ENN 新奧

ENN Energy Holdings Limited

(Stock code: 2688)

A CLEAR VISION OF THE FUTURE

ANNUAL REPORT 2016

ENN = ENERGY + INNOVATION

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

Wang Yusuo (Chairman)
Cheung Yip Sang (Vice Chairman)
Sean S J Wang (Chief Executive Officer)
Han Jishen (President)
Wang Dongzhi

Non-executive Directors

Wang Zizheng

Independent Non-executive Directors

Ma Zhixiang
Yuen Po Kwong
Law Yee Kwan, Quinn *CPA*

Company Secretary

Wong Chui Lai *CPA*

Authorised Representatives

Wang Dongzhi
Wong Chui Lai *CPA*

Members of the Audit Committee

Law Yee Kwan, Quinn* *CPA*
Ma Zhixiang
Yuen Po Kwong

Members of the Remuneration Committee

Yuen Po Kwong*
Cheung Yip Sang
Ma Zhixiang
Law Yee Kwan, Quinn *CPA*

Members of the Nomination Committee

Wang Yusuo*
Cheung Yip Sang
Ma Zhixiang
Yuen Po Kwong
Law Yee Kwan, Quinn *CPA*

Members of the Risk Management and Internal Control Committee

Cheung Yip Sang*
Sean S J Wang
Han Jishen
Wang Zizheng
Ma Zhixiang
Yuen Po Kwong
Law Yee Kwan, Quinn *CPA*

Registered Office

Ugland House
P.O. Box 309
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Principal Place of Business in Hong Kong

Rooms 3101–04, 31st Floor
Tower 1, Lippo Centre
No. 89 Queensway
Hong Kong

Head Office in The PRC

Building A, ENN Industrial Park
Xinyuan DongDao Road
Economic and Technological
Development Zone
Langfang City
Hebei Province
The PRC

Principal Share Registrar and Transfer Office in the Cayman Islands

Royal Bank of Canada Trust Company
(Cayman) Ltd
4th Floor, Royal Bank House
24 Shedden Road
George Town
Grand Cayman KY1-1110
Cayman Islands
British West Indies

Hong Kong Branch Share Registrar and Transfer Office

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

Stock Exchange Listing

The Stock Exchange of Hong Kong Limited

Stock Code

2688

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
35th Floor One Pacific Place
No. 88 Queensway
Hong Kong

Legal Adviser

Woo, Kwan, Lee & Lo
26th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

Principal Bankers

China Construction Bank
Agricultural Bank of China
Bank of China (Hong Kong)
The Hongkong and Shanghai Banking Corporation

Website

www.ennenergy.com

E-mail address

enn@ennenergy.com

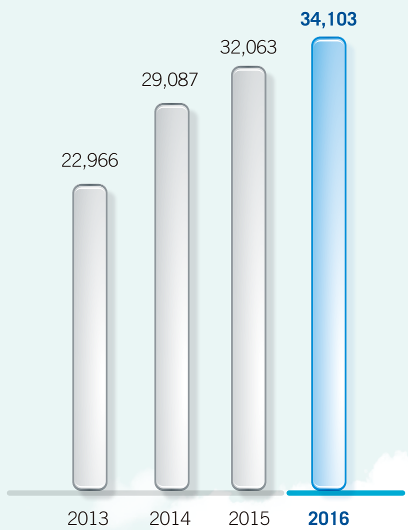
* Chairman of the relevant Board committees

OUR MISSION

PROMOTING CLEAN ENERGY, IMPROVING LIVING ENVIRONMENT, INCREASING SYSTEM EFFICIENCY, CREATING VALUE FOR CUSTOMERS.

CHAIRMAN'S STATEMENT

Total Revenue
RMB million

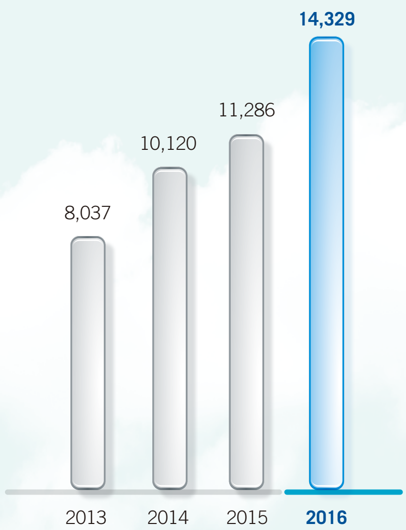


WANG Yusuo
Chairman

Results of the Year

In 2016, a volatile world economy began to show signs of a slow recovery. The Chinese economy entered a new normal, as it recorded GDP growth of 6.7% year-on-year. With the supply-side structural reform progressing at a steady pace, further improvements were made to the economic structure. The growth of the tertiary and high-tech industry accelerated, which provided fresh momentum for a sustained and healthy future growth of the economy. Natural gas became a more economical choice compared with the alternative energy, thanks to the gas price cut in November 2015 and the rebound in global oil prices. On top of that, the Chinese government enacted

Total Natural Gas Sales Volume
Million m³



more stringent environmental measures and stepped up its drive to promote coal-to-gas and oil-to-gas conversion with a view to improving air quality, which led to sustained improvements in the downstream gas demand. According to the National Development and Reform Commission ("NDRC"), China's apparent natural gas consumption amounted to 205.8 billion cubic metres in 2016, representing a year-on-year growth of 7%.

In the face of an ever-changing operating environment, the Group stood by its customer-oriented philosophy. Supported by its excellent operation campaign and driven by reforms and innovation, the Group went all out to tap the potential of its traditional businesses. It fully leveraged the internet and technological means to vigorously develop new businesses. Thanks to the concerted effort of its employees, the Group achieved all the business goals made at the beginning of the year. The Group's gas sales volume in 2016 reached 14,386 million cubic metres, representing an increase of 27.2% year-on-year. Natural gas sales volume in 2016 grew by 27.0% to 14,329 million cubic metres as compared with last year. During the year, the Group completed piped natural gas connection for 1,820,837 new residential households and 11,821 C/I customers (with total installed designed daily capacity of 12,574,005 cubic metres for new C/I customers). As of the end of 2016, the Group operated a total of 320 CNG refuelling stations and 277 LNG refuelling stations respectively. The Group was determined to expand the scope of its operations by acquiring 8 new projects and 12 new concessions nearby existing projects during the year. As of the end of 2016, projects of the Group in China covered a connectable population of 77.42 million.

