中裕燃氣控股有限公司

ZHONGYU GAS HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3633)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2016

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	For the year ended 31st December,		
	2016 *HK$'000*	2015 *HK$'000*	**changes** %
Turnover	**3,722,507**	3,276,666	13.6%
Gross profit (Gross margin)	**1,008,009** **(27.1%)**	784,833 (24.0%)	28.4% (+3.1%)
Profit attributable to owners of the Company	**206,150**	93,390	120.7%
Adjusted profit attributable to owners of the Company (excluding the net foreign exchange loss)	**344,323**	258,289	33.3%
Earnings per share Basic Diluted	 **HK8.16 cents** **HK8.16 cents**	 HK3.70 cents HK3.70 cents	 120.5% 120.5%
EBITDA	**899,586**	773,241	16.3%
Net assets value per share	**HK$1.01**	HK$0.79	27.8%
Unit of piped natural gas sold ('000 m^3)	**886,809**	626,392	41.6%
Unit of natural gas sold to vehicles ('000 m^3)	**99,125**	95,949	3.3%
New piped gas connections made (residential households)	**260,187**	160,794	61.8%

CHAIRMAN'S STATEMENTS

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to present another set of annual results of Zhongyu Gas Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st December, 2016 (the "Year").

The Group is a mature and steadily growing natural gas distributor, developing under favourable policies from the People's Republic of China ("PRC"). The PRC Government has greatly promoted and encouraged the use of cleaner fuel in combating the worsening pollution problem, resulting in a rapid expansion in the natural gas industry in the past few years. To capture the opportunities arising from the growing demand for clean energy in the PRC, the Group has accelerated the consolidation of projects acquired over the years, as well as actively performed strategic mergers and acquisitions, in order to expand the Group's market share and geographical coverage. On the other hand, the Group has placed increased emphasis on the existing business segment on the sales of stoves and related equipment during the Year. Leveraging the Group's residential customer base of over 1.8 million households, the business segment aims to sell and promote kitchenware, such as gas water heaters and gas cooking appliances, under our own brand name and provided value-added services to our customers. The Group will continue to expand with these strategies and aim for a solid development that outpaces the industry growth in the coming years.

STRATEGIC LOAN RESTRUCTURING TO COMBAT RENMINBI DEPRECIATION

In view of the volatile foreign exchange market, the Group has strategically performed a loan restructuring in order to alleviate the financial impact brought by the depreciation of Renminbi ("RMB"). In August 2016, the Group arranged a dual-currency syndicated loan facility of CNH1,597,902,000 and US$121,460,000. The syndicated loan facility helped raise the proportion of RMB loans to approximately 60%, while lowering the proportion of the United States dollar loans to approximately 40%. With RMB as the functional currency of the Group, the loan restructuring resulted in a natural hedge effect in reducing currency exposure and maintaining a more stable financial position for the Group. The Group will closely monitor the global currency market and adopt appropriate measures as and when necessary.

RESULTS

During the Year, the Group has recorded a turnover of HK$3,722.5 million, representing a year-on-year ("yoy") increase of 13.6% (2015: HK$3,276.7 million). Gross profit increased from HK$784.8 million in 2015 to HK$1,008.0 million, with gross profit margin of 27.1% (2015: 24.0%). Profit attributable to owner of the Company increased by 120.7% to HK$206.2 million as compared to HK$93.4 million in 2015, while net profit margin improved by 2.6 percentage points to 5.5% (2015: 2.9%). Part of the net profit was offset by the significant exchange loss of approximately HK$138.2 million primarily arising from the Group's bank borrowings being denominated in the United States dollars as a result of the depreciation of the Renminbi during the Year. Earnings per share and net assets per share amounted to HK$0.0816 and HK$1.01 respectively (2015: HK$0.037; HK$0.79).

BUSINESS REVIEW

Gas pipeline construction and connection, sales of piped gas and the operation of compressed natural gas & liquefied natural gas ("CNG/LNG") vehicles filling stations are the Group's three major business segments. For the gas pipeline construction and connection business segment, the Group currently operates 55 piped gas projects with exclusivity in the PRC, covering approximately 10,652,000 connectable urban population, which represents a yoy increase of 5.7%. The penetration rate of residential pipeline connection increased from 55.1% in 2015 to 60.6% in 2016. During the Year, the Group has accelerated the integration of the projects of Harmony Gas Holdings Limited ("Harmony Gas"), and continued to build and connect natural gas infrastructures to customers in covered areas. Having established a large number of pipeline connections, the Group anticipates significant financial contributions from piped gas consumption from 2017 onwards. Given with the government's determination to implement "coal-to-gas" conversion into force as one of the solutions to combat the severe smog problem, the Group believes that the demand for natural gas will subsequently increase, thus acting as an important growth driver to the Group in the coming years.

In November 2015, the PRC government reduced the non-residential natural gas city-gate price by RMB0.7/m^3. The lower gas price provided non-residential users with a strong incentive to comply with the "coal-to-gas" conversion regulation. This resulted in an increase of 41.6% yoy in the total units of piped natural gas sold, with said total units reaching 886,809,000 m^3. The non-residential customers of the Group mainly comprises companies from various industries. The diversified client base helps minimize the Group's reliance on certain sectors, which can also help mitigate the impact brought on by different economic cycles. Along with the business roll-out of the new projects, the Group will continue to explore business opportunities with local residential customers, and industrial and commercial customers from different sectors, aiming to further boost the gas sales volume and develop sustainably in the long run.

In 2016, the Group slowed down the expansion of CNG/LNG vehicle filling stations as the price of crude oil, the substitute of natural gas, remained at a low level, discouraging the use of natural gas in cars. In the coming year, we will be cautious in making new investments in the construction of new CNG/LNG vehicle filling stations, while maintaining an optimal supply of vehicle filling stations in areas we exclusively operate.

PROSPECTS

The smog problem in China intensified towards the end of 2016. The PRC government is putting harsher controls to speed up the energy reform from coal to gas, particularly in the northern cities, in order to help clean up the air pollution in the long run.

In 2015, China made pledges in cutting its greenhouse gas emissions during the climate change talks in Paris. New research reveals that China burned 4.7% less coal in 2016 than in the previous year. The annual coal consumption has dropped for the third consecutive year since 2014. This proves that the PRC government is determined to reduce the toxic air pollution and battle climate change. According to the 13th Five-Year Plan on Natural Gas Development (天然氣發展"十三五"規劃), the PRC government wishes to increase the natural gas consumption proportion to 10% in terms of the overall energy structure by 2020. This indicates that the natural gas consumption will surge up to 360 billion cubic meters by 2020. The Group believes that the PRC government will continue to implement various policies on promoting the use of natural gas, thus benefitting the Group's development in the coming years.

Looking ahead, unleashing the potential of the Harmony Gas project will continue to be the main focus of the Group in 2017. To better prepare for the deepening penetration of natural gas usage in the industry, the Group will expedite the construction of gas pipeline in its covered areas. At the same time, as the Group gradually expands, we intend to maintain a diverse customer base, which could help us better manage risk in times of economic uncertainty. For the CNG/LNG vehicle filling stations, the PRC government has widely promoted the use of environmentally-friendly clean energy vehicles, which has become the upcoming developmental focus. Nevertheless, competition from low-price crude oil has remained fierce in recent years. Therefore, the Group intends to be prudent and selective in investing in new infrastructure, while maintaining its presence in the covered areas. The Group is optimistic about the prospects of all segments under China's renewable energy reform and the enforcement of the "coal-to-gas" conversion. It is expected that the national transition will bring in numerous new potential natural gas users nationwide.

Sales of stoves and related equipment will be another main area of focus in 2017. By rapidly developing the business segment, the Group hopes to provide value-added services to our existing residential customers and increase the segment's overall financial contribution to the Group in the near future. Leveraging our deep-rooted presence in local communities and the trusted relationships with our existing 1.8 million residential households, the segment will provide one-stop natural gas solutions for local residents and offer safe and reliable kitchenware under our own brand name. Since the commencement of the value-added services, the Group has been encouraged by the amount of positive feedback it has received. In the coming year, the Group will further explore a wide range of gas-related products, so as to expand our product offerings and broaden income streams. The Group believes that the value-added services can create synergies with the other existing businesses and that there is huge market potentials for the Group to tap into in the future.

To further extend our geographic presence and solidify our market position, we will continue to seek quality merger and acquisition opportunities and new ventures in the natural gas distribution market with rigorous risk management. The Group will continue to strive for excellence, aim to become the most valued clean energy distributor and operator in the PRC and endeavor to create fruitful returns for our shareholders in the coming years.

APPRECIATION

Last but not least, I would like to extend my sincere gratitude to our management and staff for their commitment and hard work during the Year. I would also like to thank our shareholders and customers for their unfailing support and confidence in the Group.

Wang Wenliang
Chairman
Hong Kong

22nd March, 2017

The board of directors (the "Board" or the "Directors") of Zhongyu Gas Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December, 2016, together with the comparative figures for the corresponding period in 2015, which are set out below. The Group is principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, distribution of piped gas to residential, industrial and commercial users; and (ii) the construction and operation of compressed natural gas or liquefied natural gas ("CNG/LNG") vehicle filling stations in the People's Republic of China (the "PRC").

