chenghai	May 2014	48	81	1
	Sanming	March 2015	—	5	1

PROJECT OPERATION INFORMATION

	Daily gas supply capacity of natural gas stations (1,000 m ³)	Residential users	Commercial users (including public welfare users)	Industrial users	Accumulated daily gas consumption of industrial and commercial users (including public welfare users) (m ³ /day)	Number of gas stations
	600	219,682	1,006	60	534,954	3
	360	59,491	249	65	514,128	2
	48	26,925	48	4	30,709	1
	192	44,171	119	27	70,645	3
	30	44,703	147	2	21,548	2
	72	34,213	123	2	22,008	2
	120	35,090	98	15	30,948	1
	4	3,692	6	6	3,850	1
	1,201	147,150	1017	44	543,880	5
	80	35,062	383	10	21,364	—
	25	50,679	74	—	7,869	1
	20	45,876	152	6	32,118	1
	150	35,954	46	5	35,652	—
	288	31,580	189	5	14,521	—
	576	61,765	591	19	497,231	3
	36	11,036	33	1	2,340	2
	45	27,566	146	17	86,104	1
	402	28,999	155	18	109,036	3
	96	10,562	57	—	7,006	1
	—	397	—	—	—	1
	14.4	2,721	22	2	2,890	—
	96	337	0	0	0	—
	28	9	0	0	0	1
	—	131	5	0	2,028	1
	10	28	2	0	328	1
	—	—	—	—	—	—
	20	1,512	46	1	11,522	1
	—	—	—	—	—	—
	36	174	22	1	1,892	1
	—	—	—	139	247,660	—
	270	20,806	19	3	9,500	—
	168	7,910	46	1	2,300	—
	5	43,829	216	0	2,060	—
	120	—	1	9	35,200	—

PROJECT OPERATION INFORMATION

Place of operation		Time of establishment	Connectable urban population (10,000 persons)	Length of existing pipelines (KM)	Number of existing gas stations and stations under construction
Province	Project				
Jilin	Da'an	April 2011	23	53	1
	Dunhua	April 2011	30	38	—
	Jiutai	April 2011	28	81	1
	Nong'an	April 2011	18	20	—
	Panshi	April 2011	26	33	1
	Tongyu	April 2011	18	33	1
	Yitong	April 2011	13	16	1
	Zhenlai	April 2011	14	40	1
	Baicheng	April 2011	—	—	—
	Shuangyang	April 2011	—	—	—
	Qian'an	July 2015	16	27	1
	Changling LNG Source Base	December 2013	—	3	—
Hebei	Xingtai	May 2012	—	—	—
Sichuan	Chengdu	November 2015	49	159	2
Hubei	Songzi	April 2015	—	—	—
Beijing	Beijing Tian Lun Investment *	March 2015	—	217	—
Total			1,308	3,063	52

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

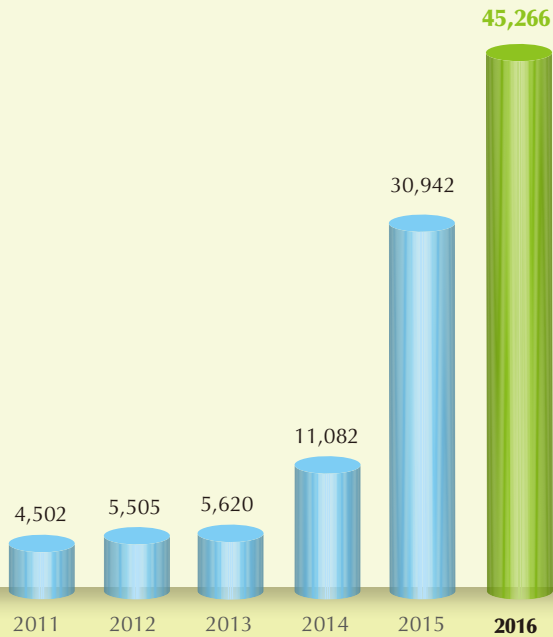
PROJECT OPERATION INFORMATION

	Daily gas supply capacity of natural gas stations (1,000 m ³)	Residential users	Commercial users (including public welfare users)	Industrial users	Accumulated daily gas consumption of industrial and commercial users (including public welfare users) (m ³ /day)	Number of gas stations
	50	18,510	354	2	28,268	2
	4.8	31,032	58	0	23,604	1
	150	29,687	389	0	9,514	2
	—	18,360	9	0	4,116	—
	20	28,920	226	0	41,795	2
	15	16,563	220	0	9,895	1
	25	20	0	0	312	1
	20	17,387	58	0	4,532	2
	—	—	—	—	—	3
	—	—	—	—	—	2
	60	3,570	6	0	416	1
	—	—	—	—	—	2
	—	—	—	—	—	1
	300	102,359	1,885	70	160,600	—
	—	—	—	—	—	—
	—	—	—	4	1,660,000	1
	5,757	1,325,382	8,367	550	4,936,471	59

OPERATION

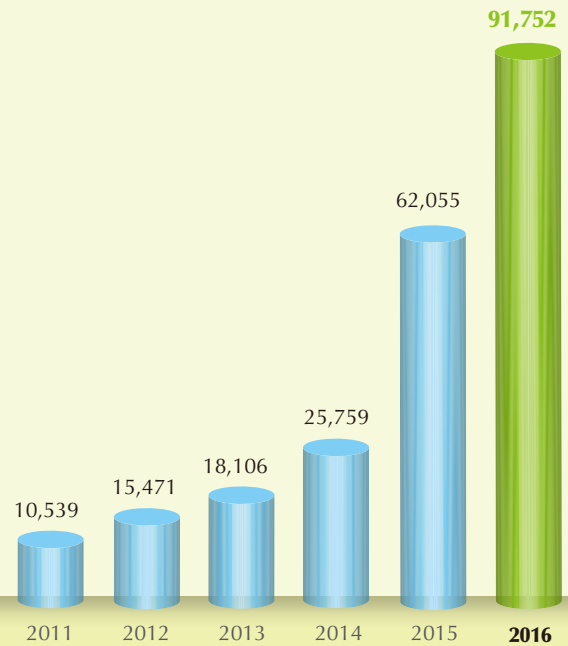
GAS SALES VOLUME TO INDUSTRIAL & COMMERCIAL USERS

(0'000 m³)

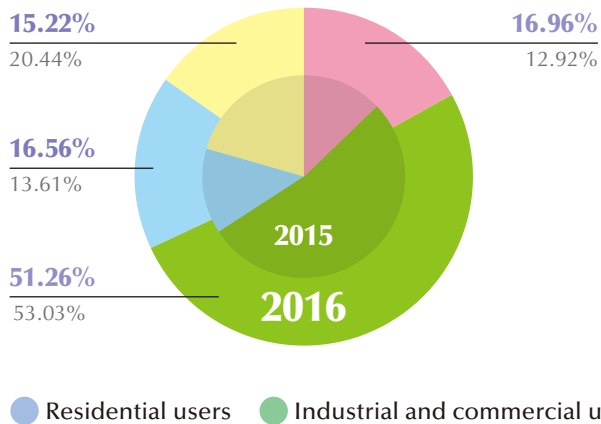


TOTAL GAS SALES VOLUME

(0'000 m³)



STRUCTURE OF REVENUE FROM GAS SALES



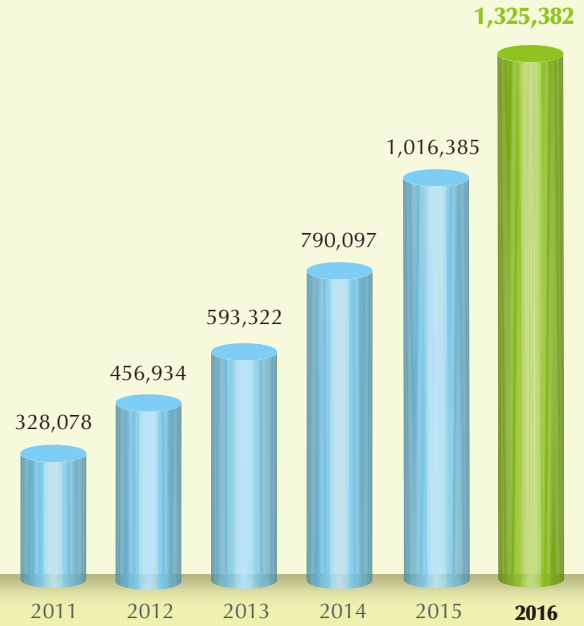
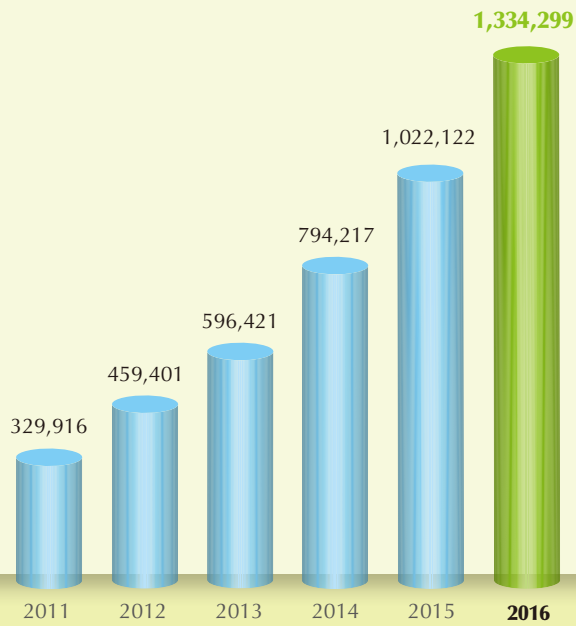
During the year, the revenue from gas sales of the Group to residential users, commercial and industrial users, vehicle users and urban gas company users accounted for approximately 16.56%, 51.26%, 15.22% and 16.96% of total revenue from gas sales, respectively. The Group's revenue from gas sales to urban gas company users as a percentage of total revenue from gas sales increased from approximately 12.92% in 2015 to approximately 16.96% in 2016.

● Residential users ● Industrial and commercial users ● Vehicle users ● Urban gas company users

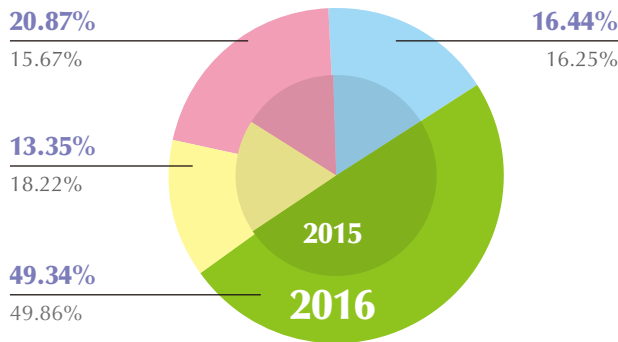
OPERATION

AGGREGATE CONNECTIONS USERS

TOTAL NUMBER OF CONNECTED RESIDENTIAL USERS



GAS SALES STRUCTURE



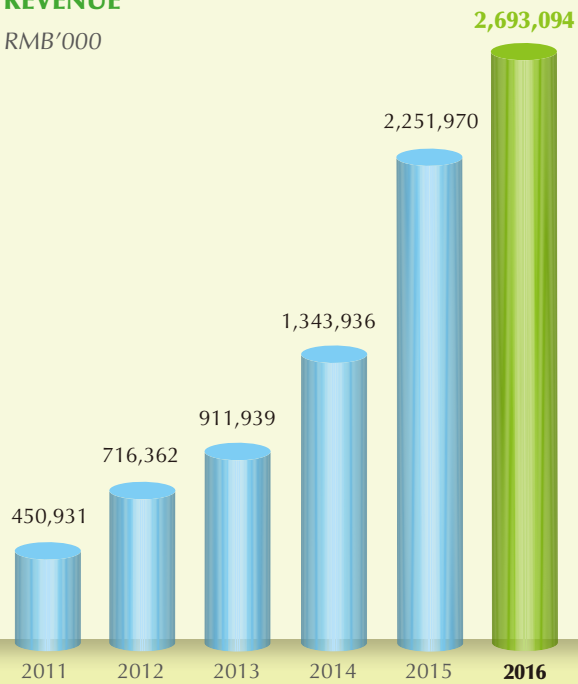
During the year, the volume of gas of the Group sold to residential users, commercial and industrial users, vehicle users and urban gas company users accounted for approximately 16.44%, 49.34%, 13.35% and 20.87% of total gas sales volume, respectively. The volume of gas sold to urban gas company users as a percentage of total volume of gas sold increased from approximately 15.67% in 2015 to approximately 20.87% in 2016.

- Residential users
- Industrial and commercial users
- Vehicle users
- Urban gas company users

FINANCIAL HIGHLIGHTS

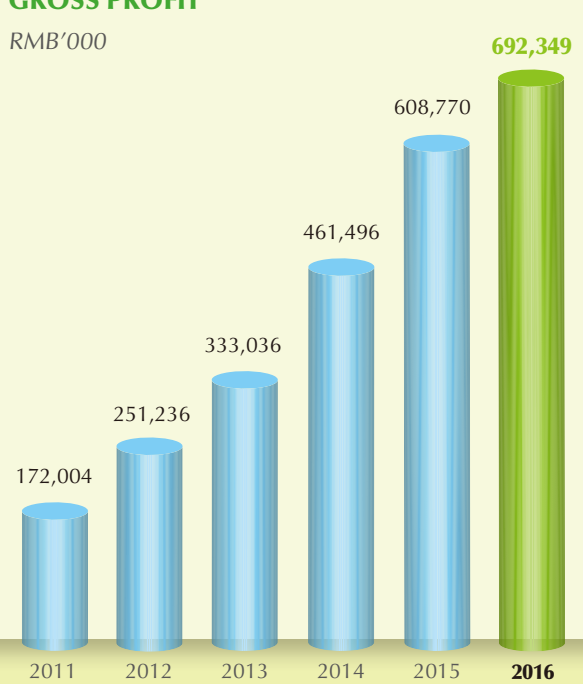
REVENUE

RMB'000



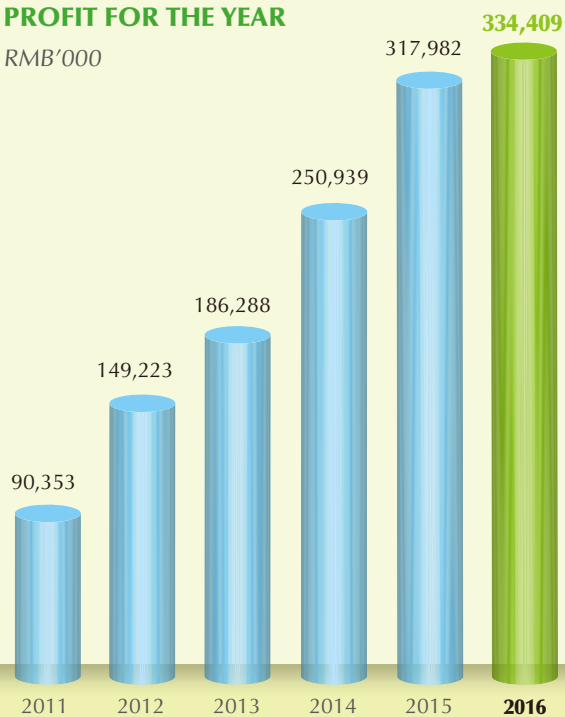
GROSS PROFIT

RMB'000



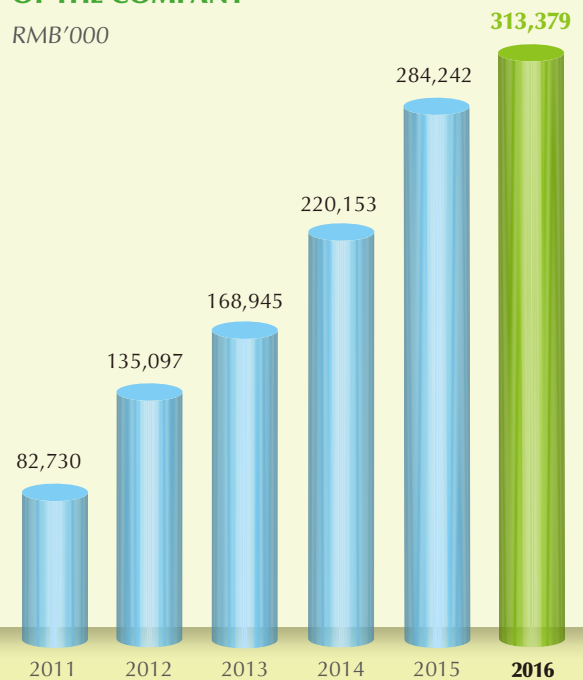
PROFIT FOR THE YEAR

RMB'000



PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

RMB'000



FINANCIAL HIGHLIGHTS

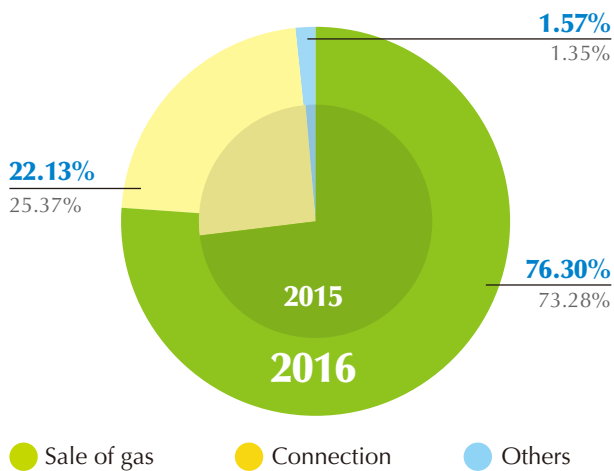
Financial Highlights

	2015 RMB'000	2016 RMB'000
Revenue and profit		
Revenue	2,251,970	2,693,094
Profit before income tax	429,471	444,708
Income tax expense	111,489	110,299
Profit for the year	317,982	334,409
Assets and liabilities		
Non-current assets	5,062,955	5,819,695
Current assets	1,615,454	1,813,717
Non-current liabilities	2,338,587	3,248,437
Current liabilities	1,557,444	1,633,266
Cash and cash equivalents	609,385	755,390
Equity		
Share capital	8,512	8,340
Share premium	1,366,774	1,264,114
Equity attributable to owners of the Company	2,348,364	2,431,202
Non-controlling interests	434,014	320,507
Total equity	2,782,378	2,751,709
Earnings per share - basic and diluted	0.30	0.31

Financial Indicators

	2015	2016
Gross profit margin	27.03%	25.71%
Net profit margin	14.12%	12.42%
Current ratio	103.72%	111.05%
Assets gearing ratio	58.34%	63.95%
Weighted average return on capital	12.86%	10.41%

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 22.13%, 76.30% and 1.57% of total revenue, respectively. In 2016, revenue from transport and sales of gas as a percentage of total revenue increased by approximately 24.55% from 2015.