The Group also expanded into new synergistic and value-added businesses. During the year, the sales volume of the Group's energy trading business reached 3,037 million cubic metres, representing a significant growth of 146.6% year-on-year. Revenue of sales of other energy, such as cooling, heating, steam and electricity, amounted to RMB153 million, representing a significant growth of 84.3% year-on-year. The Group utilised its existing customer base for the sales of gas appliances and generated revenue of RMB238 million, representing a significant increase of 72.5% year-on-year.

The Group also entered into long-term LNG Sale and Purchase Agreements with Total, Chevron Corporation and Origin Energy Limited, pursuant to which it will import a total of 1.43 million tonnes of LNG per year starting from 2018 or 2019. The Group strategically secured certain LNG supplies to provide long-term and stable support to the Group's core downstream business development.

For the year ended 31 December 2016, the Group's turnover was RMB34,103 million, representing an increase of 6.4% year-on-year. Gross profit margin and net profit margin of the Group were 21.6% and 8.5% respectively, up 0.2 percentage point and remain unchanged respectively over last year.

Stripping out the impact of RMB1,061 million from the items in other gains and losses and amortisation of share option expenses, profit increased by 17.3% compared to the corresponding period in 2015 to RMB3,212 million.

In recognition of the shareholders' support to the Company, the Board recommends a final dividend of HK$0.83 (equivalent to approximately RMB0.74) per share, payable to shareholders registered in the register of shareholders on 6 June 2017. The total amount of dividend would be approximately RMB799 million.

Stable and Sound Financial Position

As at 31 December 2016, the Group's total debts amounted to RMB16,791 million (2015: RMB15,680 million) and bank balances and cash for the purpose of computing net gearing ratio amounted to RMB7,163 million (2015: RMB7,355 million). The Group's net gearing ratio, i.e., the ratio of net debt to total equity (including non-controlling interests), was 53.9% (2015: 51.7%). In response to the risk of RMB depreciation, the Group early repaid a bank loan of USD114 million (equivalent to approximately RMB739 million). Furthermore, the Group also repurchased USD349 million in principal amount of the USD715 million 6% senior notes due 2021 in December 2016 and refinanced by RMB2.5 billion 3.55% bonds with a tenure of three years. In addition, the Company entered into structured foreign currency forward contracts with certain financial institutions to manage its foreign currency risk, based on current estimation, the foreign exchange exposure substantially reduced from RMB9,293 million to RMB3,258 million. The Group continued to maintain a sound financial position during the year. The credit rating agency Moody's has maintained a Baa3 investment-grade rating and a "positive" outlook on the Group. Meanwhile, Standard & Poor's and Fitch both maintained their BBB investment-grade ratings and "stable" outlook.

Establishing Customer-oriented and Platform-based Organisation

In order to support the sustained growth of the business in a market environment that is changing all the time, and to enhance the operational efficiency, the Group in 2016 hastened the pace of organisation reform and built a customer-oriented and platform-based organisation and operation system. Centred around "self-organisation, self-management, self-innovation and self-motivation", the Group advanced the set up of a customer-oriented and self-motivating platform-based organisation. The self-motivating mechanism that "sets customers at the centre of business and business at the centre of resources allocation" was established preliminarily with the aim of allocating resources based on customers' needs, and thus increased customer satisfaction. The operability of the smart enterprise was forged with advanced internet technologies – such as a sales operation platform, a construction visualisation platform, an integrated operation platform and a cloud data platform. That way, resources were allocated more efficiently, and costs were better controlled with multi-channel interaction with customers. In 2016, together with the growth of business, the growth of distribution, selling and administrative expenses was only 2.8%, a significant drop of 8.2 percentage points as compared with 2015.

Environmental, Social and Governance ("ESG")

For many years, the Group has considered harmonious development as its core values. It formulated a plan for sustainable corporate growth and adopted practical and effective measures. It never let up in its efforts in such areas as business development, safe operations, environmental protection and charity. In doing so, it achieved the goal of a "harmonious coexistence of energy development and the environment". The Group fully understands that the sustainable development of ESG aspects is crucial to its long term growth. For this reason, it attaches great importance to the social and environmental impact of its operations and at the same time established and optimised the operation system based on "health, safety and environment"; Production safety and staff health awareness is emphasised at every phase in the production and operation. Inspired by the needs of the customer, the Group never stops improving service awareness – and thus customer satisfaction, and it also gives back to society through charity and voluntary activities. Adhering to its mission of "promoting clean energy, improving living environment, increasing system efficiency, creating value for customers", the Group has built a modern energy system that is clean, low carbon, safe and efficient. Its ecological thinking centres around conducting business in a green way and conducting operations in a low-carbon way, so as to minimise the impact of its activities on the environment and natural resources. In future, the Group will carry on listening to the stakeholders and continue to enhance its ESG management with a view to maximising the long-term interests of itself and its shareholders, customers, employers and society.

Awards

The Group received the following honours in 2016:

➢ "2016 National May 1st Labour Certificate" awarded by All-China Federation of Trade Unions;

➢ "Best CFO" (ranked no.2 in power sector) and "Best Analyst Day" (ranked no.3 in power sector) in 2016 All-Asia Executive Team Ranking by Institutional Investor, a renowned international financial magazine;

➢ "China Top 500 in 2016" by Fortune Magazine; and

➢ "2015 Top 100 Listed Company in Hong Kong" organised by QQ.com and Finet.

The Group will spare no efforts to ensure that investors, employees and members of society can enjoy the fruits of its steady business development and enhancement of corporate governance.