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2016

		2016	2015
	NOTES	***HK$'000***	*HK$'000*
Turnover	*4*	**3,722,507**	3,276,666
Cost of sales		**(2,714,498)**	(2,491,833)
Gross profit		**1,008,009**	784,833
Other gains and losses	*6*	**(158,104)**	(73,633)
Other income	*7*	**42,389**	46,050
Selling and distribution costs		**(88,955)**	(71,565)
Administrative expenses		**(275,220)**	(209,334)
Finance costs	*8*	**(252,495)**	(114,866)
Share of results of a joint venture		**–**	(51,962)
Share of results of associates		**19,295**	(2,018)
Profit before tax		**294,919**	307,505
Income tax expenses	*9*	**(191,318)**	(157,637)
Profit for the year	*10*	**103,601**	149,868
Profit for the year attributable to:			
Owners of the Company		**206,150**	93,390
Non-controlling interests		**(102,549)**	56,478
		103,601	149,868

	NOTES	2016 HK$'000	2015 HK$'000
Profit for the year		**103,601**	149,868
Other comprehensive (expense) income			
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**(165,543)**	(105,461)
Fair value gain on revaluation of pipelines included in property, plant and equipment		**837,535**	–
Deferred tax arising from revaluation of pipelines included in property, plant and equipment		**(209,384)**	–
Surplus on revaluation upon transfer of property, plant and equipment to investment property at fair value		**6,693**	–
Deferred tax arising from transfer of property, plant and equipment to investment property at fair value		**(1,673)**	–
Total comprehensive income for the year		**571,229**	44,407
Profit for the year attributable to:			
Owners of the Company		**206,150**	93,390
Non-controlling interests		**(102,549)**	56,478
		103,601	149,868
Total comprehensive income attributable to:			
Owners of the Company		**580,396**	12,616
Non-controlling interests		**(9,167)**	31,791
		571,229	44,407
Earnings per share	*12*		
Basic		**HK8.16 cents**	HK3.70 cents
Diluted		**HK8.16 cents**	HK3.70 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2016

	NOTES	2016 HK$'000	2015 HK$'000
Non-current assets			
Investment properties		**43,748**	9,012
Property, plant and equipment		**5,625,852**	4,470,817
Goodwill		**208,886**	199,859
Other intangible assets		**1,038,810**	1,033,347
Long-term deposits, prepayments and other receivables		**408,000**	428,750
Prepaid lease payments		**474,532**	472,338
Interests in associates		**164,034**	155,418
Available-for-sale investments		**6,074**	6,301
		7,969,936	6,775,842
Current assets			
Inventories		**105,863**	103,521
Trade and bills receivables	*13*	**411,101**	318,762
Deposits, prepayments and other receivables	*13*	**237,791**	283,844
Entrusted loan receivable		**22,359**	23,872
Amount due from an associate		**56,087**	59,680
Amounts due from related parties		**24,901**	14,053
Prepaid lease payments		**13,579**	13,693
Amounts due from customers for contract work		**1,774**	35,848
Tax recoverable		**757**	980
Pledged bank deposits		**11,574**	95,488
Bank balances and cash		**767,941**	983,726
		1,653,727	1,933,467
Current liabilities			
Deferred income and advance received	*14*	**521,308**	496,371
Trade and bills payables	*14*	**576,497**	591,578
Other payables and accrued charges	*14*	**230,830**	199,172
Amount due to an associate		**1,155**	1,234
Amounts due to customers for contract work		**41,458**	51,313
Borrowings		**571,616**	1,172,315
Obligations under finance lease due within one year		**100,306**	33,285
Consideration payable		**575,791**	–
Tax payables		**90,142**	65,653
		2,709,103	2,610,921
Net current liabilities		**(1,055,376)**	(677,454)
Total assets less current liabilities		**6,914,560**	6,098,388

	NOTES	2016 HK$'000	2015 HK$'000
Capital and reserves			
Share capital		**25,250**	25,250
Reserves		**2,527,956**	1,981,414
Equity attributable to owners of the Company		**2,553,206**	2,006,664
Non-controlling interests		**252,725**	265,730
Total equity		**2,805,931**	2,272,394
Non-current liabilities			
Deferred income and advance received	*14*	**5,652**	6,034
Borrowings		**3,537,814**	3,063,890
Obligations under finance lease due after one year		**214,789**	121,986
Consideration payable		**–**	512,844
Deferred taxation		**350,374**	121,240
		4,108,629	3,825,994
		6,914,560	6,098,388

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2016

	Attributable to owners of the Company									Non-controlling interests			
	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	Property revaluation reserve HK$'000	Other reserve HK$'000	Statutory surplus reserve HK$'000 (Note)	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000	Capital contribution and share of results HK$'000	Others HK$'000	Total HK$'000	Total HK$'000
At 1st January, 2015	25,250	895,736	319	1,128	(3,685)	62,042	228,361	784,897	1,994,048	298,692	–	298,692	2,292,740
Profit for the year	–	–	–	–	–	–	–	93,390	93,390	56,478	–	56,478	149,868
Other comprehensive expense for the year	–	–	–	–	–	–	(80,774)	–	(80,774)	(24,687)	–	(24,687)	(105,461)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	(80,774)	93,390	12,616	31,791	–	31,791	44,407
Transfer to statutory surplus reserve	–	–	–	–	–	11,021	–	(11,021)	–	–	–	–	–
Dividend paid by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	(19,752)	–	(19,752)	(19,752)
Consideration payable committed to acquire additional interest in Harmony Gas Holdings Limited ("Harmony Gas") and its subsidiaries	–	–	–	–	–	–	–	–	–	–	(507,817)	(507,817)	(507,817)
Obtaining control over Harmony Gas and its subsidiaries	–	–	–	–	–	–	–	–	–	459,235	–	459,235	459,235
Transfer to accumulated profits upon obtaining control over Harmony Gas and its subsidiaries	–	–	–	–	–	–	15,610	(15,610)	–	–	–	–	–
Capital contribution from non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	3,581	–	3,581	3,581
At 31st December, 2015	25,250	895,736	319	1,128	(3,685)	73,063	163,197	851,656	2,006,664	773,547	(507,817)	265,730	2,272,394
Profit for the year	–	–	–	–	–	–	–	206,150	206,150	(102,549)	–	(102,549)	103,601
Other comprehensive income (expense) for the year	–	–	–	480,240	–	–	(105,994)	–	374,246	93,382	–	93,382	467,628
Total comprehensive income (expense) for the year	–	–	–	480,240	–	–	(105,994)	206,150	580,396	(9,167)	–	(9,167)	571,229
Transfer to statutory surplus reserve	–	–	–	–	–	13,595	–	(13,595)	–	–	–	–	–
Dividend paid by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	(9,709)	–	(9,709)	(9,709)
Acquisition of additional interests in a subsidiary	–	–	–	–	(33,854)	–	–	–	(33,854)	(36,477)	–	(36,477)	(70,331)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	33,991	–	33,991	33,991
Capital contribution from non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	8,357	–	8,357	8,357
At 31st December, 2016	25,250	895,736	319	481,368	(37,539)	86,658	57,203	1,044,211	2,553,206	760,542	(507,817)	252,725	2,805,931

Note: The articles of association of the Company's subsidiaries incorporated in the PRC state that they may make an appropriation of 10% of their profit for each year (prepared under generally accepted accounting principles in the PRC) to the statutory surplus reserve until the balance reaches 50% of the paid-in capital. The statutory surplus reserve shall only be used for making up losses, capitalisation into paid-in capital and expansion of their production and operation.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2016

	2016	2015
	HK$'000	*HK$'000*
Operating activities		
Profit before tax	**294,919**	307,505
Adjustments for:		
Depreciation of property, plant and equipment	**166,492**	125,315
Amortisation and impairment of other intangible assets	**37,517**	51,903
Release of prepaid lease payments	**9,990**	8,753
Net gain on disposal/written-off of property, plant and equipment	**(2,634)**	(3,591)
Net allowance (reversal of allowance) for doubtful debts		
– trade receivables	**5,566**	(281)
– other receivables	**(3,604)**	641
Share of results of a joint venture	**–**	51,962
Share of results of associates	**(19,295)**	2,018
Impairment loss (reversal of impairment loss) recognised on amounts due from customers for contract work	**27,010**	(1,085)
Gain on obtaining control over Harmony Gas and its subsidiaries	**–**	(86,749)
Interest income	**(14,181)**	(29,953)
Finance costs	**252,495**	114,866
Increase in fair value of investment properties	**(6,407)**	(201)
Foreign exchange loss	**159,870**	160,876
Operating cash flows before movements in working capital	**907,738**	701,979
(Increase) decrease in inventories	**(1,025)**	5,756
(Increase) decrease in trade and bills receivables	**(93,295)**	28,073
Decrease in deposits, prepayments and other receivables	**53,885**	77,608
Decrease in amounts due from customers for contract work	**7,064**	12,671
Increase (decrease) in deferred income and advance received	**24,555**	(61,307)
Decrease in trade and bills payables	**(15,902)**	(28,759)
(Decrease) increase in other payables and accrued charges	**(20,412)**	6,514
(Decrease) increase in amounts due to customers for contract work	**(9,855)**	17,982
Cash generated from operations	**852,753**	760,517
Interest received	**14,181**	29,953
Income taxes paid	**(171,191)**	(172,285)
Withholding tax paid	**(3,452)**	(12,991)
Net cash from operating activities	**692,291**	605,194