CHAIRMAN'S STATEMENT



Favourable policies and the in-depth development of China's new industrialization and urbanization have created good opportunities for the growth of the natural gas market. In the future, the Group will follow the pace of energy structure adjustment in the PRC and make new business development strategies in due course and in a reasonable manner.

Zhang Yingcen, Chairman

CHAIRMAN'S STATEMENT

ANNUAL RESULTS

In 2016, China continued to promote comprehensive and in-depth reforms and innovation-driven development, actively adjusted economic structure, and accelerated the change in the model of economic development. As a result, China's economic growth was maintained at a reasonable rate and the goal of 6.7% annual GDP growth was achieved. Currently China is in a critical period of energy transformation and further emphasizes the importance of green development. During the year, China introduced a series of favourable policies such as coal-to-gas and oil-to-gas policies to promote the reform and development of the natural gas industry. In addition, with the in-depth development of China's new industrialization and urbanization and the rebound in international crude oil price, the market demand for natural gas in the PRC was further stimulated and great opportunities were created for the development of the natural gas industry.

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 RMB2,693,000,000, representing an increase of approximately 19.58% from 2015. Gross profit amounted to approximately RMB692,000,000, representing an increase of approximately 13.63% from 2015. Profit attributable to owners of the Company amounted to approximately RMB313,000,000, representing an increase of approximately 10.21% from 2015. Excluding the impact of exchange rate fluctuations, profit attributable to owners of the Company amounted to RMB378,000,000, representing an increase of approximately 20.08% as compared with the corresponding period of last year. In 2016, gas sales volume of the Group amounted to approximately 918,000,000 m³, representing an increase of approximately 47.83% as compared with the corresponding period of last year. The total number of the Group's various gas users reached 1,334,299.

CORPORATE MANAGEMENT

During the year, the Group continued to focus its management on the development of a "standard group management and control system", and completed the development of standard systems in respect of system internalization, department setting, position arrangement, asset allocation and operating information. Its NC fund management system was completed and launched, whereby the Group conducts daily collection of funds from its members and another solid step forward for group fund management and real-time monitoring was made. In response to the U.S. dollar exchange rate risk in relation to overseas financing, during the year the Group carried out cross-currency swap transactions to replace part of borrowings denominated in U.S. dollars, which not only reduced exchange loss but also lowered actual financing cost.

During the year, the Group made solid progress in cost management, risk management and customer services. For cost management, the Group established rules to regulate the methods and standards for the collection of information on different types of users, and carried out pilot information-based transmission error management to further low cost. In addition, it strengthened the implementation of group systems, required its members to assign risk managers and enhanced the risk consciousness of its members so as to enable the Group to timely control the risks of its members. Furthermore, the Group carried out service quality improvement month activities and launched one-on-one extended service solutions for end customers in order to continue to improve customer experience and meet customer needs.

During the year, the Group implemented a talent selection program, whereby it selected and allocated a number of capable young employees to hold management positions at its members and cultivate management personnel reserve for the Group. The "Coming Home to Work at Tian Lun" program had recruited a number of senior management talents and graduates from renowned universities with Henan as hometown. Also, through entering into performance responsibility letters setting out clear performance objectives, its team cohesion had been enhanced.

CHAIRMAN'S STATEMENT

OUTLOOK

In 2017, China will continue to implement the 13th Five-Year Development Plan, focus on the supply side structural reform as the core, and further clarify the direction and path for the market reforms of energy including natural gas. In the coming year, China will continue to accelerate the development of natural gas as a mainstream energy and actively develop a series of gas-related rules or policies including the Opinions on Acceleration of Use of Natural Gas to promote the large-scale application of natural gas in key areas including urban supply, gas power generation, industrial and transportation fuels. Driven by the national environment protection policies and the pickup of global crude oil price, the competitiveness of natural gas in environmental protection and its price advantage will become more evident in the year, which will drive the steady growth of the demand for natural gas market in the PRC and hopefully help achieve the objective that the consumption of natural gas accounts for 6.8% of energy consumption in 2017.

In 2017, the Group will follow the pace of energy structure adjustment in the PRC, keep a close eye on the market conditions and make new development strategies in due course. This year, the Group will continue to adopt the development model of selective mergers and acquisitions and focus on the investment in areas with established gas penetration as well as the targets which can generate synergies together with its existing gas projects. In order to further develop the existing gas projects, the Group has proposed an innovative concept of extension development by developing single point direct supply of LNG and township gas market as new business. It emphasized that all members not only shall develop users in the surrounding areas of its operation but also shall expand business to core cities in the region and nearby industrial enterprise gathering areas. It shall change the traditional business philosophy and adopt a development model which allows developing customers first before laying pipelines, and gradually expand and get closer to suburb areas of large- and medium-sized cities so as to achieve the objective of extending areas of operation.

Further, by following the guide of national natural gas policies, the Group will strive to keep pace with the times and continue to develop new business growth drivers. The Group firmly believes that gas power plant will be a new driving force for the gas industry. It will monitor the development of gas transmission business for gas power plants in Jiangsu and Guangdong and to expand business when the opportunities arise. In the meantime, in order to further lower gas supply cost and achieve diversified development of industrial chain terminals, the Group will attempt to enter the distributed energy market by focusing on the development of distributed energy projects established by large plants and industrial parks.

The Group will continue to optimize internal operation and management. On one hand, the Group will implement control cost and management through enhanced operational rules to further optimize and improve overall operational efficiency. On the other hand, the Group will strengthen the study of advanced technologies in the industry by inviting well-known industry experts to provide introduction to and training in new policies and new technologies in the industry to its management, in order to improve its innovative business model through technologies and lay a solid technical foundation for the sustainable growth of its results of operation in the future. The Group believes that with more favourable policy support, more mature and efficient management model, more innovative development concept and the concerted efforts of all employees of Tian Lun, its growth rate will continue to be leading in the industry in the next year and it will repay shareholders, investors and users with even stronger performance and higher-quality services.

CHAIRMAN'S STATEMENT

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 2016, and I highly appreciate the continuing support from the shareholders and investors of the Company.

Zhang Yingcen
Chairman

25 March 2017



MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

Structure and development trend of the energy industry in the PRC

The advance of China's energy market reform, the increasing infrastructure, the improvement in the competitiveness of natural gas price, and the introduction of industry support policies had provided strong support for the rapid development of the natural gas market.

According to the National Development and Reform Commission (the "NDRC"), China's natural gas consumption in 2016 amounted to 205.8 billion m³, representing an increase of approximately 6.6%. Natural gas consumption for the first quarter of the year ended 31 December 2016 showed a good start, with growth rates of January and February reaching as high as 17.6% and 18.5%, respectively. Growth was also maintained for the next three quarters. Due to factors including the sustainable development of national ecological civilization construction, further development of new industrialization and urbanization, energy consumption structure and energy-saving and emission-reduction, natural gas has become a major energy source and its consumption will maintain a momentum of rapid growth. The natural gas price reform also represents a long-term positive factor for the industry.

The policy on natural gas utilization in the PRC

In 2016, the relevant national authorities successively announced favourable policies to strongly facilitate the natural gas market reform. The NCRD issued the Measures for the Administration of the Price of Natural Gas Pipeline Transportation (for Trial Implementation) (天然氣管道運輸價格管理辦法(試行)) and the Measures for Supervision of Cost Pricing of Natural Gas Pipeline Transportation (for Trial Implementation) (天然氣管道運輸定價成本監審辦法(試行)) on 9 October 2016, which stipulated that the cross-province pipeline transportation price in the PRC may be set on the pricing basis of "permitted cost plus reasonable profit" with price cap to be determined based on a post-tax investment rate of return of 8%. It was also expressly stipulated that enterprises engaged in pipeline

transportation business shall in principle separate the pipeline transportation business from other business. The introduction of new policies will further promoted the transparent pipeline operation and were conducive to the sustainable development of long-haul pipeline business of the Company.

On 24 December 2016, the NDRC issued the "13th Five-Year Plan for Natural Gas Development", which further clarified the natural gas development goals in the next few years. The Plan provides that by 2020, China's total natural gas supply capacity shall reach 360 billion m³; the development of natural gas main pipe network and supporting pipeline shall be accelerated and the total length shall reach 14,000 kilometres; natural gas penetration rate for urban residents shall reach 60%; the government will support the development of natural gas vehicles and that the number of natural gas vehicles shall reach 10 million and 12,000 supporting gas refilling stations shall be constructed by 2020. The government will promote the "coal-to-gas" conversion progress, improve the percentage of power generation by natural gas, and encourage the development of gas utilization projects such as natural gas distributed energy. It will facilitate the separation of natural gas pipeline transportation from natural gas sales and allow third party's access to pipelines.

China's accelerated supply side reform and the successive introduction of natural gas-related favourable policies have brought unprecedented development opportunities for private enterprises in the natural gas industry, and the Group will seize the good opportunity to vigorously expand natural gas business presence.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2016, the Group continued to improve the operation and management of its existing projects. By capturing the good opportunities brought by China's urbanization reform and industrial energy-saving transformation, the Group fully explored

the market potential of its existing projects and strived to expand the number of its new residential and industrial and commercial users in the areas in which it operates, so as to promote the continued strong growth of the overall results of the Group.

The key results and operating data of the Group for the year ended 31 December 2016 and their comparison against the figures for the previous year are as follows:

	For the Year Ended 31 December		
	2016	2015	Increase
Revenue (RMB'000)	2,693,094	2,251,970	19.59%
Gross profit (RMB'000)	692,349	608,770	13.73%
Profit attributable to owners of the Company (RMB'000)	313,379	284,242	10.25%
Weighted average number of shares ('000)	1,000,857	954,562	4.85%
Earnings per share * — basic (RMB)	0.3131	0.2978	5.14%
Total pipeline gas users:			
— Residential users	1,325,382	1,016,385	30.40%
— Industrial and commercial users	8,917	5,737	55.43%
— Daily designed gas supply volume to industrial and commercial users (in ten thousand m ³)	494	378	30.69%
Natural gas sales volume to residential users (in ten thousand m ³)	15,080	10,083	49.56%
Natural gas sales volume to industrial and commercial users (in ten thousand m ³)	45,266	30,942	46.29%
Vehicle natural gas sales volume (in ten thousand m ³)	12,246	11,307	8.30%
Sales volume to urban gas company users (in ten thousand m ³)	19,160	9,723	97.06%
Total number of gas refilling stations (operating and under construction)	59	55	4
Total length of medium- and high-pressure pipelines * (kilometre)	3,063	2,616	447

* According to the requirements of the relevant accounting standards, earnings per share of the Group will be affected by the weighted average number of shares in issue.

* Including the pipeline length of newly consolidated projects of Henan Xi Chuan, Sichuan Ming Sheng and Guangdong Lechang of approximately 217 kilometres in total.

MANAGEMENT DISCUSSION AND ANALYSIS

Development of new projects

During the year ended 31 December 2016, the Group acquired an urban gas project in Lechang City, Guangdong Province, acquired 36% additional equity interest in Jilin Zhongji Dadi Gas Group Limited (“Zhongji Dadi”), and the exclusive operating right of blank project in Baofeng County, Pingdingshan City. As at the end of the year ended 31 December 2016, the Group had a total of 53 urban gas projects. In addition, the gas projects of Henan Xi Chuan and Sichuan Ming Sheng, which were took over by the Group last year, has been consolidated in the financial results of the Group since February 2016, and the strong profitability of Sichuan Ming Sheng project has contributed to the annual results of the Group.

Acquisition of an urban gas project in Lechang City, Guangdong Province

On 12 May 2016, Beijing Tian Lun Investment Co., Ltd.* (北京天倫投資有限公司) (formerly known as Beijing Hui Ji Tai Zhan Investment Company Limited* (北京慧基泰展投資有限公司)), a wholly-owned subsidiary of the Company, entered into an agreement with Beijing Hui Tai Yuan He International Trading Co., Ltd.* (北京慧泰遠和國際貿易有限公司) to acquire 85% equity interest in Lechang Anshunda Pipeline Gas Co., Ltd.* (樂昌市安順達管道天然氣有限公司) in Guangdong Province (“Lechang Project Company”) at a total consideration of RMB56,000,000.

Lechang Project Company owns exclusive operating rights for a term of 30 years in urban areas of Lechang, Lechang Industry Relocation Industrial Park and vehicle gas refilling stations, two LNG gasification stations and medium-pressure pipelines with a total length of 14.3 kilometres. With approximately 560,000 local residents in Lechang, its gas penetration rate is less than 10%, much lower than average gas penetration rates of 50% to 60% in developed areas, which indicates strong potential for the development of local civil gas market. In addition, Lechang has well-developed industrial economy, with total gross domestic product expected to be RMB11.6 billion for 2016. Lechang Industry Relocation Industrial Park, a focus of local government, is a provincial industry relocation industrial park and a key platform for driving local industrialization and urbanization. With a planned site area of 13,000 mus, the industrial park focuses on the development of textile, clothing and equipment manufacturing industries and is substantially completed for operation. The Group believes that the rapid growth of the industrial park and the increase in use of natural gas by local residents in Lechang will bring a strong driving force for the gas sales and gas pipeline connection business of Lechang Project Company.

Acquisition of additional 36% equity interest in Zhongji Dadi

On 22 May 2016, Henan Tian Lun Gas Group Limited, an indirect wholly-owned subsidiary of the Company, (“Henan Tian Lun”) entered into an equity transfer agreement with Henan Tian Lun Gas Engineering Investment Limited* (河南省天倫燃氣工程投資有限公司), a company controlled by Mr. Zhang Yingcen (an executive Director and a controlling shareholder of the Company), to acquire additional 36% equity interest in Zhongji Dadi at a total consideration of RMB191,000,000. Upon completion of the acquisition, Henan Tian Lun held a total of 87% equity interest in Zhongji Dadi. For further details, please refer to the announcement of the Group dated 23 May 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

North-eastern China in which Zhongji Dadi is located has become one of the most important core areas for the operation of the Group, and the Group has 10 urban gas projects, 16 transportation gas projects and a LNG processing plant in such area. Prior to completion of the acquisition, the Group had 51% equity interest in Zhongji Dadi. Upon completion of the acquisition, the Group's equity interest in Zhongji Dadi was further increased to 87%. The Group believes that, the further integration of Zhongji Dadi into the Group is beneficial to strengthening the overall management and control of the Group on the gas business in the north-eastern region, thus further improving the profitability of Zhongji Dadi. Meanwhile, it helps enhance the size and profitability of the Group, comprehensively promoting the overall development of the Group's gas business and generating synergies.

Acquisition of Exclusive Operating Right for Blank Project in Baofeng County, Pingdingshan City

On 9 October 2016, Henan Tian Lun Gas Pipeline Network Co., Ltd. * (河南天倫燃氣管網有限公司) (formerly known as Henan Hui Ji Energy Limited * (河南慧基能源有限公司)) entered into a pipeline natural gas exclusive operating right in Baofeng County with Housing and Urban and Rural Construction Planning Bureau of Baofeng County, Pingdingshan City * (平頂山市寶豐縣住房和城鄉建設規劃局) to acquire the exclusive right to invest in, construct and operate gas pipelines in 8 towns, 4 townships and 2 industrial parks in Baofeng County.

Baofeng County is located in the west of Pingdingshan City, Henan Province and in close proximity to the urban area of Pingdingshan City. Leveraging its location advantage as a transportation hub, Baofeng is actively promoting the integration with the new urban area of Pingdingshan City and facilitating the concentration of production factors in central towns and central villages in order to build a modern town system and form a new pattern of integration of urban and rural development. Currently the population in townships of Baofeng City was approximately 150,000. As the urbanization progress speeds up, it is expected that the number of potential resident users of the Group will continue to grow. In addition, as an industrial transfer target area for Pingdingshan City, Baofeng County is building a modern industry system and striving to become a national industrial facility with support of key industries including solar photovoltaic, modern manufacturing, new materials, building materials, food processing, textile and other light industries. It has a large number of potential industrial and commercial users.