Gas Industry Reform

In 2016, the Chinese government launched various policies to speed up the gas market reform, boost the development of the gas market and set out clear targets. In terms of price management, it published the "Notice on Stricter Price Control for Local Natural Gas Distribution and Reduction of Gas Consumption Costs of Enterprises". The Notice proposed a comprehensive price review of all sectors in the natural gas industry, a reduction of the excessive cost for provincial pipeline transmission and distribution, a decrease in the number of intermediaries and a standardisation of the collection of charges. On the other hand, the "Interim Administrative Measures for the Pricing of Natural Gas Pipeline Transmission" and "Interim Supervising Measures for the Cost Pricing of Natural Gas Pipeline Transmission" stipulated that the pipeline transmission price shall be determined by the government with a price cap, namely the sum of the cost of the pipeline transmission service and a permitted return based on a rate of 8% on top of the cost price and taxation. The measures propose that the cap be applied to the pipeline transmission fee for a regulatory term of maximum three years. In terms of market-oriented pricing, the "Notice on Clarifying Issues Related to Pricing Policy of Gas Storage Facilities" and "Notice on Taking Forward Market-Oriented Reform of Gas Pricing in the Chemical Fertiliser Sector" expressly provide for the full liberalisation of pricing of gas storage service and natural gas consumption in the chemical fertiliser sector. The "Notice on Issues Related to Natural Gas City-Gate Pricing in Fujian" proposes the trial market-oriented price reform at Fujian natural gas city-gate, where the price of West-to-East transmission is subject to negotiation between the suppliers and purchasers. The "Notice on Information Disclosure of Oil and Gas Pipeline Network Facilities" requires oil and gas companies to disclose information on oil and gas pipeline network facilities and terminals, thereby providing further policy support to speed up the third party access of mid-stream facilities. The recently published "Opinions on Accelerating the Promotion of Natural Gas Utilisation (for solicitation of opinions)" and "The 13th Five-year Plan on Natural Gas Development" served as the guiding framework for the orderly and steady development of the gas industry during the period of the 13th Five-year Plan, in which the government reiterates its target for the share of natural gas in primary energy consumption to reach 8 to 10% by 2020 and proposes a variety of measures to boost downstream demand and intensify industry reform.

In addition, as the Shanghai Petroleum and Natural Gas Exchange commenced operation on 26 November 2016 and the Chongqing Petroleum and Natural Gas Exchange was officially incorporated on 12 January 2017, the NDRC has taken an important step forward to boost natural gas trading and implement in-depth pricing reform. Such move has not only helped accelerate the setting of a fair market price for natural gas and the creation of suitable conditions for its liberalisation, but also strengthened the global influence of the domestic natural gas market, as its practice was in line with that of the international market. The Group is expected to secure diversified gas sources for its business development and at the same time obtain market information and enhance its influence in the industry through gas trading on the exchanges.

The acceleration of gas industry reform will be conducive to downstream market demand and cost reduction of gas source. It will also bring new business opportunities that create synergy with existing core businesses. The Group will continue to make strategic plans in advance based on the progress of the industry and market reform and steadily pursue business development by capitalising on the competitive price of natural gas and opportunities ushered in by policy support.

Outlook

Looking ahead, China will continue to step up its supply-side structural reform in 2017 while promoting the crafting of an ecological civilisation and a green, low-carbon energy strategy. As a result, the city-gas business, vehicle/ship refuelling business and distributed energy business all have room for growth. The Group will carry on developing its residential user base and exploring the potential of C/I customers in order to strengthen its city-gas business. It will improve its network and adopt innovative measures to enhance profitability of its vehicle/ship refuelling business. It will continue to expand its energy trading business and diversify its sources of gas supply on the back of its resources procurement capabilities and various trading platforms – such as the Company owned "Greatgas.cn" and equity investment in the Shanghai Petroleum and Natural Gas Exchange and the Chongqing Petroleum and Natural Gas Exchange. Seizing opportunities in the reform of the electricity market and leveraging the Group's customer base in the city-gas projects, the Group will push forward its distributed energy business and integrated energy sales business so as to realise its transition and upgrade from a gas distributor to an integrated energy supplier. The Group is confident that it can become a reputable integrated energy supplier through innovations of its business model and through upgrades to its pursuit of excellent operational. It will not cease to enhance its corporate value in order to create better returns for its shareholders.