	2016	2015
	HK$'000	*HK$'000*
Investing activities		
Purchases of property, plant and equipment	**(610,394)**	(602,617)
Proceeds from disposal of property, plant and equipment	**18,159**	8,453
Placement of pledged bank deposits	**(11,574)**	–
Withdrawal of pledged bank deposits	**95,488**	–
Obtaining control over Harmony Gas and its subsidiaries	**–**	126,572
Acquisitions of subsidiaries	**(94,690)**	–
Acquisitions of assets and liabilities through acquisition of subsidiaries	**(2,432)**	(41,214)
Addition of prepaid lease payments	**(11,650)**	(147,128)
Addition of investment properties	**(1,762)**	–
Advance to a joint venture	**–**	(249,967)
Repayment from a joint venture	**–**	286,742
Addition of other intangible assets	**(4,443)**	–
Deposits paid for acquisition of property, plant and equipment and prepaid lease payments	**(126,382)**	(81,309)
Advance to related parties	**(10,848)**	–
Net cash used in investing activities	**(760,528)**	(700,468)
Financing activities		
Interest paid	**(169,890)**	(138,636)
Loan facilities fees paid	**(43,787)**	(4,566)
New borrowings raised	**3,648,408**	776,377
New obligations under finance lease	**233,590**	186,706
Repayments of borrowings	**(3,683,156)**	(509,019)
Repayments of obligations under finance lease	**(56,334)**	(31,435)
Deposit paid for obtaining a finance lease	**–**	(8,952)
Dividend paid by subsidiaries to non-controlling interests	**(9,709)**	(19,752)
Capital contribution from non-controlling interests of a subsidiary	**8,357**	3,581
Acquisition of additional interest in a subsidiary	**(70,331)**	–
Net cash (used in) from financing activities	**(142,852)**	254,304
Net (decrease) increase in cash and cash equivalents	**(211,089)**	159,030
Cash and cash equivalents at 1st January	**983,726**	828,189
Effect of foreign exchange rate changes	**(4,696)**	(3,493)
Cash and cash equivalents at 31st December, represented by bank balances and cash	**767,941**	983,726

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2016

1. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012 - 2014 cycle

The application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments[2]
HKFRS 15	Revenue from contracts with customers and the related amendments[2]
HKFRS 16	Leases[3]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts[2]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[2]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[4]
Amendments to HKAS 7	Disclosure initiative[1]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[1]

1 Effective for annual periods beginning on or after 1st January, 2017
2 Effective for annual periods beginning on or after 1st January, 2018
3 Effective for annual periods beginning on or after 1st January, 2019
4 Effective for annual periods beginning on or after a date to be determined

HKFRS 9 Financial instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 relevant to the Group are described below:

- All recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management polices as at 31st December, 2016, application of HKFRS 9 in the future may have material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments of carrying amount of HK$6,074,000, which are stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfilment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of that effect of HKFRS 9 until the Directors perform a detailed review.

HKFRS 15 Revenue from contracts with customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors consider that the performance obligations are similar to the current identification of separate revenue components under HKAS 18, however, the allocation of total consideration to the respective performance obligations will be based on relative fair values which will potentially affect the timing and amounts of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Directors perform a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31st December, 2016, the Group has non-cancellable operating lease commitments of HK$21,169,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors complete a detailed review.

The Directors anticipate that the application of the other new and amendments to HKFRSs will have no material impact on the consolidated financial statements.

2. CHANGE IN ACCOUNTING POLICY

In previous years, pipelines included in property, plant and equipment were carried at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. During the year, the Directors of the Company decided to adopt revaluation model to measure pipelines included in property, plant and equipment with effect from 31st December, 2016. The surplus resulting from the revaluation on the initial adoption is dealt with in other comprehensive income and accumulated in equity, under the heading property revaluation reserve. This change in accounting policy has increased the carrying amount of pipelines included in property, plant and equipment and deferred tax liability by HK$837,535,000 and HK$209,384,000 respectively, as at 31st December, 2016. Prior period amounts are not restated.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain property, plant and equipment, investment properties that are measured at revalued amounts or fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

4. TURNOVER

Turnover represents the net amounts received and receivable for goods sold and services rendered by the Group to outside customers, net of discounts and related taxes. An analysis of the Group's turnover for the year is as follows:

	2016	2015
	HK$'000	*HK$'000*
Sales of piped gas	**2,460,609**	2,098,195
Connection revenue from gas pipeline construction	**897,306**	748,185
Operation of CNG/LNG vehicle filling stations	**337,574**	413,612
Sales of liquefied petroleum gas	**5,634**	622
Sales of stoves and related equipment	**21,384**	16,052
	3,722,507	3,276,666

5. SEGMENT INFORMATION

The Group's executive directors are the chief operating decision makers ("CODM") as they collectively make strategic decisions on resources allocation and performance assessment. The Group is principally engaged in the investment, operation and management of city gas pipeline infrastructure, distribution of piped gas to residential, industrial and commercial users; the construction and operation of CNG/LNG vehicle filling stations in the PRC. Nearly all identifiable assets of the Group are located in the PRC.

Information that is reported to the CODM for the purpose of resources allocation and assessment of performance focuses on the type of products or services rendered which is also consistent with the basis of organisation of the Group, except for the performance of Harmony Gas, which ceased to be a joint venture of the Group and has become a subsidiary of the Group since 8th December, 2015 as a result of change of the shareholders agreement. The Group considered Harmony Gas and its subsidiaries as a single operating and reportable segment as CODM reviewed the total revenue and overall result of Harmony Gas for the reporting periods.

Each type of product or service is managed by an unique business unit within the Group whose performance is assessed independently. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group. The Group's operating and reportable segments are therefore as follows:

(a) sales of piped gas;

(b) connection revenue from gas pipeline construction;

(c) operation of CNG/LNG vehicle filling stations;

(d) sales of liquefied petroleum gas;

(e) sales of stoves and related equipment; and

(f) Harmony Gas and its subsidiaries: trading of natural gas and gas pipeline construction.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segment.

For the year ended 31st December, 2016

	Sales of piped gas *HK$'000*	Connection revenue from gas pipeline construction *HK$'000*	Operation of CNG/LNG vehicle filling stations *HK$'000*	Sales of liquefied petroleum gas *HK$'000*	Sales of stoves and related equipment *HK$'000*	Harmony Gas and its subsidiaries *HK$'000*	Consolidated *HK$'000*
Segment revenue	2,188,446	625,450	321,220	189	20,580	566,622	3,722,507
Segment profit (loss)	211,626	295,717	37,457	(82)	7,869	168,293	720,880
Unallocated other income							4,689
Unallocated other gains and losses							(127,851)
Unallocated central corporate expenses							(50,304)
Finance costs							(252,495)
Profit before tax							294,919

For the year ended 31st December, 2015

	Sales of piped gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operation of CNG/LNG vehicle filling stations HK$'000	Sales of liquefied petroleum gas HK$'000	Sales of stoves and related equipment HK$'000	Harmony Gas and its subsidiaries HK$'000	Consolidated HK$'000
Segment revenue	2,069,612	708,460	413,306	236	16,034	69,018	3,276,666
Segment profit (loss)	202,720	341,446	31,313	(45)	6,625	(875)	581,184
Unallocated other income							29,880
Unallocated other gains and losses							(72,925)
Unallocated central corporate expenses							(63,806)
Share of results of a joint venture							(51,962)
Finance costs							(114,866)
Profit before tax							307,505

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Except for segment profit (loss) of Harmony Gas and its subsidiaries which is presented as a separate segment, segment profit (loss) represents the financial result of each segment without allocation of central administration costs, directors' salaries, interest income, increase in fair value of investment properties, gain on obtaining control over Harmony Gas and its subsidiaries, net foreign exchange loss, certain sundry income, share of results of a joint venture, finance costs and income tax expenses. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segment:

As at 31st December, 2016

	Sales of piped gas *HK$'000*	Connection revenue from gas pipeline construction *HK$'000*	Operation of CNG/LNG vehicle filling stations *HK$'000*	Sales of liquefied petroleum gas *HK$'000*	Sales of stoves and related equipment *HK$'000*	Harmony Gas and its subsidiaries *HK$'000*	Consolidated *HK$'000*
ASSETS							
Segment assets	**5,478,432**	**156,630**	**527,898**	**–**	**1,592**	**2,303,017**	**8,467,569**
Investment properties							**43,748**
Available-for-sale investments							**6,074**
Property, plant and equipment for corporate use							**210,997**
Deposits paid for acquisition of property, plant and equipment for corporate use							**25,424**
Prepaid lease payments for corporate use							**113,548**
Investments in life insurance contracts							**75,547**
Entrusted loan receivable							**22,359**
Pledged bank deposits							**11,574**
Bank balances and cash							**582,308**
Other assets							**64,515**
Consolidated assets							**9,623,663**
LIABILITIES							
Segment liabilities	**726,266**	**315,835**	**23,380**	**–**	**–**	**491,469**	**1,556,950**
Tax payables							**71,028**
Borrowings							**4,071,749**
Obligations under finance lease							**315,095**
Deferred tax liabilities							**214,199**
Consideration payable							**575,791**
Other liabilities							**12,920**
Consolidated liabilities							**6,817,732**