Investment in Bases of Gas Sources

The CNG equipment of the Group's gas source base project in Changling County, Jilin Province has a designed daily production capacity of 150,000 m³. Since its production commencement in the middle of last year, it recorded fast expansion and its operating rate continued to increase. Its daily production had exceeded 85,000 m³ as at 31 December 2016 and is close to 150,000 m³ as at the date of this announcement. The installation and commissioning of LNG equipment was almost completed, which will commence production in the year. North-eastern China in which the Changling project is located is one of the important core areas for the operation of the Group, and the smooth development of CNG market also demonstrated the Group's strong distribution ability in the area. As such, the Group is fully confident in its LNG business which is about to commence production in the year.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition, for the LNG processing plant project in Kaizhou District, Chongqing (formerly known as Kai County, Chongqing), as negotiated with local government, the project location will be relocated to Puli Industrial New Area which is closer to the gas source, in order to reduce the investment and construction cost of the project. The new location will significantly reduce the length of pipeline required for the project and in turn reduce investment cost and future operation cost of the project. Puli Industrial New Area has a planned intensive road network and is close to key traffic hubs. As such, it has strong location advantage. In the future, the project will rely on the regional policy advantage and enjoy government infrastructure and favourable policies such as interest subsidy for financing.

Investment in Gas Refilling Stations

As at 31 December 2016, the Group added 3 new operating gas refilling stations and had a total of 44 operating gas refilling stations and more than 15 gas refilling stations under construction. The Group will pay close attention to the price trend of competitive energy and national policy guidance, and will carefully establish additional gas refilling stations while maintaining the investment return.

Long-haul Pipelines

The Group has a total of four 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, with a total annual gas transmission capacity of 5 billion m³. For the Lushan-Ruzhou Pipeline Branch of the West-East Pipeline II of the Group under construction, following active communication with local government, the site re-selection and planning for the new site has been completed. The first phase of the project has already started, and certain pipeline work has been completed. In addition, in order to further lower the gas purchase cost of Xuchang Subsidiary under the Group, it plans to lay long-haul pipelines in Xuchang to realize connection between Yuzhou and Changge. Currently the government approval for early work of the project has been obtained. In the future the pipelines will serve the supply of gas to Xuchang Subsidiary, a core company of the Group, and its neighbouring market. Furthermore, the Group is actively seeking opportunities to construct new long-haul pipelines and independently invests in the construction of long-haul pipeline projects supporting its existing urban gas projects and providing strong support for the expansion of projects along the pipelines. The Group will also focus on the development of gas transmission business of gas power plants, and capture more market share for its middle-stream business by way of constructing long-haul pipeline projects supporting the gas transmission of gas power plants.

MANAGEMENT DISCUSSION AND ANALYSIS

Gas Pipeline Connection Volume

For the year ended 31 December 2016, the Group connected a total of 204,393 residential users to gas pipelines, and the total number of its residential users increased to 1,325,382 (including the number of existing residential users of the three projects, being Henan Xi Chuan, Sichuan Ming Sheng and Guangdong Lechang projects, prior to their consolidation), representing an increase of approximately 30.40% as compared with the corresponding period of last year. Average connection fee paid by each residential user was approximately RMB2,551. For the year ended 31 December 2016, the Group connected a total of 1,226 industrial and commercial users to gas pipelines, and the total number of industrial and commercial users of its operating projects amounted to 8,917 (including the number of existing industrial and commercial users of the three projects, being Henan Xi Chuan, Sichuan Ming Sheng and Guangdong Lechang projects, prior to their consolidation), representing an increase of approximately 55.43% as compared with the corresponding period of last year. Average connection fee paid by each industrial and commercial users was approximately RMB60,739.

Gas Sales Volume

For the year ended 31 December 2016, gas sales volume of the Group amounted to approximately 918,000,000 m³, representing a significant increase of approximately 297,000,000 m³ or 47.83%, as compared with the corresponding period of last year. Pipeline gas distribution volume amounted to approximately 780,000,000 m³. Gas volume sold to residential users, industrial and commercial users, transportation gas users and urban gas company users accounted for 16.44%, 49.34%, 13.35% and 20.87%, respectively, of total gas sales volume. The average selling prices of natural gas sold by the Group to residential users, industrial and commercial users, transportation gas users (including retail and wholesale) and urban gas company users (exclusive of tax) were approximately RMB2.22/m³, RMB2.29/m³, RMB2.51/m³ and RMB1.79/m³, respectively. Excluding large industrial and commercial users, average selling price of natural gas sold to industrial and commercial users (exclusive of tax) was RMB2.48/m³.

Gas sales volume to residential users increased by approximately 49.56% as compared with the corresponding period of last year, mainly due to the 30.40% increase in the number of the Group's residential users, as well as large sales volume to residential users of Ming Sheng project in Sichuan which has been consolidated. Excluding the gas sales volume to residential users of Ming Sheng project in Sichuan, gas sales volume to residential users of other gas projects increased by approximately 26.25% as compared with the corresponding period of last year.

The number of and sales volume to industrial and commercial users showed a leap forward development. Gas sales volume to industrial and commercial users increased significantly by approximately 46.29%. Excluding gas sale volume to industrial and commercial users of Beijing Tian Lun Investment Group (formerly Beijing Hui Ji project), gas sales volume to industrial and commercial users of other gas projects of the Group still increased by approximately 40% as compared with the corresponding period of last year.

During the year, the Group responded to the government's call for energy reform to save energy and reduce emission by actively developing potential coal-to-gas users in the areas of its operation and helping traditional enterprises with high energy consumption and high pollution conduct equipment upgrading and application of new technologies. As a result, it successfully developed a number of new large industrial users from the "coal-to-gas" conversion. Hebi Subsidiary recorded strong performance in particular. Once a city with the coal industry as its major support, Hebi accelerated economic transformation in recent years in order to gradually reduce its dependence on the coal industry. For this reason, Hebi Subsidiary timely adjusted its development strategy to focus on the development of large "coal-to-gas" industrial users in the area and successfully entered into contracts with many large "coal-to-gas" users including Hebi Coal & Electricity Co., Ltd. * (鶴壁煤電股份有限公司), Hebi Coal Group * (鶴壁煤業集團) and Hebi Zhongtai Mining Co., Ltd. * (鶴壁中泰礦業公司) through its unremitting efforts. Gas supply to most of these users commenced in 2016, with a total of daily gas consumption of 55,000 m³. In the meantime, other

MANAGEMENT DISCUSSION AND ANALYSIS

members of the Group conducted market exploration for potential users in their respective regions in view of local coal-to-gas conversion progress. Xuchang Subsidiary and Shangqiu subsidiary in South Henan region, and Dunhua Subsidiary in northeast region successfully developed large coal-to-gas users including Tianchang International Tobacco * (天昌國際煙草), Henan E'zhong Fertiliser * (河南鄂中肥業) and Jilin Asymchem Laboratories Co., Ltd. * (吉林凱萊英醫藥化學公司), and gas supply to all of them had commenced in 2016, with daily gas consumption of 25,000 m³, 15,000 m³ and 10,000 m³, respectively. The number of coal-to-gas users of Baiyin Subsidiary, Qian County Subsidiary and Liqun Subsidiary, located in northwest region, also increased, as they successfully entered into contracts with a number of large gas users including Baiyin Non-ferrous Group * (白銀有色集團), Uni-President * (統一企業) and Hong'en Environment * (宏恩環保), each with a designed daily gas consumption of over 30,000 m³. Gas supply will successively commence in the year. As at the end of the Reporting Period, the Group developed over 1,200 new industrial and commercial users. The Group believes that with the continuous increase in the number of industrial and commercial users and the expansion of their gas consumption, gas sales volume to industrial and commercial users will maintain rapid growth in the future.

Gas sales volume to transportation gas users increased by approximately 8.30% as compared with the corresponding period of last year, mainly due to the fact that Jilin Changling project and the newly operated refilling stations of Henan Tian Lun Gas Pipeline Network both commenced sales of vehicle gas last year, as well as the fact that with the rise in oil price in 2016, the price advantage of vehicle gas recovered, and vehicle gas sales volume of a number of members including Kaifeng Lan Kao and Jilin Qian An grew to varied extents during the year.

Gas sales volume to urban gas company users and pipeline gas distribution volume increased by approximately 97.06% and 26.83%, respectively, as compared with the corresponding period of last year. The substantial increase in gas sales volume to urban gas company users was mainly due to the following reasons: firstly, compared to 2015 when only the data of Beijing Tian Lun Investment Group for the period from April to December 2015 was consolidated, the data of Beijing Tian Lun Investment Group for the full year was consolidated in 2016, and the first quarter with extra data was a peak season for heating gas supply; secondly, the newly consolidated Ming Sheng project also has urban gas company users, which further contributed to the increase in overall gas sales volume to urban gas company users.

Customer Services

The Group always regards customer satisfaction as a key indicator of service quality and strives to provide customers with high quality service experience through understanding the real needs of customers, improving service concept and innovating service methods.

The Group adheres to the people-oriented philosophy and strives to enhance employees' service awareness and improve customer services. The Group has established a professional service training team to carry out the "Service quality improvement month" activity and provide regular special training to front-line service staff, in particular the system operation training provided to new customer service staff, which has significantly enhanced the operation skills of system operators and their ability to deal with common problems. In addition, the Group attaches great importance to customers' evaluation, complaint and recommendations, and has established a standardized customer complaint management system, which expressly stipulates that all members of the Group shall regularly summarize customers' suggestions and complaints and adopt effective recommendations for strict implementation. In addition, to meet the diversified gas consumption needs of customers, the Group has launched an "Extended service solution" for end users, which maximizes customer experience by developing one-on-one service solution according to the customized requirements of each user.

MANAGEMENT DISCUSSION AND ANALYSIS

As for service terminal, the Group continued to adopt the innovative “Internet +” management concept and further promoted its full cooperation with Alipay by making full use of its established online payment channels and encouraging users to make payment through scan codes of Alipay and use online search service. It also introduced pilot self-payment machines for gas card metre users and established diversified services channels by combining on-line new services with off-line traditional services.

In respect of customer safety in gas use, the Group always considers customers’ safety above all else by arranging specialized personnel to conduct safety examinations for yard pipeline network, indoors 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 ended 31 December 2016, the Group continued to implement a safety management system with risk control as the core, continued to upgrade and improve its safety management mechanism, set out safety objectives and strengthened responsibility assessment. The Group attached importance to the development of the production safety management team and had established a team of safety management experts to cooperate with safety management consulting institutions and hold special training and seminars, which focus on solving the difficult problems in the production of the Group and had improved the expertise of safety management personnel. In addition, the Group strengthened the guidance and supervision of the daily safety management process of its members by conducting regular safety management assessment of all members, organizing pipeline operation risk assessment, special treatment of customers’ hidden dangers and emergency rescue capability evaluation in order to selectively eliminating operation risk and fully improve safety management ability.

Risk Management

In the face of an increasingly complex business environment, a sustained and prudent risk management system will help the Group effectively avoid risks, enhance the forethought of operational decisions and ensure long-term steady development of the Group. During the year ended 31 December 2016, following the development and consolidation of over 100 risk management rules covering all links including market operation, finance, internal audit and safety production, the Group shifted its work focus to how to maximize the assurance that all rules are effectively implemented. By organizing seminars and taking into account its own situations, the Group had initially established a practical closed risk management and control proposal covering rule index database, training and learning, routine inspection, and evaluation and assessment. At the same time, in order to avoid acting blindly, the Group actively learned from the risk management experience of outstanding external enterprises and organized teams to visit and learn from exemplary enterprises, so that they could identify their own shortcomings through in-depth discussion and communication among management, achieve excellence and strive to make it risk control meet the standards for first-class enterprises.

Furthermore, the Group had established a risk management team at each of its members, designated risk managers, and prepared and issued the Management Measures for Risk Managers of the Group, which expressly stipulated that risk managers are responsible for the promotion of rules and the risk management system, regular preparation of risk control self-assessment reports and reporting various risks to the head office of the Group. Such risk management model with responsibility assigned to specific persons, has fully motivated risk managers’ enthusiasm to “prevent risks, convey ideas and report events”, enabled members of the Group to effectively implement management tasks and facilitated the continuous, efficient and regulated risk control within the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Moreover, during the year ended 31 December 2016, the Group renewed the public liability insurance, all property insurance and directors and senior management liability insurance covering the whole Group to ensure that all risks are covered by insurance and minimize the possible risk losses of the Group.

Cost Management

Good cost control can effectively reduce operating costs of an enterprise, improve its production capacity and resource utilization, and improve its management model. The Group has always attached great importance to cost management and strict controls costs to ensure the continuous improvement of profitability.

With the increase in the number of township gas users of the Group, it established special rules to further clarify the standard for urban users and township users to regulate the classification standards for the connection cost and assets for different types of users. In addition, the Group conducted real-time monitoring of the costs of projects under construction. For projects with abnormal costs, the Group partnered with design and project management personnel to conduct site investigations to analyse the causes and jointly develop solutions in order to optimize cost control.

For material management, during the year ended 31 December 2016, the Group issued the "Highest Inventory" target to all members and urged its members to minimize the inventory by way of timely dealing with waste materials or assets through exchange with the plant, secondary use, internal allocation within the Group and disposal. It also updated a list of Class I material suppliers and strengthened the selection and monitoring of Classes II and III suppliers. It amended the centralized material procurement plan and the material supply agreement template to regulate the entering into of material procurement agreements.

The Group had implemented strict control over transmission error management, had sorted out key work in three areas including performance assessment, management and technology and had conducted special governance, and had established a clear transmission error management system. During the year ended 31 December 2016, the Group organized its stations to conduct transmission error analysis and strictly controlled upstream transmission errors through flow metre calibration and negotiation with upstream suppliers. Besides, it conducted a pilot transmission error management information program at Xuchang Subsidiary and Hebi Subsidiary to further improve the accuracy of data management and plans to apply the program at all members in the future.

Information Management

In 2016, the Group fully optimized and deepened the data advantage of its information system in its operation management and utilised its information development platform to consolidate the centralized financial management, human resources management and control, supply chain management and control, supply chain management and control and capital management and control modules which have been launched. Through application of these modules in its integrated collaborative office system platform, the Group identified, collected and corrected the minor problems in the process and further enhanced the effectiveness of the module system that has been launched online.

MANAGEMENT DISCUSSION AND ANALYSIS

In addition, the Group continued to update and improve the new functions of each application system that has been launched or piloted in view of the actual needs of its operation during the year. In particular, while providing traditional functions including meter reading, charge, work order, security check, inspection and reporting, the marketing service system also added a new transmission error management module which has avoided human interference and ensured the accuracy of data management by analysing the basic values of gas intake volume of stations and pipeline storage volume and automatically generating transmission error results. Currently this function has been launched in Xuchang and Hebi. Furthermore, through further expansion of the coverage of the SCADA remote monitoring system, in addition to realizing the real-time remote monitoring and data transmission at major stations of members, the system also included the information on large industrial and commercial users of the Group and important and remote nodes of urban pipelines in the scope of monitoring to ensure that the central dispatch room at the headquarters of the Group can realize real-time monitoring through the remote transmission system. Moreover, the Group completed the testing for the launch of the “one card pass management platform” at gas refilling stations and started to promote the system. A total of 13 gas refilling stations of the Group have successfully used this platform to conduct charge management. Also, the Group has developed platform management rules including the Vehicle Gas IC Card Application Rules, which has effectively improved the charging and gas sales management at gas refilling stations and established an efficient charging system for future promotion and application at all gas refilling stations in the future.

Human Resources

As at 31 December 2016, total number of employees of the Group was 2,427. The remuneration of employees of the Group are determined based on their work performance, work experiences and prevailing market rate. The Group’s employees in the PRC participate in various protection and insurance, including the social insurance and housing fund under the Social Insurance Law of the People’s Republic of China and the Housing Provident Fund Management Regulations, respectively.

The Group attaches great importance to the cultivation, selection and introduction of talents. During the year, the Group developed a junior internal trainer cultivation plan, selected and appointed internal lecturers, and obtained certifications for the courses developed by it in order to provide professional training required for their positions. 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. For the recruitment of talented persons, the Group reserves sufficient human resources for its rapid development through campus recruitment across China, social recruitment and the “Coming Home to Work at Tian Lun” program which targets to attract high-end talented persons with local origin.

Further, the Group launched an organizational structure adjustment program setting out clear internal organizational structure and job placement standards at its members, and further promoted management standardization. In order to stimulate management potential and improve operational efficiency, each member of the Group entered into a performance responsibility letter at the beginning of the year in order to set out clear objectives for the year, play the role of rewards and punishments based on performance, effectively improve employees’ work enthusiasm and promote the achievement of performance objectives of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2016, the Group's revenue amounted to approximately RMB2,693,000,000, representing an increase of approximately RMB441,000,000 or a rise of approximately 19.58% as compared with the corresponding period of last year. Gross profit amounted to approximately RMB692,000,000, representing an increase of approximately RMB83,000,000 or a rise of approximately 13.63% as compared with the corresponding period of last year. Profit attributable to owners of the Company amounted to approximately RMB313,000,000, representing an increase of approximately RMB29,000,000 or a rise of approximately 10.21% as compared with the corresponding period of last year.