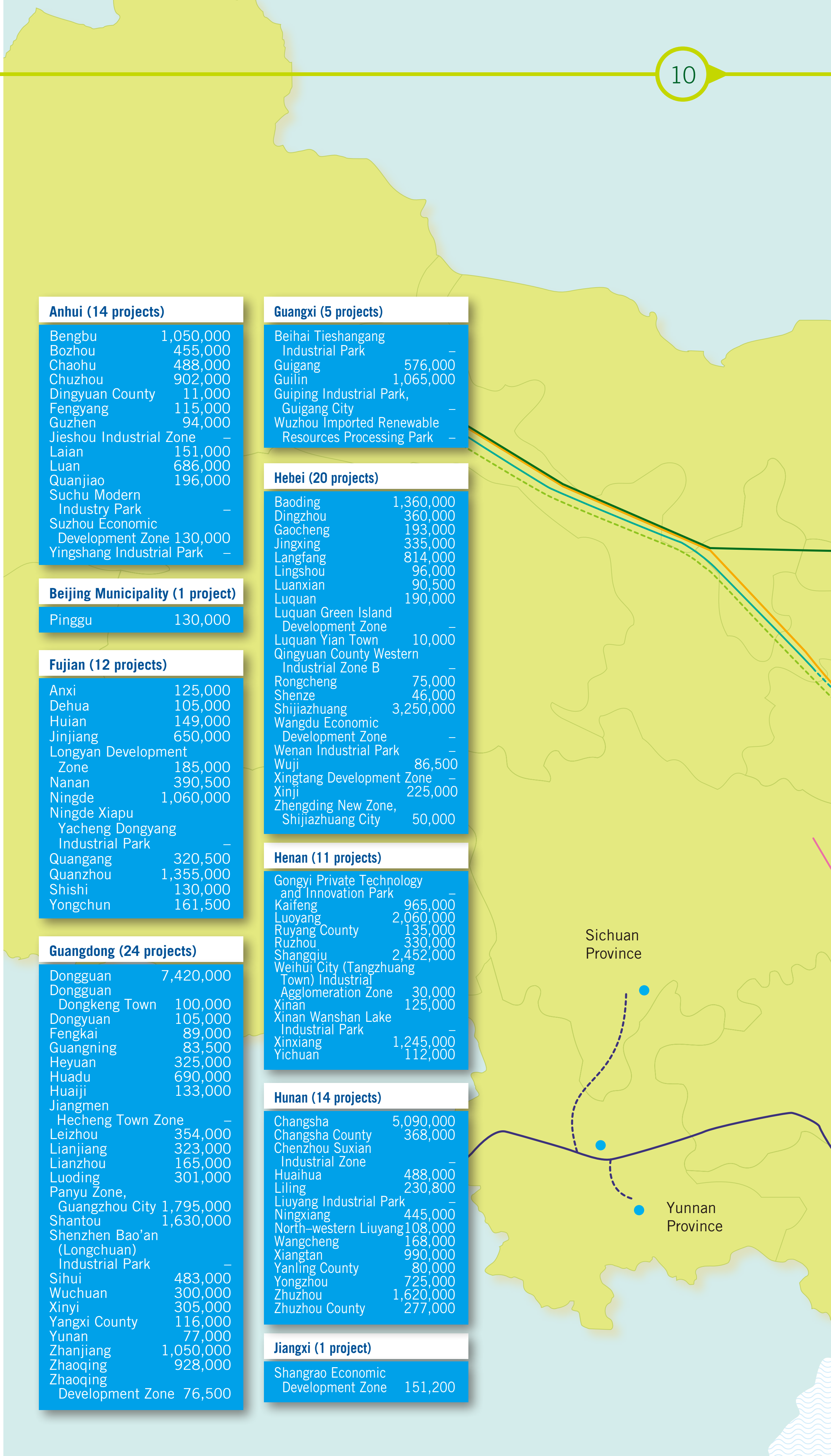
Acknowledgement

The Group's persistent rapid growth hinges on the continuous support from its customers, business partners, shareholders and its staff. On behalf of the board, I would like to express my most sincere gratitude to each of them.

Wang Yusuo
Chairman
21 March 2017

OPERATIONAL LOCATIONS IN CHINA

- West-to-East Pipeline I
- West-to-East Pipeline II
- West-to-East Pipeline III
- Shaanxi-Beijing Pipeline I
- Shaanxi-Beijing Pipeline II
- Shaanxi-Beijing Pipeline III
- Shaanxi-Beijing Pipeline IV (under construction)
- Hebei-Nanjing Pipeline
- Zhong-Wu Pipeline
- Yong-Tang-Qin Pipeline
- Qin-Shen Pipeline
- Sichuan-East Pipeline
- Tai-Qing-Wei Pipeline
- Hangzhou-Jiaxing Pipeline
- Hu-Hang-Yong Pipeline
- Yong-Tai-Wen Pipeline (under construction)
- China-Myanmar Pipeline
- China-Russia East Pipeline (under construction)
- Xinjiang-Guangdong-Zhejiang Coal to Gas Pipeline (under construction)
- Gas Project Managed by ENN
- LNG Import Terminal



Anhui (14 projects)	
Bengbu	1,050,000
Bozhou	455,000
Chaohu	488,000
Chuzhou	902,000
Dingyuan County	11,000
Fengyang	115,000
Guzhen	94,000
Jieshou Industrial Zone	–
Laian	151,000
Luan	686,000
Quanjiao	196,000
Suchu Modern Industry Park	–
Suzhou Economic Development Zone	130,000
Yingshang Industrial Park	–

Beijing Municipality (1 project)	
Pinggu	130,000

Fujian (12 projects)	
Anxi	125,000
Dehua	105,000
Huian	149,000
Jinjiang	650,000
Longyan Development Zone	185,000
Nanan	390,500
Ningde	1,060,000
Ningde Xiapu Yacheng Dongyang Industrial Park	–
Quangang	320,500
Quanzhou	1,355,000
Shishi	130,000
Yongchun	161,500

Guangdong (24 projects)	
Dongguan	7,420,000
Dongguan Dongkeng Town	100,000
Dongyuan	105,000
Fengkai	89,000
Guangning	83,500
Heyuan	325,000
Huadu	690,000
Huaiji	133,000
Jiangmen Hecheng Town Zone	–
Leizhou	354,000
Lianjiang	323,000
Lianzhou	165,000
Luoding	301,000
Panyu Zone, Guangzhou City	1,795,000
Shantou	1,630,000
Shenzhen Bao'an (Longchuan) Industrial Park	–
Sihui	483,000
Wuchuan	300,000
Xinyi	305,000
Yangxi County	116,000
Yunan	77,000
Zhanjiang	1,050,000
Zhaoqing	928,000
Zhaoqing Development Zone	76,500