As at 31st December, 2015

	Sales of piped gas *HK$'000*	Connection revenue from gas pipeline construction *HK$'000*	Operation of CNG/LNG vehicle filling stations *HK$'000*	Sales of liquefied petroleum gas *HK$'000*	Sales of stoves and related equipment *HK$'000*	Harmony Gas and its subsidiaries *HK$'000*	Consolidated *HK$'000*
ASSETS							
Segment assets	4,487,993	196,102	511,642	–	1,268	2,153,447	7,350,452
Investment properties							9,012
Available-for-sale investments							6,301
Property, plant and equipment for corporate use							199,486
Deposits paid for acquisition of property, plant and equipment for corporate use							56,738
Prepaid lease payments for corporate use							114,395
Investments in life insurance contracts							73,854
Entrusted loan receivable							23,872
Bank balances and cash							850,611
Other assets							24,588
Consolidated assets							8,709,309
LIABILITIES							
Segment liabilities	605,863	305,910	31,963	–	–	1,033,586	1,977,322
Tax payables							53,675
Borrowings							3,692,643
Obligations under finance lease							155,271
Deferred tax liabilities							38,783
Consideration payable							512,844
Other liabilities							6,377
Consolidated liabilities							6,436,915

For the purpose of monitoring segment performance and allocating resources between reportable segments:

- Except for segment assets of Harmony Gas and its subsidiaries which is presented as a separate segment, all the Group's assets are allocated to operating segments, other than investment properties, available-for-sale investments, certain property, plant and equipment, certain prepaid lease payments and deposits paid for property, plant and equipment for corporate use, investments in life insurance contracts, entrusted loan receivable, certain deposits, prepayments and other receivables, pledged bank deposits, certain bank balances and cash; and

- Except for segment liabilities of Harmony Gas and its subsidiaries which is presented as a separate segment, all the Group's liabilities are allocated to operating segments, other than tax payables, obligations under finance lease, borrowings, deferred tax liabilities, consideration payable, certain other payables and accrued charges.

Other segment information

2016

	Sales of piped gas *HK$'000*	Connection revenue from gas pipeline construction *HK$'000*	Operations of CNG/LNG vehicle filling stations *HK$'000*	Sales of liquefied petroleum gas *HK$'000*	Sales of stoves and related equipment *HK$'000*	Harmony Gas and its subsidiaries *HK$'000*	Segment total *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:									
Capital additions	**515,618**	**–**	**42,139**	**–**	**–**	**162,810**	**720,567**	**39,935**	**760,502**
Capital additions through acquisitions of subsidiaries	**65,928**	**–**	**–**	**–**	**–**	**–**	**65,928**	**–**	**65,928**
Net (gain) loss on disposal/ written-off of property, plant and equipment	**(4,560)**	**–**	**–**	**–**	**–**	**1,926**	**(2,634)**	**–**	**(2,634)**
Release of prepaid lease payments	**6,626**	**–**	**3,041**	**–**	**–**	**323**	**9,990**	**–**	**9,990**
Depreciation of property, plant and equipment	**119,082**	**–**	**8,191**	**–**	**–**	**34,142**	**161,415**	**5,077**	**166,492**
Amortisation and impairment of other intangible assets	**17,463**	**–**	**9,210**	**–**	**–**	**10,844**	**37,517**	**–**	**37,517**
(Reversal of impairment loss) impairment loss recognised on amounts due from customers for contract work	**–**	**(5,122)**	**–**	**–**	**–**	**32,132**	**27,010**	**–**	**27,010**
Net allowance (reversal of allowance) for doubtful debts	**5,566**	**–**	**–**	**–**	**–**	**–**	**5,566**	**(3,604)**	**1,962**

2015

	Sales of piped gas *HK$'000*	Connection revenue from gas pipeline construction *HK$'000*	Operations of CNG/LNG vehicle filling stations *HK$'000*	Sales of liquefied petroleum gas *HK$'000*	Sales of stoves and related equipment *HK$'000*	Harmony Gas and its subsidiaries *HK$'000*	Segment total *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Amounts included in the measure of segment profit or loss or segment assets:									
Capital additions	455,499	–	41,804	–	–	23,178	520,481	149,998	670,479
Capital additions through obtaining control over Harmony Gas and its subsidiaries	–	–	–	–	–	1,422,726	1,422,726	–	1,422,726
Capital additions through acquisition of assets and liabilities through acquisition of a subsidiary	–	–	6,923	–	–	–	6,923	–	6,923
Net (gain) loss on disposal/ written-off of property, plant and equipment	(3,521)	–	(11)	–	–	55	(3,477)	(114)	(3,591)
Release of prepaid lease payments	6,024	–	2,700	–	–	29	8,753	–	8,753
Depreciation of property, plant and equipment	110,248	–	6,955	–	–	2,783	119,986	5,329	125,315
Amortisation and impairment of other intangible assets	49,529	–	2,374	–	–	–	51,903	–	51,903
Reversal of impairment loss recognised on amounts due from customers for contract work	–	(1,085)	–	–	–	–	(1,085)	–	(1,085)
Net (reversal of allowance) allowance for doubtful debts	(281)	–	–	–	–	–	(281)	641	360

Geographical information

All the turnover of the Group for both years are derived from the PRC. None of the customers contributes over 10% of the total revenue of the Group.

All the non-current assets of the Group (excluding investments in life insurance contracts and club membership located in Hong Kong) for both years are located in the PRC.

6. OTHER GAINS AND LOSSES

	2016	2015
	HK$'000	*HK$'000*
Net (allowance) reversal of allowance for doubtful debts		
– trade receivables	**(5,566)**	281
– other receivables	**3,604**	(641)
Net foreign exchange loss	**(138,173)**	(164,899)
Increase in fair value of investment properties	**6,407**	201
(Impairment loss) reversal of impairment loss recognised on amounts due from customers for contract work	**(27,010)**	1,085
Net gain on disposal/written-off of property, plant and equipment	**2,634**	3,591
Gain on obtaining control over Harmony Gas and its subsidiaries	**–**	86,749
	(158,104)	(73,633)

7. OTHER INCOME

	2016	2015
	HK$'000	*HK$'000*
Bank interest income	**7,432**	6,924
Interest income on amount due from a joint venture	**–**	20,653
Interest income on amount due from an associate	**4,045**	–
Government subsidies (*Note*)	**8,087**	3,411
Interest income from investments in life insurance contracts	**2,704**	2,376
Sundry income	**20,121**	12,686
	42,389	46,050

Note: During the year ended 31st December, 2016, the Group has received subsidies of HK$8,087,000 (2015: HK$3,411,000) from relevant PRC governments for promoting the use of natural gas. There are no conditions attached to the subsidies granted to the Group.

8. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interest on borrowings:		
– wholly repayable within five years	**155,036**	128,667
– over five years	**4,739**	2,424
Interest on obligations under finance lease	**10,115**	7,545
	169,890	138,636
Imputed interest on consideration payable	**62,947**	5,027
Amortisation on loan facilities fees relating to bank borrowings	**72,881**	28,610
Total borrowing costs	**305,718**	172,273
Less: Amounts capitalised in construction in progress included in property, plant and equipment	**(53,223)**	(57,407)
	252,495	114,866

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.12% (2015: 4.35%) per annum to expenditure on qualifying assets.

9. INCOME TAX EXPENSES

	2016	2015
	HK$'000	*HK$'000*
PRC Enterprise Income Tax:		
Current tax	**181,667**	147,014
Underprovision in prior years	**2,871**	1,823
Withholding tax levied on dividends paid previously not recognised	**9,620**	10,550
	194,158	159,387
Deferred tax	**(2,840)**	(1,750)
	191,318	157,637

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries had no assessable profits arising in Hong Kong for both years.

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2016, withholding tax amounting to HK$9,620,000 (2015: HK$12,991,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities in previous and current years.

10. PROFIT FOR THE YEAR

	2016	2015
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**3,600**	2,095
Amortisation and impairment of other intangible assets (included in cost of sales)	**37,517**	51,903
Release of prepaid lease payments	**9,990**	8,753
Depreciation of property, plant and equipment	**166,492**	125,315
Employee benefits expenses, other than directors (including contributions to retirement benefits schemes of HK$44,812,000 (2015: HK$36,559,000))	**305,290**	224,400
Operating lease rentals in respect of rented premises	**11,181**	4,855
Cost of inventories recognised as expenses in respect of contract cost for gas pipeline construction	**170,963**	163,221
Cost of inventories recognised as expenses in respect of sales of piped gas, liquefied petroleum gas and stoves equipment	**1,789,125**	1,835,309
	1,960,088	1,998,530
Gross rental income from investment properties with minimal outgoings	**(684)**	(715)
Gross rental income from equipment with minimal outgoings	**(1,750)**	(610)

11. DIVIDENDS

No dividend was paid or proposed during 2016, nor has any dividend been proposed since the end of the reporting period (2015: nil).

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2016	2015
	HK$'000	*HK$'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to owners of the Company	**206,150**	93,390

	2016	2015
	'000	*'000*
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**2,525,008**	2,525,008
Effect of dilutive potential ordinary shares: Share options issued by the Company	**1,483**	1,507
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,526,491**	2,526,515

13. TRADE AND BILLS RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days (2015: 30 days) to its trade customers. The bills receivables are matured within the range of 30 days to 180 days (2015: 30 days to 180 days) as at 31st December, 2016. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates for sales of piped gas and the billing dates for work performed for construction contracts:

	2016	2015
	HK$'000	*HK$'000*
0 – 30 days	**283,813**	197,794
31 – 90 days	**31,727**	37,055
91 – 180 days	**36,598**	12,483
181 – 360 days	**28,630**	48,358
Trade receivables	**380,768**	295,690
0 – 90 days	**15,820**	15,367
91 – 180 days	**14,513**	7,705
Bills receivables	**30,333**	23,072
Trade and bills receivables	**411,101**	318,762

Included in deposits, prepayments and other receivables are advances to suppliers of natural gas and construction materials for customers' gas pipeline construction amounting to HK$102,096,000 (2015: HK$123,966,000).