Revenue

For the year ended 31 December 2016, the Group's revenue was primarily derived from the gas pipeline connections business and the transportation and sales of gas business, accounting for approximately 22.13% and 76.30% of the total revenue (the corresponding period of last year: approximately 25.37% and 73.28%), respectively.

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 2016, revenue from gas pipeline connections amounted to approximately RMB596,000,000, representing a slight increase from approximately RMB571,000,000 for the corresponding period of last year.

Revenue from Sales of Gas

The Group is engaged in the transportation, distribution and sales of natural gas for large industrial users in the cities in which it operates. For the year ended 31 December 2016, the Group had a significant growth in gas sales volume. Revenue from gas sales amounted to approximately RMB2,055,000,000, representing an increase of approximately 24.55% from approximately RMB1,650,000,000 for the corresponding period of last year.

Gross Profit, Gross Profit Margin and Net Profit Margin

For the year ended 31 December 2016, the Group realized gross profit of approximately RMB692,000,000, representing an increase of approximately RMB83,000,000 or 13.63% from the year ended 31 December 2015. Overall gross profit margin of the Group was approximately 25.71%, representing a slight decrease of approximately 1.32 percentage points as compared with the corresponding period of last year. The slight decrease was mainly due to further increase in the percentage of the Group's revenue from sales of gas. Net profit margin of the Group was approximately 12.42%, representing a slight decrease of approximately 1.70 percentage points as compared with the corresponding period of last year.

Distribution Cost and Administrative Expenses

With the continuous implementation of cost control policies such as the comprehensive budgeting management system, the Group's proportion of distribution costs and administrative expenses to total revenue for the year ended 31 December 2016 has declined by approximately 0.66 percentage points as compared with the corresponding period of last year.

The Group's distribution cost for the year ended 31 December 2016 was approximately RMB23,540,000, and administrative expenses for the year was approximately RMB117,000,000.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2016, the Group spent capital expenditure of approximately RMB434,000,000, of which approximately RMB257,000,000 was used in project acquisitions and approximately RMB177,000,000 in continuously improving urban gas business. The above capital expenditure was financed by the Group's operating cash flows and bank borrowings. The Group's cash and cash equivalents amounted to approximately RMB755,000,000, of which approximately 58.19% was denominated in RMB, 41.31% was denominated in US dollars and 0.39% was denominated in HK dollars, and its financial assets at fair value through profit or loss of approximately RMB318,000,000 can be realized within a short time, safeguarding the needs of project expansion and acquisition of businesses of the Group.

As at 31 December 2016, the Group's total borrowing was approximately RMB3,588,000,000 (among which loans denominated in RMB was approximately RMB1,247,000,000 and loans denominated in US dollars was approximately RMB2,341,000,000), of which approximately 23.65% was accounted for as current liabilities. The loans repayable within one year amounted to approximately RMB848,000,000, of which approximately RMB206,000,000 was secured by the Group's properties, land use rights and gas charge rights. As at 31 December 2016, the gearing ratio, calculated based on the percentage of total liabilities over total assets, was approximately 63.95%.

Finance Cost and Exchange Risk Management

For the year ended 31 December 2016, the Group's finance cost was approximately RMB191,000,000, representing an increase of approximately 37.41% 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.

During the year ended 31 December 2016, the changing international situation caused the wide fluctuation of Renminbi exchange rate. The Group keeps a close eye on the changes in the exchange market and exchanged certain borrowings denominated in U.S. dollars through cross currency swaps. The Group realized gain on change in fair value of approximately RMB36.17 million and interest exchange income of approximately RMB2.07 million, totalling approximately RMB38.24 million. As a result, it has kept medium-and long-term exchange rate risk under control and lowered its financing cost. In the future the Group will continue to monitor the exchange rates and adopt measures to avoid regulatory risks and minimize the potential exchange loss.

Corporate and Social Responsibilities

As a rising star committed to the development of natural gas industry with national presence, since its establishment, the Group has been providing stable supply of natural gas to all kinds of natural gas users and striving to become a national energy distribution enterprise which is worth customers' trust and wins social respect, with its mission of developing clean energy and improving living environment and its philosophy of putting customer's needs and interests first.

MANAGEMENT DISCUSSION AND ANALYSIS

Economic Responsibility

Since its listing, the Group's business presence had continued to expand. Currently the Group owns 53 gas projects in 15 provinces in the PRC and employs a total of 2,427 employees, which has promoted the development of gas business in the third- and fourth-tier cities of China and surrounding townships, effectively increased local taxation income, alleviated employment pressure, promoted local economic growth and accelerated local urbanization reforms.

Environment Responsibility

The Group fully practices its mission as an enterprise providing clean energy by seizing the opportunities brought by China's energy reform to actively promote the "coal-to-gas" conversion progress of industrial users in the areas of its operation and promoting the use of natural gas among coal-to-gas users with high energy consumption and high emissions. With the continuous increase in number of coal-to-gas users of the Group, the emission of pollutants will be effectively reduced, which represents a response to national's call for energy-saving and emission-reduction and develop green economy with practical actions.

Social Public Welfare

Adhering to the principles of "develop and enjoy Tian Lun together" and "what is taken from the people is used in the interests of the people", the Group actively participated in various charitable activities. Mr. Zhang Yingcen, the controlling shareholder of the Group, partnered with Henan Disabled Foundation and established the Tian Lun Care for Children Fund in 2011, which donates to children and families in need. In September 2016, Mr. Zhang Yingcen once again helped the charity by donating RMB50 million to Henan Charity General Federation. The donation will be used to help treat children for serious illness 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 leukaemia and congenital heart disease and their families accept medical treatment in time.

Purchase, Sale or Redemption of the Company's Listed Securities

Taking into account of the Group's strong performance and development potential, the Board was of the view that conducting share repurchases would further improve its net assets value per share and earnings per share. As at 28 July 2016, the Company had repurchased a total of 19,999,500 shares of the Company on a total of five occasions at the highest and lowest prices per share of HK\$6.00 and HK\$5.88 respectively, with the total consideration paid for the share repurchases of not more than HK\$120,000,000. All repurchased shares had been cancelled on 10 August 2016.

Contingent Liabilities

During the year ended 31 December 2016, the Group had no material contingent liabilities.

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 2016.

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 2016 to 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Audit Committee

The audit committee (the “Audit Committee”) of the Company consists of three independent non-executive Directors, namely, Mr. Li Liuqing (chairman of the Audit Committee), Mr. Yeung Yui Yuen Michael and Ms. Zhao Jun. The Audit Committee had held meetings with the management to review accounting principles and practices adopted by the Group and discussed the audit, internal control and financial reporting issues. The Audit Committee had reviewed and discussed the annual results and financial statements of the Group for the year ended 31 December 2016.

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 2016 have been compared and agreed by the Group’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors



Mr. Zhang Yingcen (張瀛岑先生), aged 54, 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 20 years of management experience, including 15 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. 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 (洗振源先生), aged 42, is an executive Director and the general manager of the Company. He is responsible for the overall management of the Group. Mr. Xian has 13 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. Feng Yi (馮毅先生), aged 38, is an executive Director and deputy general manager of the Company. He is responsible for the strategic investment planning and corporate financing activities of the Group. Mr. Feng has 15 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.

DIRECTORS AND SENIOR MANAGEMENT



Mr. Sun Heng (孫恒先生), aged 59, is an executive Director and deputy general manager of the Company. He is responsible for the operation and management of the Group. He has 23 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.



Ms. Li Tao (李濤女士), aged 45, 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.

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Director

Mr. Wang Jiansheng (王建盛先生), aged 61, was appointed as a non-executive Director on 1 September 2015. 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. Cao Zhibin (曹志斌先生), aged 71, was appointed as an independent non-executive Director on 26 July 2013. 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.

Mr. Li Liuqing (李留慶先生), aged 42, was appointed as an independent non-executive Director on 13 October 2010. 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 62, was appointed as an independent non-executive Director on 1 September 2015. 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 53, was appointed as an independent non-executive Director on 13 October 2010. 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 Lecturer, Education Officer (教育主管) and Occupational Testing Officer (職業技能鑒定站主任) successively. Ms. Zhao is currently 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). 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.

SENIOR MANAGEMENT

Mr. Xu Weidong (徐衛東先生), aged 47, is an executive deputy general manager of Henan Tian Lun Gas Group Limited. Mr. Xu has accumulated 25 years of gas enterprise management experience. After joining the Group in May 2011, he successively acted as general manager of Jilin Zhongji Dadi Gas Group Co., Ltd. (吉林省中吉大地燃氣集團有限公司) and general manager of Xuchang Tian Lun Gas Limited. Before joining the Group, Mr. Xu worked at Jilin Zhongji Dadi Gas Group Co., Ltd. as operation director. Mr. Xu obtained a diploma in clothing design from Jilin Textile Industry University (吉林省紡織工業大學) in 1992.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tang Qichao (湯其超先生), aged 40, is a deputy general manager of Henan Tian Lun Gas Group Limited. Mr. Tang has accumulated many years of large-scale enterprise management experience. After joining the Group in June 2010, he acted as general manager of Jilin Zhongji Dadi Gas Group Co., Ltd. (吉林省中吉大地燃氣集團有限公司). Before joining the Group, Mr. Tang worked at Shaanxi Feng Tai He Construction Development Co., Ltd. (陝西豐泰和建設發展有限公司) as deputy general manager. Mr. Tang obtained a master's degree in business administration from Northwest University (西北大學) in 2009.

Mr. Xie Chaoyang (謝朝陽先生), aged 53, is the general manager of Baiyin Natural Gas Co., Ltd. (白銀市天然氣有限公司). Mr. Xie has 15 years of experience in management of gas enterprises. Since joining the Group in 2002, he has served as the Deputy General Manager and Chief Engineer of Henan Tian Lun Gas Group Limited, the General Manager of Xuchang Tian Lun Gas Limited, the Chairman and General Manager of Xuchang Tian Lun Vehicle-use Gas Limited. Prior to joining the Group, he worked for Hebi Coal Gas Co., Ltd. (鶴壁市煤氣公司) and acted as Vice Manager and Vice Secretary of CPC General Branch. Mr. Xie obtained a diploma in Mathematics (數學系數學專業文憑) from Zhengzhou University (鄭州大學) in the PRC in 1986.

Mr. Zhao Junfeng (趙軍鋒先生), aged 39, is the general manager of Henan Tian Lun Gas Group Limited. Mr. Zhao has 12 years of experience in the management of gas enterprises. Since joining the Group in 2003, he has served as the manager of safety and technology department of Xuchang Tian Lun Gas Limited and deputy general manager of Zhengzhou Shangjie Tian Lun Gas Limited. Mr. Zhao obtained a bachelor's degree majoring in Construction, Environment and Facilities Engineering from Henan University of Urban Construction in the PRC in 1999. Mr. Zhao is a professional medium-level engineer in urban gas and a registered safety engineer in the PRC.

COMPANY SECRETARY

Ms. Zhang Dongmei (張東梅女士), aged 32, is the company secretary of the Company. 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.

DIRECTORS' REPORT

The Directors are pleased to present the annual report for the year ended 31 December 2016 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 2016, and discussion about the Group's future business development, are set out in the section headed "Chairman's Statement" on pages 14 to 17 and the section headed "Management Discussion and Analysis" on pages 19 to 32 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.

DIRECTORS' REPORT

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group has adopted national environmental protection standards, put in place occupational health and environment protection measures, and established standardized operation procedures in order to ensure compliance with laws and regulations relating to environmental protection. During the year, the Group obtained OHSAS18001 (Occupational Health and Safety Management Systems) certification.

In its day-today business operation, the Group promotes greening measures, improves employees' awareness of environmental protection, advocates the philosophy of recycling, reduction of consumption and power saving, and encourages recycling of office supplies and other materials in order to lower the impacts on the environment.

The Group will review its environmental protection practice on a regular basis and adopt more environmental protection measures to cope with its business and operation in the future to improve the sustainability of the environment.

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 through the Company's subsidiaries in the PRC and the shares of the Company are listed on the Stock Exchange. As such, the establishment and operation of the Group is subject to the relevant laws and regulations in the PRC and Hong Kong. During the year ended 31 December 2016 and up to the date of this report, the Group has been in compliance with all relevant laws and regulations in the PRC and Hong Kong.

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.

DIVIDEND DISTRIBUTION

Pursuant to a resolution passed on a Board meeting held on 30 March 2017, the Directors of the Company do not recommend the payment of the final dividend for the year ended 31 December 2016.

DIRECTORS' REPORT

In addition, in order to repay the shareholders for their support, the Group has established a long-term steady dividend policy and plans to distribute interim dividend for 2017, details of which will be set out in the interim results announcement of the Group for 2017.

RESERVES

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

As at 31 December 2016, the distributable reserves of the Company amounted to RMB1,082,650,000.

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 2016 and as at the date of this report were as follows:

Executive Directors

Mr. Zhang Yingcen (*Chairman*)
Mr. Xian Zhenyuan
Mr. Feng Yi
Mr. Sun Heng
Ms. Li Tao

Non-executive Director

Mr. Wang Jiansheng

Independent Non-executive Directors

Mr. Cao Zhibin
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' prior written notice to the other party.

DIRECTORS' REPORT

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. 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' prior written notice to the other party.

As at 31 December 2016, 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 for the exercise of options in respect of Puyang Tian Lun, none of the Company or any of its subsidiaries had entered into any contract of significance in which a Director had a material interest, 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 confirmation of his or her independence and considers, based on the confirmations received, the independent non-executive Directors remain independent.

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' REPORT

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 2016, 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. Interest 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)	527,025,800	545,068,824	108.33%
	Interest of spouse (Note 4)	5,722,500	181,689,608	18.94%
Mr. Xian Zhenyuan ("Mr. Xian")	Beneficial owner (Note 5)	—	4,000,000	0.40%
	Interest of controlled corporation (Note 6)	12,829,500	—	1.30%
Mr. Feng Yi	Beneficial owner (Note 7)	—	600,000	0.06%
Ms. Li Tao	Beneficial owner (Note 8)	—	600,000	0.06%
Mr. Sun Heng	Beneficial owner (Note 9)	—	600,000	0.06%

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%

DIRECTORS' REPORT

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 463,297,800 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.

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.
 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 600,000 underlying Shares represent the 600,000 Shares which may be allotted and issued to Mr. Feng Yi upon full exercise of the Share Options granted to him.
 8. These 600,000 underlying Shares represent the 600,000 Shares which may be allotted and issued to Ms. Li Tao upon full exercise of the Share Options granted to her.
 9. These 600,000 underlying Shares represent the 600,000 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 2016, 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' REPORT

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 headed "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 2016, 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	463,297,800	181,689,608	65.18%
Gold Shine Development Limited (Notes 1, 2 and 4)	Beneficial owner Interest of controlled corporation	— 463,297,800	181,689,608 181,689,608	18.36% 65.18%
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 Interest of spouse	5,722,500 527,025,800	181,689,608 726,758,432	18.94% 126.69%
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%
Koo Yuen Kim	Beneficial owner	64,954,759	—	6.56%

DIRECTORS' REPORT

Notes:

- (1) The entire issued share capital of Tian Lun Group Limited is held by Gold Shine Development Limited. Tian Lun Group Limited owns 463,297,800 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 2016, the Directors were not aware of any interests or short positions in the Shares and 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, or recorded in the register required to be kept by the Company under Section 336 of the SFO, except those held by directors or chief executives of the Company.

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.

DIRECTORS' REPORT

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 98,961,510 Shares which represented 10% 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. For details, please refer to the Company's announcement dated 27 January 2014.

RELATED PARTIES TRANSACTIONS

The material related party transactions entered into by the Company and subsisting during the year ended 31 December 2016 were disclosed in Note 37 to the consolidated financial statements. During the year ended 31 December 2016, the related party transactions disclosed in Note 37 to the consolidated financial statements represented the connected transactions exempt from reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

On 22 May 2016, 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) ("Henan Tian Lun") entered into an equity transfer agreement with Henan Tian Lun Gas Engineering Investment Limited* (河南省天倫燃氣工程投資有限公司) (the "Vendor"), pursuant to which Henan Tian Lun agreed to acquire and the Vendor agreed to sell 36% equity interest in Jilin Zhongji Dadi Gas Group Limited at a total consideration of RMB191,000,000 in cash.

DIRECTORS' REPORT

As Mr. Zhang Yingcen, an executive Director and controlling shareholder of the Company ("Mr. Zhang") indirectly owns over 50% equity interest in the Vendor, the Vendor is a connected person of the Company. As such, the equity transfer agreement and the transaction contemplated thereunder constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratio in respect of the equity transfer agreement was less than 5%, the equity transfer agreement and the transaction contemplated thereunder is subject to, among others, the reporting and announcement requirements but exempt from the shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company has complied with the relevant requirements under the Listing Rules.

MATERIAL ACQUISITIONS, DISPOSAL AND SIGNIFICANT INVESTMENTS

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

PERMITTED INDEMNITY PROVISION

The permitted indemnity provision benefiting Directors had become effective during the year and as at the date of this report. The Company has adopted and maintained appropriate insurance to provide protection for possible legal action against its directors.