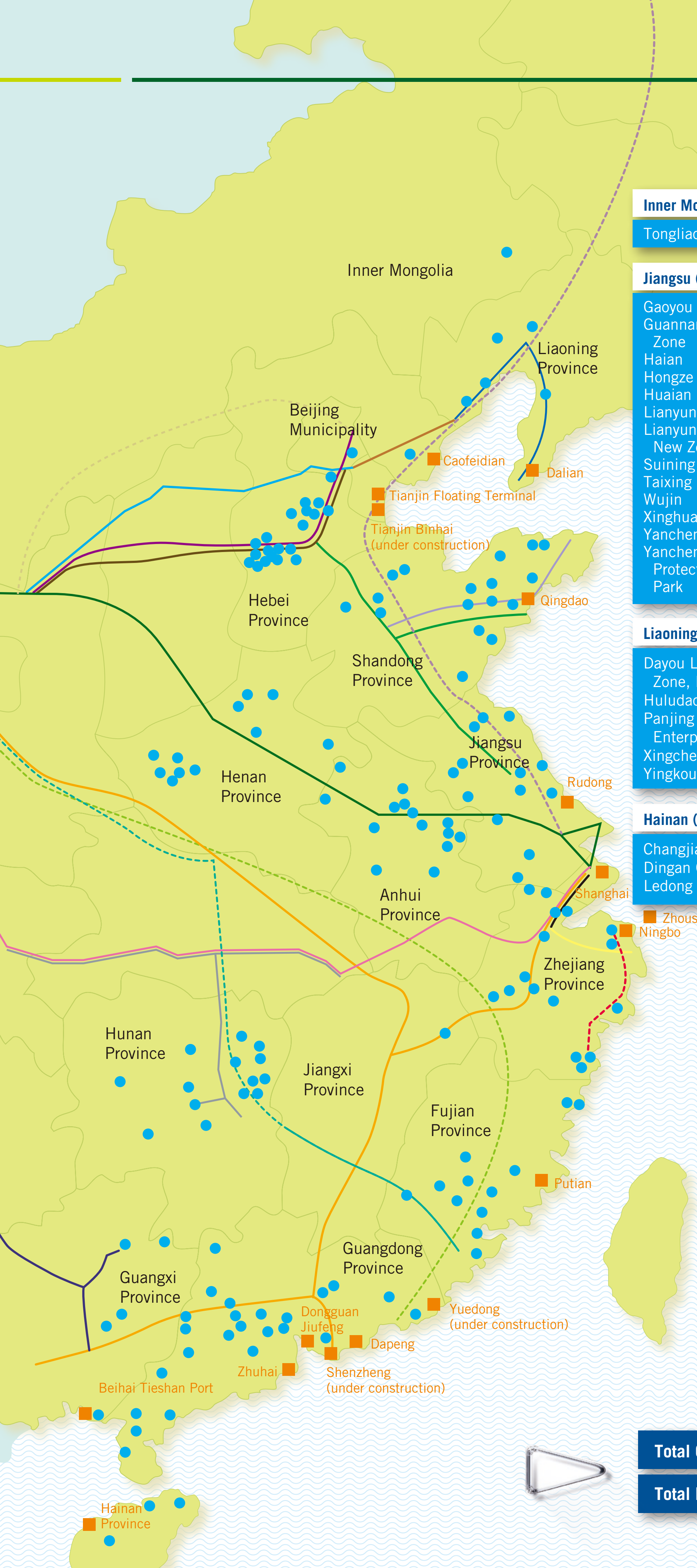
Guangxi (5 projects)	
Beihai Tieshangang Industrial Park	–
Guigang	576,000
Guilin	1,065,000
Guiping Industrial Park, Guigang City	–
Wuzhou Imported Renewable Resources Processing Park	–

Hebei (20 projects)	
Baoding	1,360,000
Dingzhou	360,000
Gaocheng	193,000
Jingxing	335,000
Langfang	814,000
Lingshou	96,000
Luanxian	90,500
Luquan	190,000
Luquan Green Island Development Zone	–
Luquan Yian Town	10,000
Qingyuan County Western Industrial Zone B	–
Rongcheng	75,000
Shenze	46,000
Shijiazhuang	3,250,000
Wangdu Economic Development Zone	–
Wenan Industrial Park	–
Wuji	86,500
Xingtang Development Zone	–
Xinji	225,000
Zhengding New Zone, Shijiazhuang City	50,000

Henan (11 projects)	
Gongyi Private Technology and Innovation Park	–
Kaifeng	965,000
Luoyang	2,060,000
Ruyang County	135,000
Ruzhou	330,000
Shangqiu	2,452,000
Weihui City (Tangzhuang Town) Industrial Agglomeration Zone	30,000
Xinan	125,000
Xinan Wanshan Lake Industrial Park	–
Xinxiang	1,245,000
Yichuan	112,000

Hunan (14 projects)	
Changsha	5,090,000
Changsha County	368,000
Chenzhou Suxian Industrial Zone	–
Huaihua	488,000
Liling	230,800
Liuyang Industrial Park	–
Ningxiang	445,000
North-western Liuyang	108,000
Wangcheng	168,000
Xiangtan	990,000
Yanling County	80,000
Yongzhou	725,000
Zhuzhou	1,620,000
Zhuzhou County	277,000

Jiangxi (1 project)	
Shangrao Economic Development Zone	151,200



Inner Mongolia (1 project)	
Tongliao	855,000

Jiangsu (13 projects)	
Gaoyou	288,000
Guannan Development Zone	158,000
Haian	320,000
Hongze	385,000
Huaian	1,850,000
Lianyungang	1,055,000
Lianyungang Xuyu New Zone	–
Suining Suburb	–
Taixing	335,000
Wujin	1,164,000
Xinghua	614,000
Yancheng	1,090,000
Yancheng Environmental Protection Industrial Park	–

Liaoning (5 projects)	
Dayou Linhai Economic Zone, Linghai City	58,000
Huludao	1,042,000
Panjing Chemical Enterprises Zone	–
Xingcheng	137,000
Yingkou Industrial Park	–

Hainan (3 projects)	
Changjiang County	136,000
Dingan County	108,000
Ledong County	145,000

Shandong (17 projects)	
Binzhou Zhanhua Economic Development Zone	–
Changle County	240,000
Changqing Zone, Jinan City	564,000
Chengyang	780,000
Huangdao	720,000
Jiaonan	605,000
Jiaozhou	594,000
Laiyang	318,000
Liaocheng	750,000
Qingdao Sino-German Ecopark	–
Rizhao	763,000
Rizhao Haiyou Economic Development Zone	–
Xintai City Development Zone	–
Yantai	1,980,000
Yantai Development Zone	–
Zhucheng	545,000
Zouping	241,000

Sichuan (1 project)	
Liangshan Prefecture	660,000

Yunnan (2 projects)	
Kunming City Hi-tech Zone	49,000
Wenshan	448,000

Zhejiang (16 projects)	
Haining	292,000
Haiyan	111,000
Huangyan	636,000
Huzhou	521,000
Jinhua	255,000
Lanxi	155,000
Longwan	361,000
Longyou	130,500
Nanxun	494,000
Ningbo (Yinzhou)	625,000
Ningbo Daxie Development Zone	–
Quzhou	380,000
Wenzhou	550,000
Wenzhou Wanquan Light Industrial Base	–
Xiaoshan	765,000
Yongkang	242,000