Trade receivables of HK$283,813,000 (2015: HK$197,794,000) and bills receivables of HK$30,333,000 (2015: HK$23,072,000) were neither past due nor impaired. These customers are mainly local reputable real estate developers and corporate entities in the PRC and no significant counterparty default was noted in the past.

As at 31st December, 2016, trade receivables of HK$96,955,000 (2015: HK$97,896,000) were past due but no impairment has been provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable taking into account the debtors' settlement history. The Group does not hold any collateral over these balances. The average age of these trade receivables is 151 days (2015: 170 days).

Ageing of trade receivables which are past due but not impaired

	2016	2015
	HK$'000	*HK$'000*
31-90 days	**31,727**	37,055
91-180 days	**36,598**	12,483
181-360 days	**28,630**	48,358
	96,955	97,896

Movement in the allowance for doubtful debts

Trade receivables

	2016	2015
	HK$'000	*HK$'000*
At 1st January	**2,049**	2,330
Increase (decrease) in allowance recognised in profit or loss	**5,566**	(281)
At 31st December	**7,615**	2,049

Other receivables

	2016	2015
	HK$'000	*HK$'000*
At 1st January	**8,336**	7,695
(Decrease) increase in allowance recognised in profit or loss	**(3,604)**	641
At 31st December	**4,732**	8,336

Included in the allowance for doubtful debts are individually impaired trade receivables, which were either in severe financial difficulties or overdue for a long period of time. The Group has made full allowance for these receivables and considered that they are generally not recoverable.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date the credit was initially granted up to the end of the reporting period. Some of the trade receivables categorised as past due but not impaired as at the end of the reporting period were subsequently settled as at the date of the Group's consolidated financial statements were authorised for issuance. For those balances that have not been settled, the Directors are confident that there will be no recoverability issue taking into account that there was no historical default of payments by the respective customers. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that no further credit provision is required in excess of the allowance for doubtful debts.

14. DEFERRED INCOME AND ADVANCE RECEIVED, TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	2016	2015
	HK$'000	*HK$'000*
0 – 30 days	**343,673**	320,105
31 – 90 days	**61,532**	42,323
91 – 180 days	**40,515**	61,213
Over 180 days	**130,777**	167,937
Trade and bills payables	**576,497**	591,578

The average credit period on purchase of goods is 90 days (2015: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Deferred income and advance received classified as current liabilities represent amounts received from customers before the contract work is performed and advance payments from customers for purchase of natural gas from the Group. Deferred income and advance received classified as non-current liabilities are government grants of HK$5,652,000 (2015: HK$6,034,000) received by the Group, and will be released to profit or loss when the related costs (for which the grants are intended to compensate) are recognised in profit or loss.

As at 31st December, 2016, included in other payables and accrued charges are (i) deposits received from customers in relation to gas supply business of HK$43,433,000 (2015: HK$48,160,000); (ii) accrued expenses of HK$32,445,000 (2015: HK$36,250,000); (iii) unsettled consideration for the acquisition of assets and liabilities through acquisition of a subsidiary of RMB600,000, equivalent to HK$671,000 (2015: RMB2,600,000, equivalent to HK$3,103,000); and (iv) unsettled consideration for the acquisition of subsidiaries of RMB51,183,000, equivalent to HK$57,220,000 (2015: RMB20,650,000, equivalent to HK$26,176,000).

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Liquidity

As at 31st December, 2016, the total assets of the Group increased by approximately HK$914,354,000 or 10.5% to HK$9,623,663,000 (2015: HK$8,709,309,000).

As at 31st December, 2016, the Group has net current liabilities of approximately HK$1,055,376,000 (2015: HK$677,454,000). It was mainly due to increase in consideration payable which are repayable within one year.

As at 31st December, 2016, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 0.6 (2015: 0.7).

As at 31st December, 2016, the total borrowings and obligations under finance lease increased slightly by approximately HK$33,049,000 or 0.8% to HK$4,424,525,000 (2015: HK$4,391,476,000).

As at 31st December, 2016, the Group had total net debts of approximately HK$3,645,010,000 (2015: HK$3,312,262,000), measured as total borrowings and obligations under finance lease minus the bank balances and cash and pledged bank deposits. As at 31st December, 2016, the Group had net gearing ratio of approximately 129.9% (2015: 145.8%), measured as total net debts to total equity of approximately HK$2,805,931,000 (2015: HK$2,272,394,000).

Financial resources

During the year, the Group entered into several loan agreements with several banks in Hong Kong, pursuant to which loan facilities of up to US$176,460,000 and CNH1,597,902,000 in total were made available to the Group. The net loan proceeds are used for refinancing the existing indebtedness of the Group, financing the working capital and capital expenditure of the Group.

During the year ended 31st December, 2016, the Group generally financed its operations with internally generated resources and bank and other borrowings. As at 31st December, 2016, all of the bank and other borrowings were secured or unsecured and on normal commercial basis.

Working capital

In view of the Group's current financial and liquidity positions and in the absence of unforeseen circumstances, the Directors are of the opinion that the Group has sufficient working capital for its requirements.

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

During the year, the Group's monetary assets and liabilities are principally denominated in either Renminbi ("RMB") or the United States dollars and the Group conducted its business transactions principally in RMB. In August 2015, the People's Bank of China announced a new mechanism to determine the RMB reference rate and RMB depreciated since then. This led to a significant exchange loss arising from the Group's bank borrowings denominated in United States dollars. In August 2016, the Group strategically performed a loan restructuring and a dual-currency syndicated loan facility of CNH1,597,902,000 and US$121,460,000 was arranged. Such loan restructuring results in a natural hedge effect to reduce currency exposure and maintains a more stable financial position for the Group. As at 31st December, 2016, the Group did not employ any financial instruments for hedging purposes.

EMPLOYEE INFORMATION

As at 31st December, 2016, the Group had a total of 3,342 employees (2015: 3,129) in Hong Kong and the PRC, and the total employee benefit expenses (other than directors) for the year was approximately HK$305,290,000 (2015: HK$224,400,000). The increase was mainly due to the increase in the number of headcount of the Group and salary increment. Around 99.7% of the Group's employees are located in the PRC.

The Group's remuneration and bonus policies are determined by the performance of individual employees.

The emoluments of the Directors are recommended by the Remuneration Committee of the Company, having regard to the Group's operating results, the Directors' duties and responsibilities within the Group and comparable market statistics.

Share option scheme

On 24th October, 2003, the Company adopted a share option scheme ("Old Share Option Scheme") pursuant to which the Directors were authorised to grant share option to its employees (including executive directors and employees of any of its subsidiaries) or any person who has contributed or will contribute to the Group. The Old Share Option Scheme was terminated and replaced by a new share option scheme ("New Share Options Scheme") on 3rd May, 2013 by an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 3rd May, 2013.

As at the date of this announcement, there were a total of 2,000,000 share options (as at the date of the annual report of the Company for the year ended 31st December, 2015: 2,000,000) outstanding under the Old Share Option Scheme, the full conversion of which will result in the issue of 2,000,000 ordinary shares in the Company, representing approximately 0.08% of the number of issued shares of the Company as at the date of this announcement (as at the date of the annual report of the Company for the year ended 31st December, 2015: 0.08%).

The New Share Option Scheme shall be valid and effective for a period of ten years commencing on 3rd May, 2013 and will expire on 2nd May, 2023. As at the date of this announcement, no share options have been granted under the New Share Option Scheme and the maximum number of share options which may be granted under the New Share Option Scheme is 252,400,768. These share options, if granted and converted in full, represent approximately 9.996% of the number of issued shares of the Company as at the date of this announcement (as at the date of the annual report of the Company for the year ended 31st December, 2015: 9.996%).

Under the New Share Option Scheme, the Directors may offer to any employees or any eligible person, who has made or will make contributions to the Group, share options to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme. The exercise price is determined by the Directors, and shall not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

On 11th April, 2011, share options to subscribe for an aggregate of 159,000,000 ordinary shares at par value HK$0.01 each of the Company were granted to the eligible participants by the Company pursuant to the Old Share Option Scheme. The exercise price of share options granted was HK$0.49 per share. The share options granted shall be valid for a period of ten years from the date of grant. No share options were exercised during the year.

The following table discloses movements of the Company's share options granted under the Old Share Option Scheme and movements in such holdings during the year:

				Number of share options				
Name of Directors	**Date of grant**	**Exercise/vesting period**	**Exercise price** *HK$*	**Outstanding at 1st January, 2016**	**Granted during the year under review**	**Exercised during the year under review**	**Lapsed/ Cancelled during the year under review**	**Outstanding at 31st December, 2016**
Xu Yongxuan	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	1,000,000	–	–	–	1,000,000
Luo Yongtai	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	1,000,000	–	–	–	1,000,000
				2,000,000	–	–	–	2,000,000
Exercisable at the end of the period								2,000,000
Weighted average exercise price				HK$0.49	–	–	–	HK$0.49

The closing price of the Shares on 8th April, 2011 was HK$0.48, which was the business date immediately before the date on which the share options were granted on 11th April, 2011.