MAJOR CUSTOMERS AND SUPPLIERS

In 2016, sales to the five largest customers of the Group accounted for approximately 31.21% of the turnover of the Group, in which sales to the largest customer accounted for approximately 12.56%, while purchases from the five largest suppliers of the Group accounted for approximately 68.33% of the purchases of the Group in which purchases from the largest supplier accounted for approximately 47.51%. 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

Taking into account the Group's strong performance and development potential, the Board is of the view that conducting share repurchases will further improve its net assets per share and earnings per share. As at 28 July 2016, the Company had repurchased a total of 19,999,500 shares of the Company on a total of five occasions at the highest and lowest prices of HK\$6.0 and HK\$5.88 respectively, with the total consideration paid for the share repurchases of not more than HK\$120,000,000. All repurchased shares had been cancelled on 10 August 2016.

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.

DIRECTORS' REPORT

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.

AUDITOR

The Company has appointed PricewaterhouseCoopers as auditor of the Company for the year ended 31 December 2016. 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

30 March 2017

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year from 1 January 2016 to 31 December 2016.

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 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 (Chief Executive), Mr. Feng Yi, Mr. Sun Heng and Ms. Li Tao as executive Directors; (ii) Mr. Wang Jiansheng as non-executive Director; and (iii) Mr. Cao Zhibin, 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 four 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 code provision D.3.1 of the CG Code. During the year ended 31 December 2016, 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.

CORPORATE GOVERNANCE REPORT

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, Mr. Cao Zhibin, 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 2016 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 Group. 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 CG Code stipulates that the Board shall convene meetings regularly with at least 4 board meetings every year (approximately once a quarter).

The Board held 8 meetings during the year ended 31 December 2016.

CORPORATE GOVERNANCE REPORT

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

Directors	Attendance/Board Meetings held
Executive Directors	
Mr. Zhang Yincen (<i>Chairman</i>)	8/8
Mr. Xian Zhenyuan	8/8
Mr. Feng Yi	8/8
Mr. Sun Heng	8/8
Ms. Li Tao	8/8
Non-executive Director	
Mr. Wang Jiansheng	8/8
Independent non-executive Directors	
Mr. Cao Zhibin	8/8
Ms. Zhao Jun	8/8
Mr. Yeung Yui Yuen Michael	8/8
Mr. Li Liuqing	8/8

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 auditors, to review financial statements and making recommendations on the financial reporting, and to review and supervise the financial reporting, risk management 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 risk management and internal control system during the financial year ended 31 December 2016. The Group's final results for the year ended 31 December 2016 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 auditors.

CORPORATE GOVERNANCE REPORT

The Audit Committee held 2 meetings during the year ended 31 December 2016.

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

Member	Attendance/Committee Meetings held
Mr. Li Liuqing (<i>Chairman</i>)	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 2016 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 (<i>Chairman</i>)	1/1
Mr. Yeung Yui Yuen Michael	1/1
Ms. Zhao Jun	1/1

Board Diversity

The Stock Exchange introduced certain amendments to the CG 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.

CORPORATE GOVERNANCE REPORT

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 2016.

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

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

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of 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. 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' 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' 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.

CORPORATE GOVERNANCE REPORT

GENERAL MEETINGS

The 2016 annual general meeting (the “2016 AGM”) was held on 24 May 2016. The attendance record of the Directors at the 2016 AGM is as follows:

Directors	Attendance/General Meetings held
Executive Directors	
Mr. Zhang Yincen (<i>Chairman</i>)	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	1/1
Independent Non-executive Directors	
Mr. Cao Zhibin	–/1
Mr. Li Liuqing	–/1
Mr. Yeung Yui Yuen Michael	1/1
Ms. Zhao Jun	–/1

The Company’s external auditors attended the 2016 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 2016.

The auditor to the Company acknowledges its reporting responsibilities in the auditor’s report on the financial statements for the year ended 31 December 2016. 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 2016, the Group’s audit expenses amounted to RMB3,210,000, and the remuneration for its non-audit services was RMB100,000.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining operation of the effective risk management and internal control system of the Group. The Board performs annual review of the effectiveness of all material controls of the risk management and 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 risk management and 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 risk management and 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 risk management and internal control system of the Group during the year ended 31 December 2016.

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 (the "Articles of Association"), 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.

CORPORATE GOVERNANCE REPORT

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 inquiries 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: ir@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 2016.

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 64 to 165, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- 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 2016, 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 (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

KEY AUDIT MATTERS

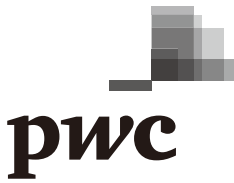
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our 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
<p>Revenue recognition</p> <p>Refer to Note 5 (segment information) in the consolidated financial statements.</p> <p>During the year, the Group recognized revenue of RMB2,693,094,000, majority of which was related to sales of gas and gas pipeline connections.</p> <p>In relation to sales of gas, significant effort was spent auditing the revenue recognized 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.</p>	<p>Our procedures in relation to the recognition of revenue derived from sales of gas included:</p> <ul style="list-style-type: none"> • Testing the design and operating effectiveness of key controls; • Testing, on targeting and sampling basis, the transaction records that revenue was recognized 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.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

KEY AUDIT MATTERS *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Revenue recognition</p> <p>In relation to revenue derived from gas pipeline connections, it was recognized 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.</p>	<p>Our procedures in relation to the recognition of revenue derived from gas pipeline connections included:</p> <ul style="list-style-type: none"> • Testing the design and operating effectiveness of key controls; • 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. <p>We found the revenue recorded were supported by the evidence we obtained.</p>

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Goodwill impairment assessment</p> <p>Refer to Note 4 (Critical accounting estimates and judgments) and Note 17 (Intangible assets) of the consolidated financial statements.</p> <p>As at 31 December 2016, the Group had recorded goodwill of RMB1,525,532,000. We focused on it because the amount is significant and critical judgement was used by management to assess whether goodwill was impaired or not.</p> <p>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.</p>	<p>Our procedures in relation to management's goodwill impairment assessment included:</p> <ul style="list-style-type: none"> Assessing management's identification of CGUs based on the 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. <p>We considered that the conclusion on management's goodwill impairment assessment was supported by the evidence we obtained.</p>

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

OTHER INFORMATION

The directors of the Company are responsible for the other information set out in the Company's 2016 Annual Report. The other information comprises the information included in the Company Profile, Business Regions, Operation & Financial Highlights, Management Discussion and Analysis, Directors and Senior Management, Directors' Report, Corporate Governance Report and Five Year Financial Summary (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Project Operation Information and Chairman's Statement, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Project Operation Information and Chairman's Statement, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the audit committee and take appropriate action considering our legal rights and obligations.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

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.

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 HKSAAs 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.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

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

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

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

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, 30 March 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

	Note	Year ended 31 December	
		2016 RMB'000	2015 RMB'000
Revenue	5	2,693,094	2,251,970
Cost of sales	8	(2,000,745)	(1,643,200)
Gross profit		692,349	608,770
Distribution expenses	8	(23,541)	(17,839)
Administrative expenses	8	(117,205)	(114,812)
Other income	6	12,153	11,531
Other gains — net	7	43,982	38,422
Operating profit		607,738	526,072
Finance income		79,037	44,936
Finance expenses		(262,835)	(141,919)
Finance expenses — net	10	(183,798)	(96,983)
Share of post-tax profit of associates	11(b)	20,768	382
Profit before income tax		444,708	429,471
Income tax expense	12	(110,299)	(111,489)
Profit for the year		334,409	317,982
Profit attributable to			
— Owners of the Company		313,379	284,242
— Non-controlling interests		21,030	33,740
		334,409	317,982
Other comprehensive income:			
<i>Item that may be reclassified to profit or loss</i>			
Change in value of available-for-sale financial assets	26	(204)	(1,315)
Other comprehensive income for the year, net of tax		(204)	(1,315)
Total comprehensive income for the year		334,205	316,667
Attributable to			
— Owners of the Company		313,175	282,927
— Non-controlling interests		21,030	33,740
		334,205	316,667
Earnings per share for profit attributable to owners of the Company for the year (expressed in RMB per share)			
— Basic earnings per share	13	0.31	0.30
— Diluted earnings per share	13	0.31	0.30

The notes on pages 69 to 165 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December	
		2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Lease prepayments	14	233,842	170,745
Property, plant and equipment	15	2,124,140	1,943,756
Investment properties	16	18,210	19,662
Intangible assets	17	2,999,084	2,478,723
Investments accounted for using the equity method	11(b)	271,571	50,803
Deferred income tax assets	30	26,271	12,041
Financial assets at fair value through profit or loss	22	19,786	—
Available-for-sale financial assets	18	40,145	40,417
Trade and other receivables	19	56,315	49,715
Prepayments related to other non-current assets	20	30,331	297,093
		5,819,695	5,062,955
Current assets			
Inventories	21	41,892	60,547
Trade and other receivables	19	603,164	593,121
Dividend receivables		4,642	—
Available-for-sale financial assets	18	2,000	3,000
Financial assets at fair value through profit or loss	22	335,267	318,882
Cash and cash equivalents	23	755,390	609,385
Restricted cash	23	71,362	30,519
		1,813,717	1,615,454
Total assets		7,633,412	6,678,409
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	24	8,340	8,512
Share premium	24	1,264,114	1,366,774
Reserves	26	78,416	95,987
Retained earnings	26	1,080,332	877,091
		2,431,202	2,348,364
Non-controlling interests		320,507	434,014
Total equity		2,751,709	2,782,378

CONSOLIDATED BALANCE SHEET

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December	
		2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	29	2,739,953	1,887,102
Other payables	27	136,598	136,598
Deferred income		1,472	—
Deferred income tax liabilities	30	370,414	314,887
		3,248,437	2,338,587
Current liabilities			
Trade and other payables	27	530,408	505,717
Dividend payables		6,143	2,492
Advances from customers	28	150,690	127,735
Current income tax liabilities		97,531	71,992
Borrowings	29	848,494	849,508
		1,633,266	1,557,444
Total liabilities		4,881,703	3,896,031
Total equity and liabilities		7,633,412	6,678,409

The notes on pages 69 to 165 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 64 to 165 were approved by the Board of Directors on 30 March 2017 and were signed on its behalf.

Mr. Zhang Yingcen

Director

Mr. Xian Zhenyuan

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in RMB thousands unless otherwise stated)

	Attributable to owners of the Company				Total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000 (Note 24)	Share premium RMB'000 (Note 24)	Reserves RMB'000 (Note 26)	Retained earnings RMB'000 (Note 26)			
Balance at 1 January 2015	7,077	454,188	68,366	616,336	1,145,967	331,001	1,476,968
Comprehensive income							
Profit for the year	—	—	—	284,242	284,242	33,740	317,982
Other comprehensive income							
Available-for-sale financial assets	—	—	(1,315)	—	(1,315)	—	(1,315)
Total comprehensive income	—	—	(1,315)	284,242	282,927	33,740	316,667
Transactions with owners							
Issue of shares	1,435	912,586	—	—	914,021	—	914,021
Appropriation	—	—	23,487	(23,487)	—	—	—
Acquisition of subsidiaries	—	—	—	—	—	71,872	71,872
Dividends paid to non-controlling interests	—	—	—	—	—	(2,599)	(2,599)
Employee share option scheme:							
— Value of employee services	—	—	5,449	—	5,449	—	5,449
Total transactions with owners	1,435	912,586	28,936	(23,487)	919,470	69,273	988,743
Balance at 31 December 2015	8,512	1,366,774	95,987	877,091	2,348,364	434,014	2,782,378
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 (Note 36)	—	—	—	—	—	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

The notes on pages 69 to 165 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December	
		2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	32(a)	739,170	516,535
Interest paid		(195,213)	(173,706)
Income tax paid		(109,793)	(108,397)
Net cash generated from operating activities		434,164	234,432
Cash flows from investing activities			
Purchases of property, plant and equipment		(176,694)	(262,976)
Increase in lease prepayments		(73,387)	(5,911)
Proceeds from disposal of property, plant and equipment	32(b)	8,462	4,435
Purchase of intangible assets		(598)	(874)
Purchases of available-for-sale financial assets		(91,000)	(53,000)
Proceeds from disposal of available-for-sale financial assets		92,000	52,062
Proceeds from disposal of financial assets at fair value through profit or loss		—	2,000
Net cash outflow for the acquisition of subsidiaries	36	(256,905)	(1,150,610)
Proceeds from indemnification asset		—	60,000
Prepayments related to share purchase agreements		—	(257,030)
Dividend income from available-for-sale financial assets		—	4,832
Investment income on financial assets at fair value through profit or loss		32,266	51,112
Interest received		10,600	4,416
Investment in associate		(200,000)	—
Changes in restricted cash		4,658	(1,829)
Loan to third parties		(165,000)	—
Repayment of loan from third parties		165,000	50,000
Net cash used in investing activities		(650,598)	(1,503,373)
Cash flows from financing activities			
Proceeds from shares issued		—	916,428
Repurchase of shares	24	(102,832)	—
Proceeds from borrowings		2,018,501	2,748,679
Repayments of borrowings		(1,303,355)	(1,978,917)
Acquisition of additional interests in subsidiaries		(172,500)	—
Dividends paid to owners of the Company	31	(73,251)	—
Dividends paid to non-controlling interests		(3,813)	(3,067)
Changes in restricted cash		(40,811)	(6,569)
Loan from non-controlling interests		4,125	—
Loan repayments to third parties		—	(80,000)
Net cash generated from financing activities		326,064	1,596,554
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year	23	609,385	263,584
Exchange gains on cash and cash equivalents		36,375	18,188
Cash and cash equivalents at end of the year	23	755,390	609,385

The notes on pages 69 to 165 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2016
(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 30 March 2017.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) and disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 New/revised standards, amendments and improvements

The following new standards, amendments to standards and improvements relevant to its operations are mandatory for adoption for the financial year beginning 1 January 2016 for the Group, but had no material effect on the Group's reported results and financial position for the current and prior accounting periods.

HKAS 1 (amendment)	Disclosure initiative
HKAS 27 (amendment)	Equity method in separate financial statements
HKAS 16 and HKAS 38 (amendments)	Clarification of acceptable methods of depreciation and Amortisation
HKFRS 10, HKFRS 12 and HKAS 28 (amendments)	Investment entities: applying the consolidation exception
HKFRS 11 (amendment)	Accounting for acquisitions of interests in joint operation
HKFRS 14	Regulatory deferral accounts
HKASs and HKFRSs	Annual improvements 2012 — 2014 Cycle

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 2017 or after and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 12 (amendment)	Income taxes	1 January 2017
HKAS 7 (amendment)	Statement of cash flows	1 January 2017
HKFRS 2 (amendment)	Classification and Measurement of Share-based Payment Transactions	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	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 announced

Management is in the process of making an assessment of the impact of the new standards and amendments to standards and is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are entities (including a structured entity) 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 entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations (continued)

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 2.9).

Intra-group 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. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.2 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.

2.3 Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Associates (continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the statement of profit or loss.

2.4 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.

2.5 Foreign currency translation

(a) 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.

(b) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss within 'finance expenses — net'. All other foreign exchange gains and losses are presented in the statement of profit or loss within 'other gains — net'.

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

Translation differences on non-monetary financial 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. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

2.5 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary 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 are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting currency translation 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.

2.6 Property, plant and equipment

Property, plant and equipment is 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 the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

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

2.6 Property, plant and equipment *(continued)*

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 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains — net" 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.

2.7 Investment properties

Investment properties, principally 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

2.8 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.

2.9 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 acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

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

Goodwill impairment reviews are undertaken annually 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.

(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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

2.9 Intangible assets (continued)

(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.

2.10 Impairment of non-financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

2.11 Financial assets

2.11.1 Classification

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

(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 amount 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 other receivables" and "cash and cash equivalents" in the consolidated balance sheet (Notes 2.16 and 2.17).

(c) Available-for-sale financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

2.11 Financial assets (continued)

2.11.2 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 the statement of 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 the statement of 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 the statement of profit or loss as 'other gains — net'.

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

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

2.13 Impairment of financial assets

(a) *Assets carried at amortised cost*

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

2.13 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.

2.14 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.

2.15 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at its fair value at the end of each reporting period. The change in the fair value is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

2.16 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 2.11 for further information about the Group's accounting for trade receivables and Note 2.13 for a description of the Group's impairment policies.

2.17 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.

2.18 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.

2.19 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.

2.20 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

2.21 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.

2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. 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.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

2.22 Current and deferred income tax (continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the 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 income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

2.22 Current and deferred income tax (continued)

(c) Offsetting

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

2.23 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.

2.24 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

2.24 Share-based payments (continued)

(a) Equity-settled share-based payment transactions (continued)

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).

(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.

2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

2.25 Revenue recognition (continued)

(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.

2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of profit or loss on a straight-line basis over the expected lives of the related assets.

2.27 Interest income

Interest income is recognised using the effective interest method. When a loan and 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 and receivables is recognised using the original effective interest rate.

2.28 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.29 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

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

2.30 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.

2.31 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

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 the year, 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 (2015: none).

As at 31 December 2016, if RMB had weakened/strengthened by 1% (2015: 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 RMB15,220,000 (2015: RMB7,603,000) 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 2016, the Group's borrowings of RMB3,374,857,000 (2015: RMB2,348,112,000) bore interest at variable rates and borrowings of RMB213,590,000 (2015: RMB388,498,000) 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 2016, if interest rates on borrowings at variable rates had been 0.3% (2015: 0.3%) higher/lower with all other variables held constant, profit before income tax for the year would have been approximately RMB10,125,000 (2015: RMB7,044,000) lower/higher, respectively, mainly as a result of higher/lower interest expense on variable rate borrowings.