Total Connectable Population	:	**77,420,000**
Total Number of projects	:	**160**

PROJECT OPERATIONAL DATA

Operational location				
Province	**Project**	**Year of establishment**	**Length of existing pipelines (km)**	**No. of existing natural gas processing stations**
Anhui	Bengbu	2002	591	2
	Bozhou	2003	338	1
	Chaohu	2003	225	2
	Chuzhou	2002	645	2
	Dingyuan	2013	–	–
	Fengyang	2005	234	–
	Guzhen	2007	11	–
	Jieshou Industrial Zone	2012	38	–
	Laian	2006	143	–
	Luan	2003	284	1
	Quanjiao	2007	147	–
	Suchu Modern Industry Park	2013	6	–
	Suzhou Economic Development Zone	2015	–	–
	Yingshang Industrial Park	2014	8	–
Beijing	Pinggu	2001	144	1
Fujian	Anxi	2011	46	2
	Dehua	2003	142	1
	Huian	2006	97	–
	Jinjiang	2006	379	1
	Longyan Development Zone	2012	10	1
	Nanan	2006	186	1
	Ningde	2015	–	–
	Ningde Xiapu Yacheng Dongyang Industrial Park	2013	–	–
	Quangang	2008	44	–
	Quanzhou	2006	562	5
	Shishi	2006	157	–
	Yongchun	2009	32	1
Gaungdong	Dongguan	2003	1,783	5
	Dongguan Dongkeng Town	2015	–	–
	Dongyuan	2013	18	–
	Fengkai	2010	10	1
	Guangning	2010	37	1
	Heyuan	2013	62	–
	Huadu	2010	323	1
	Huaiji	2010	31	–
	Jiangmen Hecheng Town Zone	2012	–	–
	Leizhou	2013	22	–
	Lianjiang	2013	24	1
	Lianzhou	2010	9	–
	Luoding	2010	22	–
	Panyu Zone, Guangzhou City	2011	256	4
	Shantou	2004	162	4
	Shenzhen Bao'an (Longchuan) Industrial Park	2016	–	–
	Sihui	2009	88	1
	Wuchuan	2016	–	–
	Xinyi	2010	25	–
	Yangxi County	2014	23	–
	Yunan	2011	13	1
	Zhanjiang	2004	378	4
	Zhaoqing	2008	240	1
	Zhaoqing Development Zone	2005	108	1

Daily capacity of existing natural gas processing stations ('000 m³)	Accumulated number of piped gas (including natural gas) customers			Number of vehicle gas refuelling stations
	Residential households	Commercial/industrial customers (sites)	Installed designed daily capacity for commercial/industrial customers (m³)	
3,000	302,406	1,442	1,045,458	16
113	145,160	674	304,322	6
210	152,636	575	426,421	5
600	202,529	1,537	703,262	6
–	–	–	–	–
–	29,161	187	601,816	1
–	–	9	35,050	–
–	–	3	48,534	2
–	50,529	323	275,239	–
480	209,335	640	463,506	7
–	66,283	388	137,008	1
–	3,400	16	35,180	–
–	2,380	–	19	–
–	–	7	34,300	–
300	40,969	341	439,790	2
1,976	17,477	39	30,503	–
2,880	15,392	359	311,785	–
–	42,312	210	655,990	–
1,340	99,232	955	4,083,434	–
896	5,283	4	18,400	–
660	36,182	272	1,525,129	–
–	–	–	–	–
–	2,306	1	50	1
–	4,188	24	427,720	–
1,780	134,229	729	341,321	22
–	36,191	431	333,714	–
480	3,025	67	75,675	–
6,172	496,000	5,199	4,715,783	27
–	–	–	–	–
–	7,611	23	21,350	–
206	4,516	2	631	–
596	5,135	24	43,230	–
–	29,597	158	30,645	–
540	140,513	653	530,222	2
–	9,152	31	5,538	–
–	–	–	–	–
–	1,586	10	2,687	–
2	3,534	23	21,328	–
–	4,754	17	31,930	–
–	10,330	46	30,840	1
1,272	113,318	669	413,812	1
120	70,878	266	237,857	1
–	–	1	3,600	–
36	22,409	157	719,025	–
–	–	–	–	–
–	2,171	15	4,501	–
–	2,960	21	9,213	–
300	3,985	18	3,660	1
985	158,717	771	574,552	7
2,514	87,289	383	503,019	6
100	15,180	146	486,435	–

PROJECT OPERATIONAL DATA

Operational location		Year of establishment	Length of existing pipelines (km)	No. of existing natural gas processing stations
Province	Project			
Guangxi	Beihai Tieshangang Industrial Park	2015	15	–
	Guigang	2004	176	2
	Guilin	2004	438	3
	Guiping Indstrial Park, Guigang City	2011	–	–
	Wuzhou Imported Renewable Resources Processing Park	2015	–	–
Hainan	Changjiang County	2014	–	–
	Dingan County	2014	–	–
	Ledong County	2014	–	–
Hebei	Baoding	2013	136	–
	Dingzhou	2016	–	–
	Gaocheng	2012	4	–
	Jingxing	2011	20	–
	Langfang	1993	705	3
	Lingshou	2012	32	–
	Luanxian	2009	39	1
	Luquan	2004	79	1
	Luquan Green Island Development Zone	2012	–	–
	Luquan Yian Town	2015	–	–
	Qingyuan County Western Industrial Zone B	2015	–	–
	Rongcheng	2011	21	–
	Shenze	2012	37	–
	Shijiazhuang	2002	1,049	2
	Wangdu Economic Development Zone	2014	–	–
	Wenan Industrial Park	2012	–	–
	Wuji	2012	37	–
	Xingtang Development Zone	2012	18	–
	Xinji	2012	10	–
	Zhengding New Zone, Shijiazhuang City[8]	2011	–	–
Henan	Gongyi Private Technology and Innovation Park	2016	–	–
	Kaifeng	2003	872	2
	Luoyang	2006	1,634	3
	Ruyang County	2013	11	2
	Ruzhou	2015	–	–
	Shangqiu	2004	282	1
	Weihui City (Tangzhuang Town) Industrial Agglomeration Zone	2012	13	–
	Xinan	2007	181	2
	Xinan Wanshan Lake Industrial Park	2015	–	–
	Xinxiang	2002	664	1
	Yichuan	2009	31	–
Hunan	Changsha	2003	2,057	8
	Changsha County[6]	2010	–	–
	Chenzhou Suxian Industrial Zone	2013	11	–
	Huaihua	2010	77	1
	Liling	2012	–	–
	Liuyang Industrial Park	2013	74	–
	Ningxiang	2011	161	1
	North-western Liuyang	2013	36	–
	Wangcheng	2011	–	–
	Xiangtan	2003	564	4
	Yanling County	2016	–	–
	Yongzhou	2011	61	1
	Zhuzhou	2003	611	1
	Zhuzhou County[7]	2010	–	–