Save as disclosed above, at no time during the year under review was the Company, its subsidiaries, its ultimate holding company or any subsidiaries of its ultimate holding company a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CHARGE ON THE GROUP'S ASSETS

As at 31st December, 2016, the Group has pledged certain buildings in the PRC having carrying value of HK$2,807,000 (2015: HK$3,147,000) to secure a bank borrowing granted to the Group.

As at 31st December, 2016, the Group has pledged certain prepaid lease payments in the PRC having carrying value of HK$46,225,000 (2015: HK$44,660,000) to secure certain bank borrowings granted to the Group.

As at 31st December, 2016, pledged bank deposits of RMB10,353,000 (equivalent to HK$11,574,000) are used to secure the short-term general banking facilities granted to the Group.

As at 31st December, 2015, pursuant to a letter of undertaking, the Group was required to maintain a deposit of RMB80,000,000 (equivalent to HK$95,488,000) with a bank as a condition precedent to a short-term bank borrowing. The pledged bank deposit was released during the year ended 31st December, 2016 upon settlement of the relevant bank borrowing.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 31st December, 2016, the Board did not have any specific plans for material investment or capital assets.

CAPITAL COMMITMENTS

As at 31st December, 2016, the capital expenditure in respect of the acquisition of property, plant and equipment and prepaid lease payments contracted for but not provided in the consolidated financial statements is HK$76,859,000 (2015: HK$77,771,000).

CONTINGENT LIABILITIES

As at 31st December, 2016, the Group did not have any contingent liabilities (2015: nil).

BUSINESS REVIEW

During the year, the Group was principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, distribution of piped gas to residential, industrial and commercial users; and (ii) the construction and operation of CNG/LNG vehicle filling stations in the PRC.

Downstream Piped Gas Distribution

Yueqing Project

On 8th July, 2016, the Group entered into an agreement with the Bureau of Urban Utilities and Landscaping of Yueqing City (authorized by People's Government of Yueqing City of Zhejiang Province of China) in respect of the proposed development for constructing and operating piped natural gas project exclusively in certain area in Yueqing City, Zhejiang Province, the PRC.

樂清中裕燃氣有限公司 (Yueqing Zhongyu Gas Company Limited) ("Yueqing Zhongyu"), of which the Group holds a 85% interest, was established to engage in the aforesaid project. The registered capital of Yueqing Zhongyu is RMB50,000,000. Yueqing Zhongyu obtained the concession right from local authorities of Yueqing City to operate the sales and distribution of natural gas in certain areas of Yueqing City. The concession right is for a period of 28 years and the Group has been granted exclusive operations since 8th July, 2016.

Yueqing City is a major industrial city. After thirty years of rapid development, two industrial zones along 104 National Highway and the coastline were formed, which host companies engaged in a dozen special advantageous industries such as industrial appliances, electronic components, shipbuilding, drill, clothing, mold and automobile and motorcycle parts. Yueqing City was ranked 25th in the Top 100 Counties of China, with a relatively strong economic development. In 2015, the city's GDP amounted to RMB76.682 billion and the GDP per capita (according to household population) amounted to RMB59,728. The project area covers 16 towns in Yueqing City, with the size of approximately 700 km^2, accounting for approximately 60% of the total area of the city. The population in the project area is around 0.8 million in total. The expected number of residential households is approximately 0.2 million.

Sihong Wojin Project

In October 2016, the Group acquired 100% interest of 泗洪沃金燃氣有限公司 (Sihong Wojin Gas Company Limited) ("Sihong Wojin").

The registered capital of Sihong Wojin is RMB10,000,000. In August 2013, Sihong Wojin and Bureau of Housing and Urban-Rural Development of Sihong County entered into the "Urban Piped Natural Gas Concession Agreement", pursuant to which Sihong Wojin enjoys the pipeline gas concession rights of the mechanical parts manufacturing industrial park of Sihong County, Jiangsu Province, and is responsible for the pipeline gas development and operation of the mechanical parts manufacturing industrial park of Sihong County. The concession is valid for 30 years starting from 13th August, 2013 to 13th August, 2043.

The mechanical parts manufacturing industrial park of Sihong County was established in October 2005, and has been approved as the "National Small Enterprise Innovation Demonstration Base" by Ministry of Industry and Information Technology in 2015. The planning area of the park is 20 km^2, with 9 km^2 of built-up area. It has a unique geographical advantage with three main roads connecting to the Ning-Su-Xu Expressway and Ning-Xu Provincial Highway, and the 245 Provincial Highway passes the park.

At present, the park has 116 enterprises. Its leading industries formed six major production areas including CNC machine tools, air compressors, diesel engines, mechanical parts, molds and metal materials. The park also has the only mechanical parts inspection agency with statutory qualifications in Jiangsu Province.

Henan Yicheng Dayou Project

In November 2016, the Group acquired 70% interest in 河南怡誠大有燃氣有限公司(Henan Yicheng Dayou Gas Company Limited)("Henan Yicheng Dayou").

The registered capital of Henan Yicheng Dayou is RMB50,000,000. On 4th June, 2016, Gongyi Municipal Government and Henan Yicheng Dayou entered into the "Urban Piped Gas Concession Agreement", pursuant to which Gongyi Municipal Government granted Henan Yicheng Dayou the pipeline gas concession rights of the administrative region of Huiguo Town, Gongyi City. The concession is valid for 30 years starting from 4th June, 2016 to 3rd June, 2046.

Huiguo Town is one of the largest aluminum plate and foil processing bases in China, with the total economic output ranking first in the township of Henan Province. In 2016, the industry output value of Huiguo Town reached RMB65 billion, with the fiscal revenue of RMB211 million. Henan Yicheng Dayou mainly supplies natural gas for industrial and commercial customers and residential households in the administrative region of Huiguo Town. As of 31st December, 2016, approximately 36 kilometres of medium-pressure pipelines has been established within the region, and above 800 residential households and more than 30 industrial customers have been connected. After July 2016, under the "Gasification of Gongyi" requirements of Gongyi Municipal Government and relevant departments, coal-fired boiler will be banned within the region, and the natural gas consumption may be further increased in the region of Huiguo Town.

New CNG/LNG Vehicle Filling Stations Expansion

In 2016, the Group slowed down the expansion of CNG/LNG vehicle filling stations as the price of crude oil remained at low. During the financial year, 6 new CNG/LNG vehicle filling stations were put into operation.

Major Operational Data

The downstream natural gas distribution business of the Group primarily comprises sales of piped gas, gas pipeline construction and sales of natural gas from CNG/LNG vehicle filling stations.

The major operational data of the Group for the year together with the comparative figures for the corresponding period last year are as follows:

	2016	2015	Increase/ (Decrease)
Number of operational locations *(Note a)*	**55**	52	3
– Henan Province	**22**	21	1
– Hebei Province	**15**	15	–
– Jiangsu Province	**6**	5	1
– Shandong Province	**4**	4	–
– Jilin Province	**2**	2	–
– Fujian Province	**1**	1	–
– Heilongjiang Province	**1**	1	–
– Zhejiang Province	**2**	1	1
– Anhui Province	**2**	2	–
Connectable urban population ('000) *(Note b)*	**10,652**	10,073	5.7%
Connectable residential households ('000)	**3,043**	2,878	5.7%
New piped gas connections by the Group made during the year			
– Residential households	**260,187**	160,794	61.8%
– Industrial customers	**368**	166	121.7%
– Commercial customers	**1,197**	656	82.5%
Accumulated number of connected piped gas customers			
– Residential households	**1,844,870**	1,584,683	16.4%
– Industrial customers	**1,171**	803	45.8%
– Commercial customers	**6,056**	4,859	24.6%
Penetration rate of residential pipeline connection *(Note c)*	**60.6%**	55.1%	5.5%
Unit of piped natural gas sold ('000 m^3)	**886,809**	626,392	41.6%
– Residential households	**212,753**	149,042	42.7%
– Industrial customers	**551,619**	376,109	46.7%
– Commercial customers	**99,167**	74,219	33.6%
– Wholesale customers	**23,270**	27,022	(13.9)%

	2016	2015	Increase/ (Decrease)
Number of CNG/LNG Vehicle Filling Stations			
– Accumulated	**60**	54	6
– Under construction	**19**	24	(5)
Unit of natural gas sold to vehicles ('000 m^3)	**99,125**	95,949	3.3%
Total length of existing intermediate and main pipelines (km)	**10,538**	9,067	16.2%
Average selling price of natural gas (pre-tax) (RMB per m^3)			
– Residential households	**2.17**	1.99	9.0%
– Industrial customers	**2.35**	2.79	(15.8)%
– Commercial customers	**2.68**	3.04	(11.8)%
– Wholesale customers	**1.67**	2.16	(22.7)%
– CNG/LNG vehicle filling stations	**2.92**	3.46	(15.6)%
Average cost of natural gas (RMB per m^3)	**1.99**	2.29	(13.1)%
Average connection fee for residential households (RMB)	**2,543**	2,819	(9.8)%

Note a: The number of operational locations represents the gas projects with exclusive rights which are operated by the Group in different cities and regions in the PRC.

Note b: The information is quoted from the website of PRC government. The increase in connectable urban population is due to the increase in urban area and jurisdictional region of the cities.

Note c: The penetration rates of residential pipeline connection represented by the percentage of the accumulated number of the Group's connected residential households to the estimated aggregate number of connectable residential households in its operation regions.

FINANCIAL REVIEW

Overall

The Group's gross profit for the year ended 31st December, 2016 increased by approximately 28.4% to HK$1,008,009,000 (2015: HK$784,833,000), as a result of increase in (i) new household connections and (ii) piped natural gas sales volume.