As at 31 December 2016, if interest rates on all interest-bearing bank deposits within cash and cash equivalents had been 0.3% (2015: 0.3%) higher/lower with all other variables held constant, profit before income tax for the year would have been approximately RMB2,261,000 (2015: RMB1,824,000) higher/lower, respectively, mainly as a result of higher/lower interest income earned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

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

As at 31 December 2016 and 2015, 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 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(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 cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. 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.

The table below analyses the Group's non-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 2016				
Bank borrowings	981,733	843,453	1,591,901	120,582
Other borrowings	18,690	17,640	300,913	143,606
Trade and other payables (i)	513,261	13,411	160,448	54,000
At 31 December 2015				
Bank borrowings	937,837	606,289	786,997	263,990
Other borrowings	18,750	16,801	296,810	136,492
Trade and other payables (i)	496,690	14,753	108,000	106,448

- (i) Trade and other payables include notes payables, trade payables, amounts due to related parties, contingent consideration payables, other payables and interest payables as stated in Note 27.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

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 2016 and 2015 were as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Total borrowings (Note 29)	3,588,447	2,736,610
Less: cash and cash equivalents (Note 23)	(755,390)	(609,385)
Net debt	2,833,057	2,127,225
Total equity	2,751,709	2,782,378
Total capital	5,584,766	4,909,603
Gearing ratio	51%	43%

The increase in the gearing ratio during 2016 resulted primarily from increase in bank borrowings.

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2016 and 2015 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

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 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

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2015.

	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
Available-for-sale financial assets				
— Bank financial products	—	—	3,000	3,000
— Unlisted equity securities in gas industry	—	—	40,417	40,417
Total assets	—	—	362,299	362,299
Liabilities				
Other payables				
— Contingent consideration	—	—	237,212	237,212

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Fair value estimation (continued)

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

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

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 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 (Note 36)	—	—	(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

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 2015.

	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	331,474	2,000	(252,036)	81,438
Acquisition of subsidiaries	—	42,170	(85,027)	(42,857)
Additions	—	53,000	—	53,000
Changes in fair value recognised in profit or loss	—	—	35,889	35,889
Net losses transfer to other comprehensive income	—	(1,753)	—	(1,753)
Disposals	(12,592)	(52,000)	—	(64,592)
Cash paid	—	—	63,962	63,962
Balance at 31 December	318,882	43,417	(237,212)	125,087
Total gains/(losses) for the year included in profit or loss for assets and liabilities held at the end of the year included in:				
Profit or loss	40,520	62	35,889	76,471
Other comprehensive income	—	(1,753)	—	(1,753)
	40,520	(1,691)	35,889	74,718

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

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 2.9. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

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

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

Property, plant and equipment are depreciated 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 if the expectation differs from the original estimates, such differences from the original estimates will impact the depreciation 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 transportation and sales of gases, and gas pipeline connections.

The Group had acquired 100% equity interest of Beijing Tian Lun Investment Company Limited (formerly known as: Beijing Hui Ji Tai Zhan Investment Company Limited) and indirectly controlled its subsidiaries during the year ended 31 December 2015 and acquired 85% equity interest of Lechang Anshunda Pipeline Nature Gas Company Limited during the year ended 31 December 2016 (together the “Beijing Tian Lun Investment Group”). The senior executive management team reviewed the results of Beijing Tian Lun Investment Group being consolidated by the Group and Beijing Tian Lun Investment Group is regarded a single operating segment.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION (continued)

The segment information provided to the senior executive management team for the reportable segments for the year ended 31 December 2015 is as follows:

	Transportation and sales of gas RMB'000	Gas pipeline connections RMB'000	Beijing Tian Lun Investment Group RMB'000	All other segments RMB'000	Inter- segment elimination RMB'000	Unallocated RMB'000	Total RMB'000
External revenue	975,034	571,041	675,735*	30,160	—	—	2,251,970
Inter-segment revenue	—	—	293	—	(293)	—	—
Total revenue	975,034	571,041	676,028	30,160	(293)	—	2,251,970
Gross profit	166,116	357,951	69,851	14,852	—	—	608,770
Distribution expenses						(17,839)	(17,839)
Administrative expenses						(114,812)	(114,812)
Other income						11,531	11,531
Other gains — net						38,422	38,422
Operating profit							526,072
Finance expenses — net						(96,983)	(96,983)
Share of post-tax profit of associates						382	382
Profit before income tax							429,471
Income tax expense						(111,489)	(111,489)
Profit for the year							317,982

* During 2016, external revenue of Beijing Tian Lun Investment Group segment comprises: approximately RMB919,069,000 is derived from transportation and sales of gas (2015:RMB675,107,000), approximately RMB7,045,000 is derived from gas pipeline connections (2015:RMB366,000), and approximately RMB1,035,000 is derived from other miscellaneous income (2015: RMB262,000).

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 2016, revenue of approximately RMB338,308,000 and 13% of the Group's total revenue, is derived from a single external customer (2015: RMB302,698,000 and 13%). The revenue is attributable to the Beijing Tian Lun Investment Group segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

6. OTHER INCOME

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Dividend income from available-for-sale financial assets	4,642	4,832
Government grants in relation to		
— Tax refund	4,721	2,699
— Subsidies for local investment rewards and other incentives	2,790	2,000
Others	—	2,000
	12,153	11,531

7. OTHER GAINS — NET

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Gains on disposal of available-for-sale financial assets	—	62
Gains on disposal of property, plant and equipment (Note 32)	5,978	905
Changes on fair value of contingent consideration for acquisition of subsidiaries	37,858	35,889
Penalty and overdue fines	(2,069)	(443)
Others	2,215	2,009
	43,982	38,422

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

8. EXPENSES BY NATURE

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Raw materials and consumables used	1,679,126	1,362,257
Changes in inventories of finished goods and work in progress	13,150	8,414
Depreciation on property, plant and equipment (Note 15)	99,725	84,411
Depreciation on investment properties (Note 16)	1,021	868
Amortisation of lease prepayments (Note 14)	4,374	4,384
Amortisation of intangible assets (Note 17)	67,594	51,972
Employee benefit expense (Note 9)	132,511	114,674
Licensing fee for the exclusive operating rights for city pipeline network	1,100	1,100
Engagement of construction and design services	65,036	62,232
Transportation costs	4,975	3,728
Travelling expenses	4,095	3,190
Maintenance cost	8,054	6,292
Auditors' remuneration		
— Audit services	3,210	3,200
— Non-audit services	100	—
Professional expenses	3,593	6,513
Advertising expenses	3,389	3,539
Entertainment expenses	5,719	4,989
Office expenses	6,545	6,489
Taxes	17,350	27,799
Energy consumption	18,474	16,772
Other expenses	2,350	3,028
Total cost of sales, distribution expenses and administrative expenses	2,141,491	1,775,851

9. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Wages and salaries	96,923	80,595
Pension costs — defined contribution plans	12,624	10,722
Social security benefits costs	10,685	9,632
Share options granted to directors and employees (Note 25)	5,243	5,449
Others	7,036	8,276
	132,511	114,674

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

9. EMPLOYEE BENEFIT EXPENSE (continued)

(a) Five highest paid individuals

The five individuals whose emoluments were highest in the Group for the year ended 31 December 2016 included two (2015: two) directors whose emoluments are reflected in the analysis shown in Note 40. The emoluments paid to the remaining three individuals for the year ended 31 December 2016 (2015: three) are as follows:

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Basic salaries, and allowances	942	919
Retirement benefit contributions	61	31
	1,003	950

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

	Year ended 31 December	
	2016	2015
Nil to HK\$1,000,000 (approximate to RMB895,000)	3	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	
	2016 RMB'000	2015 RMB'000
Finance income		
— Interest income from bank deposits and loans to third parties	(10,600)	(4,416)
— Investment gains on financial assets at fair value through profit or loss:		
Investment in a trust	(32,266)	(40,520)
Cross currency swap contracts	(36,171)	—
	(79,037)	(44,936)
Finance expenses		
— Interest expense on borrowings	191,033	139,217
— Net exchange losses	100,895	30,647
— Others	1,506	634
Less: amounts capitalised on qualifying assets	(30,599)	(28,579)
	262,835	141,919
	183,798	96,983

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

11(a) INVESTMENTS IN SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2016:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

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") (邢臺天倫運興車用燃氣有限公司)	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") (荷澤市廣荷天然氣有限公司)	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

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
Songzi Tianlun Gas Limited ("Songzi Tianlun") (松滋天倫燃氣有限公司)	PRC/ 4 December 2014	Limited liability company	10,000	100%	Sales of pipelined natural gas; construction and connection 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

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
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
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
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") (浙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

* 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

11(a) INVESTMENTS IN SUBSIDIARIES (continued)

(a) Material non-controlling interests

The total non-controlling interests as at 31 December 2016 are approximately RMB320,507,000 (2015: RMB434,014,000), of which approximately RMB53,501,000 (2015: RMB177,462,000) is attributed to Jilin Zhongji, approximately RMB98,975,000 (2015: RMB104,592,000) is attributed to Chaozhou Huamao, approximately RMB39,134,000 (2015: RMB37,973,000) is attributed to Tianlun Pipeline, and approximately RMB37,829,000 (2015: RMB35,853,000) 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	
	2016	2015	2016	2015	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current								
Assets	178,129	160,814	15,445	17,106	51,217	194,234	42,543	29,835
Liabilities	(99,888)	(129,202)	(90,814)	(86,999)	(137,665)	(223,963)	(138,401)	(154,302)
Total net current assets/(liabilities)	78,241	31,612	(75,369)	(69,893)	(86,448)	(29,729)	(95,858)	(124,467)
Non-current								
Assets	258,599	258,563	188,114	191,369	389,232	391,213	193,436	202,492
Liabilities	—	—	—	—	(40,000)	(120,000)	—	—
Total net non-current assets	258,599	258,563	188,114	191,369	349,232	271,213	193,436	202,492
Net assets	336,840	290,175	112,745	121,476	262,784	241,484	97,578	78,025

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

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		Year ended		Year		Year	
	31 December		31 December		ended 31		ended 31	
	2016	2015	2016	2015	ended 31	Nine months	ended 31	Nine months
	RMB'000	RMB'000	RMB'000	RMB'000	December	December	December	December
Revenue	141,401	154,133	42,438	54,765	420,790	272,154	488,882	402,045
Profit/(loss) before income tax	61,429	59,057	(11,610)	(9,865)	27,961	8,878	58,650	42,380
Income tax expense	(14,764)	(14,788)	2,879	2,446	(6,661)	(2,323)	(14,757)	(10,964)
Profit/(loss) for the year/period	46,665	44,269	(8,731)	(7,419)	21,300	6,555	43,893	31,416
Other comprehensive income	—	—	—	—	—	—	—	—
Total comprehensive income	46,665	44,269	(8,731)	(7,419)	21,300	6,555	43,893	31,416
Total comprehensive income allocated to non-controlling interests	8,097	21,692	(3,492)	(2,968)	2,130	656	6,584	4,712
Dividends paid to non-controlling interests	—	—	—	—	—	—	3,651	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

11(a) INVESTMENTS IN SUBSIDIARIES (continued)

(a) Material non-controlling interests (continued)

Summarised statements of cash flows

	Jilin Zhongji		Chaozhou Huamao		Tianlun Pipeline		Suzhou Tianlun	
	Year ended		Year ended		Year	Nine	Year	Nine
	31 December		31 December		ended 31	months	ended 31	months
	2016	2015	2016	2015	December	ended 31	December	ended 31
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Cash flows from operating activities								
Cash generated from operations	15,938	20,266	7,034	16,394	157,431	166,657	57,456	42,743
Interest paid	—	—	—	(4,014)	(10,312)	(14,971)	(5,847)	(6,481)
Income tax paid	(13,234)	(14,239)	—	—	(2,831)	(6)	(14,577)	(7,142)
Net cash generated from operating activities	2,704	6,027	7,034	12,380	144,288	151,680	37,032	29,120
Net cash used in investing activities	(13,259)	(18,960)	(8,822)	(8,790)	(28,266)	(10,697)	(13,019)	(7,331)
Net cash generated from/ (used in) financing activities	129	(87)	13	(12)	(174,147)	(90,032)	(24,901)	(25,130)
Net (decrease)/increase in cash and cash equivalents	(10,426)	(13,020)	(1,775)	3,578	(58,125)	50,951	(888)	(3,341)
Cash and cash equivalents at beginning of year/period	22,233	35,253	7,142	3,564	59,582	8,631	11,676	15,017
Cash and cash equivalents at end of year/period	11,807	22,233	5,367	7,142	1,457	59,582	10,788	11,676

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

11(b) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Investments in associates	271,571	50,803

The amounts recognised in profit and loss are as follows:

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Share of post-tax profit of associates	20,768	382

Set out below are the associates of the Group as at 31 December 2016. 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 2016

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

11(b) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(continued)

Nature of investment in associates as at 31 December 2016 (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.

Inner Mongolia Petroleum and Gas, Suzhou Ping Zhuang and Henan Jiuding 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

Summarised balance sheets

	Inner Mongolia Petroleum and Gas		Suzhou Ping Zhuang		Henan Jiuding
	As at 31 December		As at 31 December		As at 31 December
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000
Current					
Cash and cash equivalents	1,294	7,031	121	37	430,906
Other current assets	155,111	145,328	743	668	7,988,621
Total current assets	156,405	152,359	864	705	8,419,527
Other current liabilities (including trade payables)	(2,590)	(1,743)	(3,943)	(4,539)	(7,115,185)
Total current liabilities	(2,590)	(1,743)	(3,943)	(4,539)	(7,115,185)
Non-current					
Other non-current assets	407	480	5,520	6,049	3,762
Total non-current assets	407	480	5,520	6,049	3,762
Other non-current liabilities	—	—	—	—	(209,700)
Total non-current liabilities	—	—	—	—	(209,700)
Net assets	154,222	151,096	2,441	2,215	1,098,404

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

11(b) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(continued)

Summarised financial information for the associates (continued)

Summarised statements of comprehensive income

	Inner Mongolia Petroleum and Gas		Suzhou Ping Zhuang		Henan Jiuding
	Year ended 31 December		Year ended	Nine months	Nine months
	2016	2015	31 December	period ended	period ended
	RMB'000	RMB'000	RMB'000	31 December	31 December
Revenue	—	—	16,501	9,597	249,592
Profit/(loss) before income tax	3,762	1,781	226	(446)	131,818
Profit/(loss) for the year/period	3,126	1,415	226	(446)	98,404
Total comprehensive income	3,126	1,415	226	(446)	98,404

The information above reflects the amounts presented in the financial statements of the associates (and not Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associates.

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		Suzhou Ping Zhuang		Henan Jiuding
	Year ended 31 December		Year ended	Nine months	Nine months
	2016	2015	31 December	period ended	period ended
	RMB'000	RMB'000	RMB'000	31 December	31 December
Opening net assets	151,096	149,681	2,215	2,661	—
Capital contribution	—	—	—	—	1,000,000
Profit/(loss) for the year/period	3,126	1,415	226	(446)	98,404
Closing net assets	154,222	151,096	2,441	2,215	1,098,404
Interest in associates (33.33%; 20%; 20%)	51,402	50,360	488	443	219,681
Carrying value	51,402	50,360	488	443	219,681

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

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 2016 and 2015, there are no Hong Kong profits tax applicable to any group entities as no Group entities had profit derived from Hong Kong.

- (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 2016 and 2015, 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% (2015: 25%), except for Gansu Baiyin, Liqun Hongyuan, Qianxian Hongyuan, Baiyin Wantong, Gulang Tianlun and Sichuan Mingsheng as they were approved to entitle to the CIT Preferential Policies for the Development of the Western Regions and the CIT rate of 2016 is 15% (2015: 15%).