Daily capacity of existing natural gas processing stations (‘000 m³)	Accumulated number of piped gas (including natural gas) customers			Number of vehicle gas refuelling stations
	Residential households	Commercial/industrial customers (sites)	Installed designed daily capacity for commercial/industrial customers (m³)	
–	–	3	240,922	–
1,160	71,625	202	68,713	1
1,717	198,043	798	338,408	6
–	–	–	–	–
–	–	–	–	–
–	–	–	–	–
–	3,186	2	2,210	–
–	–	–	–	–
–	356,503	732	1,210,568	2
–	592	–	44	–
–	12,620	11	105,522	–
–	15,352	24	35,121	–
988	289,333	1,952	2,592,292	12
–	3,523	10	16,528	–
1,200	17,568	52	257,351	–
1,800	58,120	75	107,760	1
–	7,443	20	40,196	–
–	–	–	–	–
–	–	–	–	–
–	10,727	134	189,402	–
–	3,914	14	4,035	–
2,676	1,041,146	1,788	5,878,399	28
–	–	–	–	–
–	–	–	–	–
–	7,101	47	125,091	–
–	370	6	54,024	–
–	120	2	21,040	–
–	–	–	–	–
–	–	–	–	–
1,040	309,423	1,533	960,035	6
1,376	617,125	1,795	2,360,950	21
1,590	1,179	134	314,953	–
–	–	–	–	–
580	182,035	690	542,473	7
–	3,513	17	62,206	–
1,150	28,817	62	585,646	1
–	–	–	–	–
560	340,231	1,472	1,621,409	8
–	6,418	32	304,723	–
3,658	1,487,076	8,736	4,652,821	22
–	–	–	–	–
–	–	2	72,600	–
120	50,519	252	60,081	2
–	–	1	1,200	–
–	5,834	105	85,831	–
720	63,576	522	187,371	1
–	1,157	4	9,147	–
–	–	–	–	–
2,082	312,429	2,493	688,047	7
–	–	–	–	–
960	20,799	149	68,599	2
1,020	428,251	3,415	1,938,640	5
–	–	–	–	–

Operational location				
Province	Project	Year of establishment	Length of existing pipelines (km)	No. of existing natural gas processing stations
Jiangsu	Gaoyou	2001	202	3
	Guannan Development Zone	2014	16	–
	Haian	2002	349	3
	Hongze	2011	124	1
	Huaian	2002	814	2
	Lianyungang	2003	631	2
	Lianyungang Xuyu New Zone	2013	30	–
	Suining Suburb	2013	21	–
	Taixing	2002	354	2
	Wujin	2003	1,527	3
	Xinghua	2002	246	2
	Yancheng	2002	940	4
	Yancheng Environmental Protection Industrial Park	2011	58	–
Jiangxi	Shangrao Economic Development Zone	2015	–	–
Liaoning	Dayou Linhai Economic Zone, Linghai City	2011	40	1
	Huludao	2000	467	3
	Panjing Chemical Enterprises Zone	2012	–	–
	Xingcheng[(3)]	2002	–	–
	Yingkou Industrial Park	2016	–	–
Inner Mangolia	Tongliao	2004	214	1
Shandong	Binzhou Zhanhua Economic Development Zone	2013	14	–
	Changle County	2016	96	2
	Changqing Zone, Jinan City	2011	–	–
	Chengyang	2001	517	3
	Huangdao	2001	503	6
	Jiaonan	2003	332	1
	Jiaozhou	2003	473	1
	Laiyang	2002	243	1
	Liaocheng	2000	530	5
	Qingdao Sino-German Ecopark	2012	–	–
	Rizhao	2002	351	1
	Rizhao Haiyou Economic Development Zone	2016	–	–
	Xintai City Development Zone	2013	–	–
	Yantai[(4)]	2004	1,203	7
	Yantai Development Zone	2001	–	–
	Zhucheng	2001	360	2
	Zouping	2002	217	1
Sichuan	Liangshan Prefecture	2013	–	–
Yunnan	Kunming City Hi-tech Zone	2011	28	2
	Wenshan	2010	55	1

	Daily capacity of existing natural gas processing stations ('000 m³)	Accumulated number of piped gas (including natural gas) customers			Number of vehicle gas refuelling stations
		Residential households	Commercial/industrial customers (sites)	Installed designed daily capacity for commercial/industrial customers (m³)	
	2,982	85,031	416	140,494	1
	–	3,788	11	38,802	1
	268	106,426	669	515,743	2
	888	31,489	141	234,611	–
	580	385,820	1,041	1,153,634	12
	675	301,458	1,238	952,669	8
	–	398	12	24,721	–
	–	880	6	20,550	–
	396	113,703	620	743,310	2
	3,050	357,350	3,614	2,655,720	10
	1,150	76,551	542	193,698	3
	1,650	345,149	1,784	876,361	7
	–	–	–	–	–
	–	1,396	–	30,000	–
	60	18,496	71	83,499	1
	1,350	288,659	708	756,788	8
	–	–	–	13	–
	–	–	–	–	–
	–	–	–	–	–
	60	155,075	229	91,309	3
	–	6,159	18	45,701	–
	30	428	11	1,830	–
	–	–	–	–	4
	600	262,572	874	1,273,972	9
	5,587	256,449	729	1,825,895	5
	1,207	165,884	212	646,324	5
	420	178,863	703	812,420	6
	150	80,171	407	230,927	3
	2,958	225,482	1,005	1,314,938	5
	–	4,430	4	865	–
	300	201,321	605	544,108	4
	–	–	–	–	–
	–	–	–	–	–
	1,296	493,340	1,376	1,688,534	15
	–	–	–	–	–
	543	155,825	442	650,395	4
	600	53,029	196	681,257	4
	–	–	–	–	–
	460	10,027	52	167,950	7
	100	20,923	26	4,481	1