The Group's profit attributable to owners of the Company increased significantly by 120.7% to HK$206,150,000 (2015: HK$93,390,000). Such improvement was mainly attributable to an increase in turnover, a full year's financial consolidation of Harmony Gas Holdings Limited ("Harmony Gas") and better management of some foreign exchange risks.

Excluding the net foreign exchange loss of HK$138,173,000 (2015: HK$164,899,000), adjusted profit attributable to owners of the Company would amount to HK$344,323,000 (2015: HK$258,289,000).

Turnover

An analysis of the Group's turnover by products and services for the year, together with the comparative figures for the corresponding period last year are as follows:

	Year ended 31st December				
		%		%	Increase/
	2016	**of total**	2015	of total	(Decrease)
	HK$'000		*HK$'000*		
Sales of Piped Gas	**2,460,609**	**66.1%**	2,098,195	64.0%	17.3%
Connection revenue from Gas Pipeline Construction	**897,306**	**24.1%**	748,185	22.9%	19.9%
Operation of CNG/LNG Vehicle Filling Stations	**337,574**	**9.1%**	413,612	12.6%	(18.4)%
Sales of Stoves and Related Equipment	**21,384**	**0.6%**	16,052	0.5%	33.2%
Sub-total	**3,716,873**	**99.9%**	3,276,044	100.0%	13.5%
Sales of Liquefied Petroleum Gas	**5,634**	**0.1%**	622	0.0%	805.8%
Total	**3,722,507**	**100%**	3,276,666	100%	13.6%

The turnover for the year amounted to approximately HK$3,722,507,000 (2015: HK$3,276,666,000). The continuous growth in sales of piped gas to residential customers and connection revenue from gas pipeline construction were partly offset by the decrease in sales of natural gas from CNG/LNG vehicle filling stations. Moreover, due to RMB depreciation, the turnover was translated to Hong Kong dollars at a lower average exchange rate, which further abated the growth of turnover.

Sales of Piped Gas

Sales of piped gas for the year ended 31st December, 2016 amounted to approximately HK$2,460,609,000, representing an increase of approximately 17.3% over the corresponding period last year.

Sales of piped gas for the year contributed approximately 66.1% of the total turnover of the Group. As compared with the percentage of approximately 64.0% during the corresponding period last year, sales of piped gas continued to be the major source of turnover for the Group. The following table set forth the breakdown of sales of piped gas by customers.

Sales of piped gas by customers:

	Year ended 31st December,				
	2016	**% of total**	2015	% of total	Increase/ (Decrease)
	HK$'000		*HK$'000*		
Industrial customers	**1,550,468**	**63.0%**	1,354,493	64.6%	14.5%
Residential households	**552,397**	**22.5%**	388,074	18.5%	42.3%
Commercial customers	**312,291**	**12.7%**	282,934	13.5%	10.4%
Wholesale customers	**45,453**	**1.8%**	72,694	3.4%	(37.5)%
Total	**2,460,609**	**100%**	2,098,195	100%	17.3%

Industrial customers

The sales of piped gas to the Group's industrial customers for the year increased by 14.5% to approximately HK$1,550,468,000 from approximately HK$1,354,493,000 for the corresponding period last year. During the year, the Group connected 368 new industrial customers. On 20th November, 2015, the National Development and Reform Commission (the "NDRC") of the PRC lowered the maximum city-gate prices of natural gas for non-residential users. The Group passed through the decreased cost to its non-residential users. The average selling price of natural gas for industrial customers was decreased by 15.8% to RMB2.35 per m^3 (2015: RMB2.79 per m^3) when compared to the corresponding period last year. The lower gas price provided a stronger incentive for non-residential users to use natural gas and allowed the Group to obtain new industrial and commercial customers, which boosted the gas sales volume of the Group. During the year, the piped natural gas usage provided by the Group to its industrial customers increased by 46.7% to approximately 551,619,000 m^3 (2015: 376,109,000 m^3).

The sales of piped gas to its industrial customers for the year contributed approximately 63.0% of the total sales of piped gas of the Group. As compared with the percentage of approximately 64.6% during the corresponding period last year, it continued to be the major source of sales of piped gas of the Group.

Residential households

The sales of piped gas to its residential households for the year increased by 42.3% to approximately HK$552,397,000 from approximately HK$388,074,000 for the corresponding period last year. The growth in sales of piped gas to residential households was supported by the growth in population due to urbanization in the Group's existing project cities in the PRC and the consolidation of turnover of Harmony Gas, which has become a subsidiary of the Group since 8th December, 2015. During the year, the Group provided new natural gas connections for 260,187 residential households and the piped natural gas usage provided by the Group to residential households was approximately 212,753,000 m^3 (2015: 149,042,000 m^3).

The sales of piped gas to its residential households for the year contributed approximately 22.5% of the total sales of piped gas of the Group (2015: 18.5%).

Commercial customers

In addition to fulfilling the demand of residential customers for natural gas, the Group stepped up its gas connection for commercial customers. The sales of piped gas to its commercial customers for the year increased by 10.4% to approximately HK$312,291,000 from approximately HK$282,934,000 for the corresponding period last year. The sales of piped gas to its commercial customers for the year contributed approximately 12.7% of the total sales of piped gas of the Group (2015: 13.5%). During the year, the Group connected 1,197 new commercial customers. As at 31st December, 2016, the number of commercial customers of the Group reached 6,056, representing an increase of approximately 24.6% as compared with 4,859 customers as at 31st December, 2015.

The average selling price of natural gas for commercial customers was reduced by 11.8% to RMB2.68 per m^3 (2015: RMB3.04 per m^3) when compared to the corresponding period last year. The increase in gas consumption of commercial customers by 33.6% to approximately 99,167,000 m^3 (2015: 74,219,000 m^3), which was mainly contributed by Harmony Gas, drove the piped gas sales increment.

Gas Pipeline Construction

Connection revenue from gas pipeline construction for the year ended 31st December, 2016 amounted to approximately HK$897,306,000, representing an increase of approximately 19.9% over the corresponding period last year. The following table set forth the breakdown of connection revenue from gas pipeline construction by customers.

Connection revenue from gas pipeline construction by customers

	Year ended 31st December,				
	2016	**% of total**	2015	% of total	Increase/ (Decrease)
	HK$'000		*HK$'000*		
Residential households	**772,735**	**86.1%**	563,019	75.3%	37.2%
Non-residential customers	**124,571**	**13.9%**	185,166	24.7%	(32.7)%
Total	**897,306**	**100%**	748,185	100%	19.9%

During the year, connection revenue from gas pipeline construction for residential households increased by 37.2% to approximately HK$772,735,000 from approximately HK$563,019,000 for the corresponding period last year. The increase in connection revenue from gas pipeline construction for residential households was mainly attributable to the increase in construction work for gas pipeline connection completed by the Group for residential households to 260,187 from 160,794 for the corresponding period last year.

The connection fee charged to industrial/commercial customers by the Group was significantly higher than that charged to residential households and was determined on a case-by-case basis. During the year, connection revenue from gas pipeline construction for non-residential customers decreased by 32.7% to approximately HK$124,571,000 from approximately HK$185,166,000 for the corresponding period last year. In consideration of the current economic environment in the PRC, the non-residential customers were more prudent when negotiating the gas pipeline construction contracts.

As at 31st December, 2016, the Group's penetration rates of residential pipeline connection amounted to 60.6% (2015: 55.1%) (represented by the percentage of the accumulated number of the Group's connected residential households to the estimated aggregate number of connectable residential households in its operation regions). In view of the rapid growth of the population in urban areas due to urbanization, the Group will continue to increase its market coverage by active acquisition when suitable opportunities arise.

Operation of CNG/LNG Vehicle Filling Stations

International crude oil prices remained at a low level since late 2014, resulting in the shrinkage of the comparative advantage of CNG/LNG vehicle filling stations in short term. Revenue from operating CNG/LNG vehicle filling stations for the year ended 31st December, 2016 amounted to approximately HK$337,574,000, representing a decrease of approximately 18.4% over the corresponding period last year. The average selling price of natural gas for CNG/LNG vehicle filling stations was reduced by 15.6% to RMB2.92 per m^3 (2015: RMB3.46 per m^3) when compared to the corresponding period last year. The unit of natural gas sold to vehicles slightly increased by 3.3% to approximately 99,125,000 m^3 for the year ended 31st December, 2016 from approximately 95,949,000 m^3 for the corresponding period last year.

During the year, the turnover derived from operating CNG/LNG vehicle filling stations accounted for approximately 9.1% of the total turnover of the Group. As at 31st December, 2016, the Group had 60 CNG/LNG vehicle filling stations and commenced building an additional 19 CNG/LNG vehicle filling stations in the PRC. It is targeted that all new CNG/LNG vehicle filling stations will commence operation in 2017 or 2018.

Gross profit margin

The overall gross profit margin for the year ended 31st December, 2016 was approximately 27.1% (2015: 24.0%). The gross profit margin for the sales of piped natural gas was 17.3% (2015: 15.6%); for the gas pipeline construction was 64.1% (2015: 58.7%); and for the operation of CNG/LNG vehicle filling stations was 6.3% (2015: 14.1%).