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current tax on profits for the year	134,005	124,542
Deferred tax (Note 30)	(23,706)	(13,053)
	110,299	111,489

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	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	444,708	429,471
Tax calculated at statutory tax rate applicable to each Group entity	103,246	111,253
Income not subject to tax	(6,353)	(1,304)
Expenses not deductible for tax purposes	1,075	1,246
Tax losses with no deferred tax assets recognised	12,649	1,091
Utilisation of previously unrecognised tax losses	(318)	(797)
	110,299	111,489

The weighted average effective income tax rate for the year ended 31 December 2016 is 25% (2015: 26%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

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					
	2016			2015		
	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 losses on available-for-sale financial assets	(272)	68	(204)	(1,753)	438	(1,315)
Other comprehensive income	(272)	68	(204)	(1,753)	438	(1,315)
Deferred tax (Note 30)	—	(68)	—	—	(438)	—

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	
	2016	2015
Profit attributable to owners of the Company (RMB'000)	313,379	284,242
Weighted average number of shares in issue (thousands)	1,000,857	954,562
Basic earnings per share (RMB per share)	0.31	0.30

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

13. EARNINGS PER SHARE (continued)

(b) Diluted (continued)

	Year ended 31 December	
	2016	2015
Profit attributable to owners of the Company (RMB'000)	313,379	284,242
Weighted average number of shares in issue (thousands)	1,000,857	954,562
Adjustments for:		
— Share options (thousands)	—	—
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,000,857	954,562
Diluted earnings per share (RMB per share)	0.31	0.30

During the year ended 31 December 2016, the share options were antidilutive (2015: 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	
	2016	2015
	RMB'000	RMB'000
Opening net book value	170,745	118,477
Acquisition of subsidiaries (Note 36)	13,010	29,974
Additions	54,461	26,678
Amortisation charge	(4,374)	(4,384)
Closing net book value	233,842	170,745

- All the amortisation of the Group's land use rights was charged to administrative expenses.
- As at 31 December 2016, the Group was in the process of obtaining the legal title of land use rights with carrying amount of approximately RMB53,820,000 (2015: RMB27,257,000).
- Bank borrowings are secured on land use rights for the carrying amount of approximately RMB11,396,000 (2015: RMB11,661,000) (Note 29).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Equipment and machinery	Gas pipelines	Office equipment and motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015						
Cost	194,038	149,915	585,901	49,007	253,285	1,232,146
Accumulated depreciation	(19,518)	(32,299)	(78,564)	(19,029)	—	(149,410)
Net book amount	174,520	117,616	507,337	29,978	253,285	1,082,736
Year ended 31 December 2015						
Opening net book amount	174,520	117,616	507,337	29,978	253,285	1,082,736
Acquisition of subsidiaries	68,815	51,554	523,351	8,775	21,975	674,470
Additions	1,959	4,989	—	2,807	274,746	284,501
Transfer from CIP	33,950	22,343	126,222	36	(182,551)	—
Transfer from investment properties	(10,010)	—	—	—	—	(10,010)
Disposals (Note 32)	—	(284)	(220)	(3,026)	—	(3,530)
Depreciation charge (Note 8)	(10,059)	(21,405)	(43,482)	(9,465)	—	(84,411)
Closing net book amount	259,175	174,813	1,113,208	29,105	367,455	1,943,756
At 31 December 2015						
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

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 2016						
Opening net book amount	259,175	174,813	1,113,208	29,105	367,455	1,943,756
Acquisition of subsidiaries (Note 36)	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

- (a) Depreciation expense of approximately RMB88,090,000 (2015: RMB72,479,000) has been charged in cost of sales, RMB225,000 (2015: RMB1,330,000) in distribution expenses and RMB11,410,000 (2015: RMB10,602,000) in administrative expenses.
- (b) Bank borrowings were secured by certain buildings of the Group with a net book value of approximately RMB7,497,000 as at 31 December 2016 (2015: RMB19,738,000) (Note 29).
- (c) As at 31 December 2016, the Group was in the process of obtaining the legal title of buildings with carrying amount of approximately RMB81,004,000 (2015: RMB71,594,000).
- (d) As at 31 December 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 2016, the Group has capitalised borrowing costs amounting to RMB30,599,000 (2015: RMB28,579,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings at 6.50% (2015: 8.16%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

16. INVESTMENT PROPERTIES

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
At beginning of the year		
Cost	27,104	12,216
Accumulated depreciation	(7,442)	(4,013)
Net book amount	19,662	8,203
For the year		
Opening net book amount	19,662	8,203
Acquisition of subsidiaries (Note 36)	1,751	2,317
Transfer to property, plant and equipment	(2,182)	—
Transfer from property, plant and equipment	—	10,010
Depreciation charge	(1,021)	(868)
Closing net book amount	18,210	19,662
At end of the year		
Cost	26,587	27,104
Accumulated depreciation	(8,377)	(7,442)
Net book amount	18,210	19,662
Fair value at end of the year (b)	41,751	35,984

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

16. INVESTMENT PROPERTIES (continued)

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

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Rental income	2,592	2,530
Direct operating expenses from properties that generated rental income	(1,152)	(1,217)
	1,440	1,313

As at 31 December 2016 and 2015, 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 2016 and 2015, 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 2016 and 2015.

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 2016	41,751	Direct comparison approach	RMB5,250 — RMB9,300 per square meter
At 31 December 2015	35,984	Direct comparison approach	RMB5,150 — RMB9,000 per square meter

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

16. INVESTMENT PROPERTIES (continued)

- (c) Depreciation expense of approximately RMB1,021,000 (2015: RMB868,000) 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	
	2016 RMB'000	2015 RMB'000
Within 1 year	1,800	1,381
Later than 1 year but no later than 3 years	1,714	1,897
	3,514	3,278

- (e) As at 31 December 2016 and 2015, no investment properties were secured for bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

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 2015						
Cost	566,387	435,649	622	319,789	—	1,322,447
Accumulated amortisation	—	(43,874)	(481)	(8,958)	—	(53,313)
Net book amount	566,387	391,775	141	310,831	—	1,269,134
Year ended 31 December 2015						
Opening net book amount	566,387	391,775	141	310,831	—	1,269,134
Acquisition of subsidiaries	648,244	210,502	31	—	401,910	1,260,687
Additions	—	—	874	—	—	874
Amortisation charge	—	(28,399)	(211)	(10,735)	(12,627)	(51,972)
Closing net book amount	1,214,631	573,878	835	300,096	389,283	2,478,723
At 31 December 2015						
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 (Note 36)	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

17. INTANGIBLE ASSETS (continued)

- (a) During the year ended 31 December 2016, amortisation of approximately RMB65,363,000 (2015: RMB50,005,000) was included in cost of sales, and RMB2,231,000 (2015: RMB1,967,000) 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, Liqun Hongyuan, Qianxian Hongyuan, Sichuan Mingsheng and Xichuan Longcheng as the subsidiaries which are subject to the annual impairment testing on goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

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	
	2016 RMB'000	2015 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	—
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	—
Shanxi location		
Liquan Hongyuan	90,106	90,106
Qianxian Hongyuan	57,978	57,978
Sichuan location		
Sichuan Mingsheng	249,305	—
	1,525,532	1,214,631

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

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 2016 are as follows:

	Jilin Location	Gansu Location	Henan Location	Hunan Location	Yunnan Location	Shandong Location	Guangdong Location	Beijing Tian Lun Investment Group	Shanxi 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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

17. INTANGIBLE ASSETS (continued)

(b) Impairment for goodwill (continued)

The key assumptions used for value-in-use calculations in 2015 are as follows:

	Jilin Location	Gansu Location	Henan Location	Hunan Location	Yunnan Location	Shandong Location	Guangdong Location	Beijing Tian Lun Investment Group	Shanxi Location
Sales volume (% annual growth rate)	20%	18%	14%	26%	88%	22%	63%	26%	25%
Sales price (% annual growth rate)	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other operating costs (RMB'000)	17,153	8,497	5,169	4,571	5,224	9,078	14,253	14,000	7,120
Annual capital expenditure (RMB'000)	11,495	4,015	7,856	2,012	10,387	8,001	12,319	22,253	3,856
Gross margin (% of revenue)	26%	31%	37%	29%	32%	35%	29%	13%	32%
Long term growth rate	3%	3%	3%	3%	3%	3%	3%	3%	3%
Pre-tax discount rate	20%	18%	19%	18%	18%	19%	19%	17%	18%

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

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	
	2016 RMB'000	2015 RMB'000
Balance at 1 January	43,417	2,000
Acquisition of subsidiaries	—	42,170
Additions	91,000	53,000
Disposals	(92,000)	(52,000)
Loss transfer to other comprehensive income (Note 26)	(272)	(1,753)
Balance at 31 December	42,145	43,417
Less: non-current portion	(40,145)	(40,417)
Current portion	2,000	3,000

Available-for-sale financial assets include the following:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Unlisted securities:		
— Bank financial products	2,000	3,000
— Gas industry equity interest (i)	40,145	40,417
	42,145	43,417

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

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

- (b) All available-for-sale financial assets are denominated in RMB.
- (i) As at 31 December 2016, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

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

(b) (continued)

(i) (continued)

Recurring measurements	Fair values (RMB'000)	Quoted	Significant	Significant
		prices in Active markets for identical instruments (Level 1) (RMB'000)	other observable inputs (Level 2) (RMB'000)	unobservable inputs (Level 3) (RMB'000)
Available-for-sale financial assets				
Bank financial products	2,000	—	—	2,000
Unlisted equity investment	40,145	—	—	40,145
— As at 31 December 2016	42,145	—	—	42,145
Bank financial products	3,000	—	—	3,000
Unlisted equity investment	40,417	—	—	40,417
— As at 31 December 2015	43,417	—	—	43,417

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 2016, the fair values of bank financial products approximated to the carrying amounts due to the short maturities, and 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, price/book value, price/EBITDA and price/EBIT, and the value of unlisted equity investment was determined by the average of the results calculated using the different multiples.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

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 2016	40,145	Market approach	Price/earnings Price/EBITDA	19.19 9.91	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 2015	40,417	Market approach	Price/book value Price/EBITDA Price/EBIT	0.91 10.26 14.51	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

19. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Trade receivables (a)	348,929	328,688
Bills receivable	1,090	1,073
Prepayments	93,975	52,390
Receivables due from related parties (a) (Note 37)	28,539	14,100
Other receivables	147,910	203,410
Value-added-tax to be offset and prepaid income tax	39,036	43,175
	659,479	642,836
Less: long-term prepayments	(56,315)	(49,715)
Current portion	603,164	593,121

- (a) The credit period generally granted to customers in relation to sales of pipelined gases is up to 2 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 ageing analysis of trade receivables and receivables due from related parties in trade nature based on invoice date is as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Less than 30 days	169,509	126,441
31 days to 90 days	24,481	41,044
91 days to 1 year	116,197	117,387
1 year to 2 years	44,716	35,216
Over 2 years	8,852	8,600
	363,755	328,688

As at 31 December 2016, trade receivables of approximately RMB354,903,000 (2015: RMB320,088,000) were fully performing.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

19. TRADE AND OTHER RECEIVABLES (continued)

(a) (continued)

As at 31 December 2016, trade receivables of approximately RMB8,852,000 (2015: RMB8,600,000) were past due but not impaired. These related 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	
	2016 RMB'000	2015 RMB'000
Over 2 years	8,852	8,600

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

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

(d) As at 31 December 2016 and 2015, 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 other receivables approximate to the fair values.

20. PREPAYMENTS RELATED TO OTHER NON-CURRENT ASSETS

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Prepayments related to share purchase agreements	—	257,030
Prepayments related to long-term assets construction	30,331	40,063
	30,331	297,093

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

21 INVENTORIES

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Materials for gas pipelines	30,793	36,391
Consumables	1,066	973
Work in progress	10,033	22,347
Finished pipeline network	—	836
	41,892	60,547

The cost of inventories recognised as the Group's expense and included in cost of sales amounted to approximately RMB1,692,276,000 (2015: RMB1,370,671,000).

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Investment in a trust (a)	318,882	318,882
Cross currency swap (b)	36,171	—
	355,053	318,882
Less: no-current portion of cross currency swap	(19,786)	—
Current portion	335,267	318,882

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(continued)

- (a) On 21 March 2012, Henan Tian Lun Gas and Zhongyuan Trust Company Limited (“Zhongyuan Trust”), which is ultimately owned by the People’s Government of Henan Province, entered into a trust investment agreement (the “Investment Agreement”) in relation to the investment in a portfolio of trust financial products managed and maintained by Zhongyuan Trust for a term of two years commencing from 21 March 2012 (the “Trust Period”). On 21 March 2014, Henan Tian Lun Gas and Zhongyuan Trust entered into a supplemental agreement to extend the trust period for two years until 21 March 2016. On 21 March 2016, Henan Tian Lun Gas and Zhongyuan Trust entered into a supplemental agreement to further extend the trust period for one more year until 21 March 2017. 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.
- (b) 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 for the year ended 31 December 2016. At the end of the reporting period, the Group has two outstanding cross currency swap contracts with an aggregate notional amount of USD90,000,000 (2015: nil) that require the Group to buy Euro for USD at exchange rate of USD1.1180 and 1.1146 (2015: not applicable), respectively, for Euro1 and the floating interest rate is USD 3 month LIBOR per annum to floating interest rate of Euro 3 month LIBOR minus 1.8% per annum with maturity periods to be matched with the maturity periods of relevant borrowings. 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 financial assets at fair value through profit or loss are recorded within ‘finance expenses — net’ in profit or loss (Note 10).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

23. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Cash in hand	1,778	1,237
Cash at banks	753,612	608,148
	755,390	609,385

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
RMB	439,557	509,412
USD	312,072	95,881
HK\$	2,967	4,092
EUR	794	—
Cash and cash equivalents	755,390	609,385

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	
	2016	2015
	RMB'000	RMB'000
RMB	18,673	15,971
USD	52,689	14,548
Restricted cash	71,362	30,519

As at 31 December 2016, USD7,595,000 (equivalent to approximately RMB52,689,000) are restricted deposits held at bank as reserve for serving of debt for loans provided by the bank (2015: USD2,240,000, equivalent to approximately RMB14,548,000); RMB10,113,000 are restricted deposits held at bank as the deposits for obtaining the urban gas operating permits from the local governments (2015: RMB14,771,000); RMB4,690,000 are restricted deposits held at bank for purchasing natural gas from the suppliers (2015:nil); and RMB3,870,000 are held as the deposits of bank's acceptance bills (2015: RMB1,200,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

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 2015	827,925	7,077	454,188	461,265
Issue of shares	181,690	1,435	912,586	914,021
At 31 December 2015	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

The total authorised number of ordinary shares is 2,000,000,000 shares (2015: 2,000,000,000 shares) with a par value of HK\$0.01 per share (2015: 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		Aggregated repurchased costs HK\$'000
		highest HK\$	lowest HK\$	
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

25. SHARE-BASED PAYMENTS

Share options are 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.

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

	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

	2015	
	Average exercise price in HK\$ per share option	Number of share options (thousands)
At 1 January	7.142	16,640
Forfeited	7.142	(1,020)
At 31 December	7.142	15,620

As at 31 December 2016, out of the 15,140,000 outstanding options (2015: 15,620,000), 7,570,000 options (2015: nil) were exercisable. None of the share options were exercised in 2016 (2015: none).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

25. SHARE-BASED PAYMENTS (continued)

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

Expiry date – 27 January	Exercise price in HK\$ per share option	Number of share options (thousands)	
		2016	2015
2017	7.142	7,570	7,810
2018	7.142	7,570	7,810
		15,140	15,620

The fair value of options granted 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. See Note 9 for the total expense recognised in profit or loss for share options granted to directors and employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

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 2015	(11,865)	80,231	—	68,366
Revaluation-gross (Note 18)	—	—	(1,753)	(1,753)
Revaluation-tax (Note 30)	—	—	438	438
Appropriation (i)	—	23,487	—	23,487
Employee share option scheme:				
— Value of employee services	5,449	—	—	5,449
At 31 December 2015	(6,416)	103,718	(1,315)	95,987
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

(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 2016, approximately RMB36,887,000 (2015: RMB23,487,000) were appropriated to the statutory surplus reserves funds from net profits of certain PRC Subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

26. RESERVES AND RETAINED EARNINGS (continued)

(b) Retained earnings

	Year ended 31 December RMB'000
At 1 January 2015	616,336
Profit attributable to owners of the Company	284,242
Appropriation	(23,487)
At 31 December 2015	877,091
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

(c) Other comprehensive income, net of tax

	Other reserves RMB'000	Total other comprehensive income RMB'000
31 December 2016		
Change in value of available-for-sale financial assets, net of tax	(204)	(204)
Total	(204)	(204)
31 December 2015		
Change in value of available-for-sale financial assets, net of tax	(1,315)	(1,315)
Total	(1,315)	(1,315)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

27. TRADE AND OTHER PAYABLES

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Notes payables	12,900	4,000
Trade payables (a and b)	175,380	149,963
Amounts due to related parties (a) (Note 37)	31,595	987
Accrued payroll and welfare	4,025	2,751
Interest payables	9,145	8,762
Other taxes payables	14,341	6,276
Contingent consideration payables	220,594	237,212
Other payables (a)	199,026	232,364
	667,006	642,315
Less: non-current portion of payables (d)	(136,598)	(136,598)
Current portion	530,408	505,717

- (a) As at 31 December 2016 and 2015, all such trade payables and the current portion of other payables 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 2016 and 2015, the ageing analysis of the trade payables based on invoice date was as follows:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Less than 30 days	90,837	72,332
31 days to 90 days	32,274	26,712
91 days to 1 year	31,342	33,358
1 year to 2 years	12,993	11,727
2 years to 3 years	4,764	4,270
Over 3 years	3,170	1,564
	175,380	149,963

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

27. TRADE AND OTHER PAYABLES (continued)

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
RMB	649,813	642,315
USD	13,558	—
HK\$	3,635	—
	667,006	642,315

- (d) At 31 December 2016, the non-current portion of other payables included contingent consideration payables amounted to RMB124,406,000 (2015: 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 (2015: RMB12,192,000) with an interest rate of 10% per annum, of which the fair value approximated to the carrying amount. 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	
	2016 RMB'000	2015 RMB'000
Advances from customers	150,690	127,735

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

29. BORROWINGS

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Non-current		
Bank borrowings		
— pledged (a)	325,200	373,200
— guaranteed (b)	1,474,113	827,715
— pledged and guaranteed (c)	467,850	291,000
— unsecured	50,819	—
Borrowings from a shareholder (d)	416,220	389,616
Other borrowings (e)	5,751	5,571
Total non-current borrowings	2,739,953	1,887,102
Current		
Bank borrowings		
— pledged (a)	58,000	62,000
— guaranteed (b)	545,124	636,581
— pledged and guaranteed (c)	148,350	149,000
— unsecured	95,874	—
Other borrowings (e)	1,146	1,927
Total current borrowings	848,494	849,508
Total borrowings	3,588,447	2,736,610

- (a) As at 31 December 2016 and 2015, 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 2016, the current and non-current bank borrowings were guaranteed by Mr. Zhang Yingcen (one of the shareholders of the Company).