The increase in the gross profit margin for the sales of piped natural gas was mainly due to decrease in upstream natural gas price and overhead costs, such as direct labour costs and depreciation. The increase in the gross profit margin for the connection revenue from gas pipeline construction was mainly due to the decrease in the average construction cost. The decrease in the gross profit margin for the operation of CNG/LNG vehicle filling stations was mainly due to reduction of average selling price in current year, as a result of keen competition.

Other gains and losses

The Group recognised other net loss of HK$158,104,000 in 2016 (2015: HK$73,633,000). The amount mainly represented (i) net foreign exchange loss of HK$138,173,000 (2015: HK$164,899,000) and (ii) impairment loss on amounts due from customers for contract work of HK$27,010,000 (2015: reversal of impairment loss of HK$1,085,000). In 2015, there was one-off gain on obtaining control over Harmony Gas and its subsidiaries of HK$86,749,000. No such gain was noted in 2016.

Other income

Other income decreased to approximately HK$42,389,000 in 2016 from approximately HK$46,050,000 in 2015. The balance in 2016 represented the bank interest income of approximately HK$7,432,000 (2015: HK$6,924,000), interest income on amount due from an associate of approximately HK$4,045,000 (2015: nil), government subsidies of approximately HK$8,087,000 (2015: HK$3,411,000), interest income from investments in life insurance contracts of approximately HK$2,704,000 (2015: HK$2,376,000) and sundry income of approximately HK$20,121,000 (2015: HK$12,686,000). In 2015, there was interest income on amount due from a joint venture of HK$20,653,000. No such income was recognised in 2016.

Selling and distribution costs and administrative expenses

Selling and distribution costs increased by 24.3% to approximately HK$88,955,000 in 2016 from approximately HK$71,565,000 in 2015. Administrative expenses increased by 31.5% to approximately HK$275,220,000 in 2016 from approximately HK$209,334,000 in 2015. The increase was mainly attributable to (i) ascending staff costs and related expenses as a result of increased salary and number of headcount; and (ii) the consolidation of selling and distribution costs and administrative expenses of Harmony Gas.

Finance costs

Finance costs increased by 119.8% to approximately HK$252,495,000 in 2016 from approximately HK$114,866,000 in 2015. The increase was mainly attributable to (i) the increase in average bank and other borrowings, (ii) amortisation on loan facilities fees regarding to bank borrowings and (iii) imputed interest on consideration payable.

Income tax expenses

Under the Law of the PRC on the EIT Law and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries had no assessable profits arising in Hong Kong for both years.

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2016, withholding tax amounting to HK$9,620,000 (2015: HK$12,991,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities in previous and current years.

Accordingly, the income tax expenses in 2016 amounted to approximately HK$191,318,000 (2015: HK$157,637,000).

Earnings from continuing operations before finance costs, taxation, depreciation, amortisation and foreign exchange gain/loss ("EBITDA")

The Group's EBITDA was approximately HK$899,586,000 in 2016, representing an increase of 16.3% as compared with that of approximately HK$773,241,000 in 2015.

Profit attributable to owners of the Company

As a result of the above, profit attributable to owners of the Company was approximately HK$206,150,000 in 2016, representing an increase of 120.7% as compared with that of approximately HK$93,390,000 in 2015.

Excluding the net foreign exchange loss of HK$138,173,000 (2015: HK$164,899,000), adjusted profit attributable to owners of the Company would amount to HK$344,323,000 (2015: HK$258,289,000).

Net Profit Margin

For the year ended 31st December, 2016, the net profit margin, representing a ratio of profit attributable to owners of the Company to turnover, was approximately 5.5% (2015: 2.9%).

Earnings per share

The basic and diluted earnings per share attributable to the owners of the Company were HK8.16 cents and HK8.16 cents respectively in 2016, as compared with that of HK3.70 cents and HK3.70 cents respectively in 2015.

Net assets value per share

The net assets value per share attributable to the owners of the Company was HK$1.01 in 2016 (2015: HK$0.79).

The net assets value represents total assets minus total liabilities.

DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at 31st December, 2016, the interests and short positions of the Directors of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

Long positions in the Shares of the Company

Name of Directors	*Notes*	**Number of Shares and/or underlying Shares**	**Type of Interests**	**Approximate percentage of issued share capital** *(Note 4)*
Mr. Wang Wenliang	*1*	592,483,542	Beneficial/Interest in controlled corporation/ Interest of spouse	23.46%
Mr. Xu Yongxuan	*2*	1,000,000	Beneficial	0.04%
Mr. Lui Siu Keung	*3*	6,000,000	Beneficial	0.24%
Mr. Lu Zhaoheng	*3*	3,000,000	Beneficial	0.12%
Mr. Li Chunyan	*3*	1,000,000	Beneficial	0.04%
Mr. Luo Yongtai	*2*	1,000,000	Beneficial	0.04%

Notes:

1. Among these shares and/or underlying shares, 567,453,542 shares are held by Hezhong Investment Holding Company Limited ("Hezhong"). Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong. The remaining 16,112,000 shares and 8,918,000 shares are directly held by Mr. Wang Wenliang and his spouse respectively.

2. These underlying shares are to be allotted and issued upon exercise of the rights attaching to the share options at an exercise price of HK$0.49 per share under the share option scheme adopted by the Company on 24th October, 2003.

3. The shares are directly held by the director.

4. As at 31st December, 2016, the total number of issued shares of the Company was 2,525,007,684.

Save as disclosed above, as at 31st December, 2016, none of the Directors of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be 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 (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at 31st December, 2016, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Long positions in the Shares of the Company

Name of Shareholder	*Notes*	**Type of interests**	**Number of Shares**	**Approximate percentage of interests** *(Note 4)*
China Gas Holdings Limited	*1*	Interest of controlled corporation	1,111,934,142	44.04%
Rich Legend International Limited	*1*	Beneficial	1,111,934,142	44.04%
Hezhong	*2*	Beneficial	567,453,542	22.47%
Ms. Feng Haiyan	*3*	Beneficial/ Interest of spouse	592,483,542	23.46%

Notes:

1. According to the disclosure of interests pages as shown in the website of the Stock Exchange as at 31st December, 2016, China Gas Holdings Limited controlled 100% of Rich Legend International Limited ("Rich Legend") and is therefore deemed to be interested in the 1,111,934,142 Shares held by Rich Legend. This does not include an interest in 568,619,542 Shares which, based on such disclosure are not held beneficially by Rich Legend but are held by Rich Legend in a capacity described as "Other" in the relevant disclosure of interests pages. Apart from the information ascertained in the disclosure of interest pages as shown in the website of the Stock Exchange, the Company has no further information.

2. Hezhong is beneficially interested in 567,453,542 shares. Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong respectively.

3. Ms. Feng Haiyan directly holds 8,918,000 shares and is deemed to be interested in 583,565,542 shares under the SFO as she is the spouse of Mr. Wang Wenliang.

4. As at 31st December, 2016, the total number of issued shares of the Company was 2,525,007,684.

Save as disclosed above, as at 31st December, 2016, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

COMPETING INTEREST

China Gas Holdings Limited is a substantial shareholder of the Company. For the reasons stated in the Transfer of Listing announcement of the Company dated 29 June 2012, the Board is of the view that in so far as the existing pipeline gas projects of the Group in the PRC are concerned, the Group and China Gas Holdings Limited are not competing with each other due to the nature of the natural gas industry in the PRC. However, there may be competition between the Group and China Gas Holdings Limited in relation to the construction and operation of gas stations in the PRC in the future depending on the direction and expansion of the Group's operations and business in the PRC.

Save as stated in the Transfer of Listing announcement of the Company dated 29th June, 2012 and as mentioned above, as far as the Directors are aware, during the period under review, none of the Directors, the management shareholders or substantial shareholders of the Company or their respective associates (as defined in the Listing Rules) had any interest in a business which competed with or might compete with the business of the Group.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules. During the period under review, the Company has complied with all the applicable code provisions under the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted and complied with the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, they have all confirmed their compliance with the required standard of dealings and the Model Code regarding securities transactions by Directors adopted by the Company.

AUDIT COMMITTEE

The Company's Audit Committee, comprising Mr. Li Chunyan, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, as the independent non-executive Directors, has reviewed with the Company's management the accounting principles and practices adopted by the Group and financial reporting matters including a review of the annual results of the Group for the year ended 31st December, 2016. There were no disagreements within the Audit Committee in relation to the accounting treatment adopted by the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year ended 31st December, 2016.

PUBLICATION OF INFORMATION ON THE WEBSITES OF HONG KONG EXCHANGES AND CLEARING LIMITED AND THE COMPANY

This announcement is required to be published on the website of The Hong Kong Exchanges and Clearing Limited ("HKEX") at www.hkex.com.hk under "Latest Listed Company Information" and the Company at www.zhongyugas.com under "Announcement" respectively. The annual report of the Company for the year ended 31st December, 2016 will be despatched to the shareholders in April 2017 and will be published on the websites of the HKEX and the Company accordingly.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes thereto for the year ended 31st December, 2016 as set out in this announcement (the "Preliminary Announcement") have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu 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 Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the Preliminary Announcement.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises of Mr. Wang Wenliang (Chairman), Mr. Lui Siu Keung (Chief Executive Officer) and Mr. Lu Zhaoheng, as the executive Directors, Mr. Xu Yongxuan (Vice-Chairman), as the non-executive Director and Mr. Li Chunyan, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen, as the independent non-executive Directors.

By Order of the Board
ZHONGYU GAS HOLDINGS LIMITED
Wang Wenliang
Chairman

Hong Kong, 22nd March, 2017