As at 31 December 2015, the current bank borrowings were guaranteed by the related parties of the Group, which were Henan Tian Lun Real Estate Limited, Henan Tian Lun Gas Engineering Investment Limited and Mr. Zhang Yingcen; the non-current bank borrowings were guaranteed by Henan Tian Lun Real Estate Limited and Mr. Zhang Yingcen.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

29. BORROWINGS (continued)

- (c) 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.

As at 31 December 2015, the current and non-current bank borrowings were secured by the gas charging rights of Tianlun Pipeline, Sanming Huiji and Suzhou Tianlun, and guaranteed by Mr. Zhang Yingcen and the former shareholders of Tianlun Pipeline, Mr. Li Zifeng and Ms. Gao Hui.

- (d) As at 31 December 2016 and 2015, borrowing of USD60,000,000, equivalent to approximately RMB 416,220,000 (2015: RMB389,616,000) was 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 2016, such borrowings mainly represented (i) borrowings of RMB5,952,000 (2015: RMB5,753,000) 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 RMB945,000 (2015: RMB1,745,000) which were unsecured, bore interests at rate 12% (2015: 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	
	2016 RMB'000	2015 RMB'000
— Within 1 year	848,494	849,508
— Between 1 and 2 years	748,753	548,534
— Between 2 and 5 years	1,743,884	964,922
— Over 5 years	247,316	373,646
	3,588,447	2,736,610

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
RMB	1,247,038	1,626,945
USD	2,341,409	1,109,665
	3,588,447	2,736,610

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

29. BORROWINGS (continued)

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Carrying amount	2,739,953	1,887,102
Fair value	2,786,902	1,891,888

The carrying amount 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 6.08% as at 31 December 2016 (2015: 6.61%) and is within level 3 of the fair value hierarchy.

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

	As at 31 December	
	2016	2015
RMB	4.35%~12.00%	4.35%~12.00%
USD	4.19%~4.50%	3.79%~3.93%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

30. DEFERRED INCOME TAX

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Deferred tax assets		
— Deferred tax assets to be recovered after more than 12 months	7,975	1,185
— Deferred tax assets to be recovered within 12 months	18,296	10,856
	26,271	12,041
Deferred tax liabilities		
— Deferred tax liability to be recovered after more than 12 months	(350,000)	(296,975)
— Deferred tax liability to be recovered within 12 months	(20,414)	(17,912)
	(370,414)	(314,887)
Deferred tax liabilities (net)	(344,143)	(302,846)

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

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
At 1 January	(302,846)	(158,140)
Acquisition of subsidiaries (Note 36)	(65,071)	(158,197)
Tax credit relating to other comprehensive income (Note 12)	68	438
Credited to profit or loss (Note 12)	23,706	13,053
At 31 December	(344,143)	(302,846)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

30. DEFERRED INCOME TAX (continued)

- (b) The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is 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 2015	147	499	1,242	1,029	759	3,676
Acquisition of subsidiaries	—	—	1,645	—	—	1,645
Credited to profit or loss	—	373	6,190	157	—	6,720
As at 31 December 2015	147	872	9,077	1,186	759	12,041
Acquisition of subsidiaries (Note 36)	—	—	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

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 2015	2,869	158,947	—	—	161,816
Acquisition of subsidiaries	—	159,842	—	—	159,842
Credited to other comprehensive income	—	—	(438)	—	(438)
Credited to profit or loss	(2,648)	(3,685)	—	—	(6,333)
As at 31 December 2015	221	315,104	(438)	—	314,887
Acquisition of subsidiaries (Note 36)	—	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

As at 31 December 2016, deferred income tax liabilities of approximately RMB136,071,000 (2015: RMB100,552,900) 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 RMB1,360,710,000 as at 31 December 2016 (2015: RMB1,005,529,000). The Group does not intend to remit these unremitted earnings from the relevant subsidiaries to the Hong Kong holding entity in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

30. DEFERRED INCOME TAX (continued)

- (c) The Group did not recognise deferred income tax assets of approximately RMB14,292,000 (2015: RMB1,961,000) in respect of losses amounting to approximately RMB152,930,000 (2015: RMB73,349,000) that can be carried forward against future taxable income. The unrecognised tax losses will expire in the following years:

	2016 RMB'000	2015 RMB'000
2017	—	438
2018	—	143
2019	—	500
2020	—	190
	—	1,271
No expiry date	152,930	72,078
	152,930	73,349

31. DIVIDENDS

The interim dividend paid in 2016 was HK\$82,138,000, equivalent to approximately RMB73,251,000 (HK8.30 cents per share) (2015: nil).

Pursuant to the resolution of the Board of Directors dated 30 March 2017, the directors of the Company proposed not to distribute any final dividend for the year ended 31 December 2016 (2015: nil).

	2016 RMB'000	2015 RMB'000
Interim dividend paid of HK8.30 cents per ordinary share	73,251	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

32. CASH GENERATED FROM OPERATIONS

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

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Profit before income tax	444,708	429,471
Adjustments for:		
— Depreciation of property, plant and equipment and investment properties (Notes 15,16)	100,746	85,279
— Amortisation of intangible assets and lease prepayments (Notes 14,17)	71,968	56,356
— Finance income	(79,037)	(44,936)
— Finance costs	261,329	141,285
— Gains on disposal of available-for-sale financial assets	—	(62)
— Dividend income from available-for-sale financial assets	(4,642)	(4,832)
— Share of post-tax profit of associates	(20,768)	(382)
— Changes on fair value of contingent consideration for acquisition of subsidiaries	(37,858)	(35,889)
— Gains on disposal of property, plant and equipment (b)	(5,978)	(905)
	730,468	625,385
Changes in working capital:		
— Inventories	22,046	19,111
— Restricted cash	(4,690)	—
— Trade and other receivables	(30,339)	(39,527)
— Trade and other payables	4,546	3,886
— Advance from customers	17,139	(92,320)
	8,702	(108,850)
Cash generated from operations	739,170	516,535

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

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

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Net book amount (Note 15)	2,484	3,530
Gains on disposal of property, plant and equipment (Note 7)	5,978	905
Proceeds from disposal of property, plant and equipment	8,462	4,435

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

33. CONTINGENCIES

As at 31 December 2016 and 2015, 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	
	2016 RMB'000	2015 RMB'000
Share purchase consideration commitment	—	287,970
Capital investment to associates	100,000	300,000
Property, plant and equipment	61,476	204,445
	101,955	792,415

(b) Operating lease commitments

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

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Not later than one year	1,874	402
Later than one year and no later than five years	5,069	816
More than five years	3,016	—
	9,959	1,218

(c) Licensing fee commitments

	As at 31 December	
	2016 RMB'000	2015 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	12,100	13,200
	17,600	18,700

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

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.

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:

	For the 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)

There were no transactions with non-controlling interests in 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

36. BUSINESS COMBINATION

On 31 January 2016, the Group acquired 100% of the equity interests of Xichuan Longcheng, an independent third party established in the PRC with limited liability, which is mainly engaged in natural gas engineering installation and construction, distribution and sales of natural gas in Xichuan, Nanyang, Henan Province. The total consideration was RMB85,000,000.

On 31 January 2016, the Group acquired 100% of the equity interests of Sichuan Mingsheng, 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 Xindu, Chengdu, Sichuan Province. The total consideration was approximately RMB460,000,000.

On 31 May 2016, the Group acquired 85% of the equity interests of Lechang Anshunda, 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 Lechang, Guangdong Province. The total consideration transferred for the acquisition was RMB56,000,000 in fair value through derecognising other receivables due from the seller by the Group, and the fair value of the financial asset is approximately the same with the carrying amount.

As a result of the abovementioned acquisitions, the Group is expected to increase its presence in these markets. The goodwill of approximately RMB310,901,000 arising from the acquisitions are attributable to the pre-existing and well positioned business operating in competitive markets, operating synergies with other existed operations of the Group 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 acquisitions, the fair value of assets acquired, liabilities assumed and the non-controlling interests at the respective acquisition dates.

	Xichuan Longcheng as at 31 January 2016 RMB'000	Sichuan Mingsheng as at 31 January 2016 RMB'000	Lechang Anshunda as at 31 May 2016 RMB'000	Total RMB'000
Consideration				
— Cash paid	80,518	414,000	—	494,518
— Derecognition of financial asset	—	—	56,000	56,000
— Contingent consideration	4,482	46,000	—	50,482
Total consideration	85,000	460,000	56,000	601,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

36. BUSINESS COMBINATION (continued)

	Xichuan Longcheng as at 31 January 2016 RMB'000	Sichuan Mingsheng as at 31 January 2016 RMB'000	Lechang Anshunda as at 31 May 2016 RMB'000	Total RMB'000
Recognised amounts of identifiable assets acquired and liabilities assumed:				
Cash and cash equivalents	172	8,134	1,519	9,825
Property, plant and equipment	27,045	28,863	21,574	77,482
Intangibles:				
— Operating rights	21,246	230,760	24,450	276,456
Investment properties	—	1,751	—	1,751
Lease prepayments	6,700	—	6,310	13,010
Inventories	1,477	1,467	447	3,391
Trade and other receivables	35	26,957	1,230	28,222
Deferred tax assets	127	—	2,243	2,370
Other non-current assets	—	318	—	318
Current income tax liabilities	—	(240)	(23)	(263)
Trade and other payables	(1,220)	(26,045)	(15,521)	(42,786)
Advances from customers	(241)	(4,503)	(1,072)	(5,816)
Deferred income	—	—	(1,490)	(1,490)
Deferred tax liabilities	(3,874)	(56,767)	(6,800)	(67,441)
Total identifiable net assets acquired	51,467	210,695	32,867	295,029
Non-controlling interests	—	—	(4,930)	(4,930)
Goodwill	33,533	249,305	28,063	310,901
	85,000	460,000	56,000	601,000

	Xichuan Longcheng RMB'000	Sichuan Mingsheng RMB'000	Lechang Anshunda RMB'000	Prior years acquisitions RMB'000	Total RMB'000
Outflows of cash to acquire businesses, net of cash acquired					
— cash paid	80,518	414,000	—	29,242*	523,760
— cash and cash equivalents in subsidiaries acquired	(172)	(8,134)	(1,519)	—	(9,825)
	80,346	405,866	(1,519)	29,242	513,935
Less: cash prepaid in 2015	(29,750)	(227,280)	—	—	(257,030)
Cash outflows/(inflows) on acquisition	50,596	178,586	(1,519)	29,242	256,905

* During the year ended 31 December 2016, such cash consideration paid out included the amounts of approximately RMB27,676,000, RMB1,138,000 and RMB428,000 for the acquisitions of Liquan Hongyuan and Qianxian Hongyuan, Jilin Qianan and Yunnan Datong, respectively in prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

36. BUSINESS COMBINATION (continued)

- (a) Acquisition-related costs of approximately RMB30,500 have been charged to administrative expenses in profit or loss for the year ended 31 December 2016.

(b) **Contingent consideration**

The contingent consideration arrangement requires the Group to pay in cash RMB4,482,000 to the former owners of Xichuan Longcheng under the condition that within one year of the equity transfer of Xichuan Longcheng, 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.

The contingent consideration arrangement requires the Group to pay in cash RMB46,000,000 to the former owners of Sichuan Mingsheng under the condition that within one year of the equity transfer of Sichuan Mingsheng, 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 value of trade and other receivables approximates its carrying amount of RMB28,222,000.

(d) **Non-controlling interests**

The Group has chosen to recognise the non-controlling interests on a non-controlling interests proportion of the fair values for the acquisition.

(e) **Revenue and profit contribution**

The acquired businesses contributed aggregated revenues of approximately RMB144,329,000 and aggregated net profit of approximately RMB35,929,000 respectively to the Group for the periods from the respective acquisition dates to 31 December 2016.

Had the respective acquisitions been consolidated from 1 January 2016, the consolidated statement of comprehensive income would show pro-forma revenue of RMB161,683,000 and net profit of RMB38,898,000 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

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 2016 and 2015, and balances arising from related party transactions as at 31 December 2016 and 2015.

(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	
	2016 RMB’000	2015 RMB’000
Sales of Gas		
Suzhou Ping Zhuang	13,741	8,476

	Year ended 31 December	
	2016 RMB’000	2015 RMB’000
Pipeline connection services provision		
Guangwushan Construction	14,306	—

	Year ended 31 December	
	2016 RMB’000	2015 RMB’000
Acquisition of subsidiary’s equity interests		
Henan Tian Lun investment	191,000	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

37. RELATED PARTY TRANSACTIONS (continued)

(b) Significant related party transactions (continued)

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Loan received from		
— IFC	—	381,768

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Interest charged by		
— IFC	18,144	2,332

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	
	2016	2015
	RMB'000	RMB'000
Trade and other receivables		
— Henan Tian Lun investment	13,713	14,100
— Guangwushan Construction	14,735	—
— Suzhou Ping Zhuang	91	—
	28,539	14,100

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade and other payables		
— Henan Tian Lun investment	22,046	575
— Suzhou Ping Zhuang	204	412
— IFC	9,345	—
	31,595	987

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Loan due to		
— IFC	416,220	389,616

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016
(All amounts in RMB thousands unless otherwise stated)

37. RELATED PARTY TRANSACTIONS (continued)

(d) Key management compensation

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Basic salaries and allowances	12,372	10,734
Discretionary bonuses	1,677	2,007
Retirement benefit contributions	1,396	804
	15,445	13,545

38. EVENT AFTER THE BALANCE SHEET DATE

On 21 March 2017, the investment in a trust of RMB318,882,000 which was recorded under “financial assets at fair value through profit or loss” was due according to the respective agreement, and the Group had received the respective principal and interests.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

39. BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December	
		2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Other receivables		41,124	28,900
Financial assets at fair value through profit or loss		19,786	—
Investments in subsidiaries	11(a)	112,540	107,297
		173,450	136,197
Current assets			
Other receivables		2,471,008	1,752,771
Financial assets at fair value through profit or loss		16,385	—
Restricted cash		52,689	14,548
Cash and cash equivalents		317,447	95,306
		2,857,529	1,862,625
Total assets		3,030,979	1,998,822
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		8,340	8,512
Share premium	(Note (a))	1,264,114	1,366,774
Reserves	(Note (a))	16,538	11,295
Accumulated losses	(Note (a))	(181,464)	(104,414)
Total equity		1,107,528	1,282,167
LIABILITIES			
Non-current liabilities			
Borrowings		1,474,113	627,715
Current liabilities			
Borrowings		445,124	86,581
Other payables		4,214	2,359
		449,338	88,940
Total liabilities		1,923,451	716,655
Total equity and liabilities		3,030,979	1,998,822

The balance sheet of the Company was approved by the Board of Directors on 30 March 2017 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 2016
(All amounts in RMB thousands unless otherwise stated)

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

Note (a) Reserves and accumulated losses movements of the Company

	Share premium RMB'000	Accumulated losses RMB'000	Reserves RMB'000
At 1 January 2015	454,188	(42,239)	5,846
Issue of shares	912,586	—	—
Loss for the year	—	(62,175)	—
Value of employee services	—	—	5,449
At 31 December 2015	1,366,774	(104,414)	11,295
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

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 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
<i>Chief executive:</i>							
Mr. Xian Zhenyuan	—	480	—	3	29	—	512
	451	2,040	—	15	91	—	2,597

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

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 2015:

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	—	293	—	3	28	—	324
Mr. Sun Heng	—	180	—	3	—	—	183
Mr. Feng Yi	—	220	—	3	11	—	234
Ms. Li Tao	—	220	—	3	11	—	234
Mr. Cao Zhibin (i)	60	—	—	—	—	—	60
Mr. Li Liuqing (i)	60	—	—	—	—	—	60
Mr. Wang Jiansheng (ii)	35	—	—	—	—	—	35
Ms. Zhao Jun (i)	60	—	—	—	—	—	60
Mr. Yang Yaoyuan (i)	42	—	—	—	—	—	42
Mr. Zhang Jiaming (i)**	40	—	—	—	—	—	40
Chief executive:							
Mr. Xian Zhenyuan	—	280	—	3	28	—	311
	297	1,193	—	15	78	—	1,583

(i) Independent non-executive directors

(ii) Non-executive director

** Mr. Zhang Jiaming: resigned with effect on 1 September 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

(All amounts in RMB thousands unless otherwise stated)

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 (2015: 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 (2015: 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 (2015: 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 (2015: 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 (2015: Nil).

FIVE YEAR FINANCIAL SUMMARY

RESULTS	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	2,693,094	2,251,970	1,343,936	911,939	716,362
Gross profit	692,349	608,770	461,496	333,036	251,236
Profit before income tax	444,708	429,471	344,309	246,152	202,933
Income tax expense	(110,299)	(111,489)	(93,370)	(59,864)	(53,710)
Profit for the year	334,409	317,982	250,393	186,288	149,223

ASSETS, LIABILITIES AND EQUITY	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	7,633,412	6,678,409	3,730,677	2,627,388	2,021,967
Total liabilities	4,881,703	3,896,031	2,253,709	1,536,992	1,125,701
Total equity	2,751,709	2,782,378	1,476,968	1,090,396	896,266