Operational location		Year of establishment	Length of existing pipelines (km)	No. of existing natural gas processing stations
Province	Project			
Zhejiang	Haining	2002	513	2
	Haiyan	2008	39	2
	Huangyan	2005	169	–
	Huzhou	2004	792	2
	Jinhua	2003	159	2
	Lanxi	2003	134	–
	Longwan	2004	1	–
	Longyou	2009	129	3
	Nanxun(5)	2009	–	–
	Ningbo	2007	456	2
	Ningbo Daxie Development Zone	2015	5	–
	Quzhou	2002	303	3
	Wenzhou	2003	174	1
	Wenzhou Wanquan Light Industrial Base	2012	–	–
	Xiaoshan	1994	460	1
	Yongkang	2005	223	2
Other projects				
Shanghai (CNG)			–	–
Shanghai (LPG)			–	–
Shanghai (DME)			–	–
Other gas refuelling station project			150	1
Total			**32,921**	**166**

The Group's operational data disclosed by the Group included the data of subsidiaries, joint ventures and associates.

Notes:

(1) Some operational locations are operated by two companies to separate the pipelines construction business and gas distribution business. The combined data of the companies in each operational location is shown in this table.

(2) Existing pipelines consist of intermediate pipelines and main pipelines.

(3) The project in Xingcheng is operated by Huludao ENN Gas Company Limited. The operational data is included in Huludao.

(4) The project in Yantai Development Zone is operated by Yantai ENN Gas Company Limited. The operational data is included in Yantai.

(5) The project in Nanxun is operated by Huzhou ENN Gas Company Limited. The operational data is included in Huzhou.

(6) The projects in Changsha County and Wangcheng are operated by Changsha ENN Gas Company Limited. The operational data is included in Changsha.

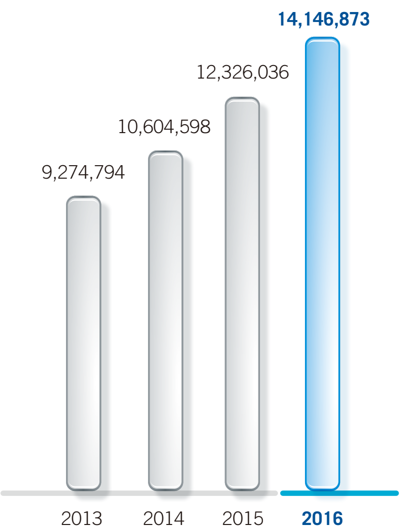
(7) The project in Zhuzhou County is operated by Zhuzhou ENN Gas Company Limited. The operational data is included in Zhuzhou.

(8) The project in Zhengding New Zone, Shijiazhuang City is operated by Shijiazhuang ENN Gas Company Limited. The operational data is included in Shijiazhuang.

Daily capacity of existing natural gas processing stations ('000 m³)	Accumulated number of piped gas (including natural gas) customers: Residential households	Commercial/industrial customers (sites)	Installed designed daily capacity for commercial/industrial customers (m³)	Number of vehicle gas refuelling stations
1,896	102,438	687	891,960	3
847	3,363	108	382,265	3
–	42,625	209	219,418	1
568	154,384	1,344	1,061,240	8
210	73,321	355	267,672	3
–	39,590	334	337,862	–
–	607	20	37,700	–
1,164	15,240	128	130,160	–
–	–	–	–	–
130	176,957	648	560,937	4
–	1,896	–	2,500	–
280	92,450	583	406,102	5
120	30,786	146	265,170	3
–	–	–	–	–
200	248,504	805	855,695	5
160	31,809	393	804,307	–
–	–	–	–	5
–	–	–	–	29
–	–	–	–	–
20	423	5	9,822	151
84,910	**14,146,873**	**68,679**	**71,182,166**	**597**

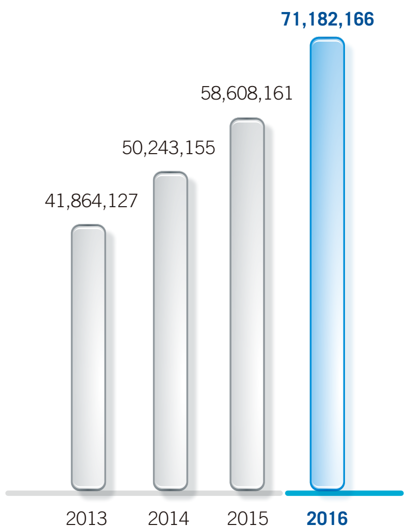
OPERATIONAL HIGHLIGHTS

Accumulated Number of Connected Residential Customers

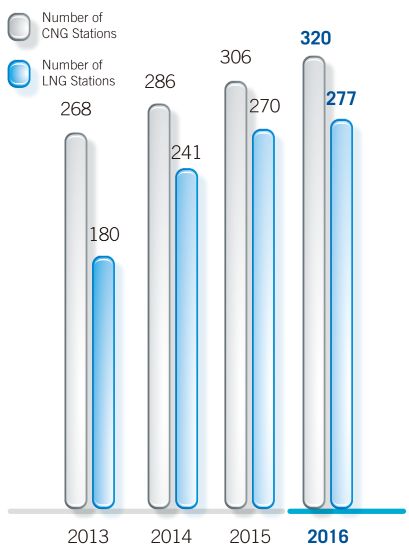


Accumulated Number of Connected Commercial/ Industrial Customers

(Installed designed daily capacity m^3)

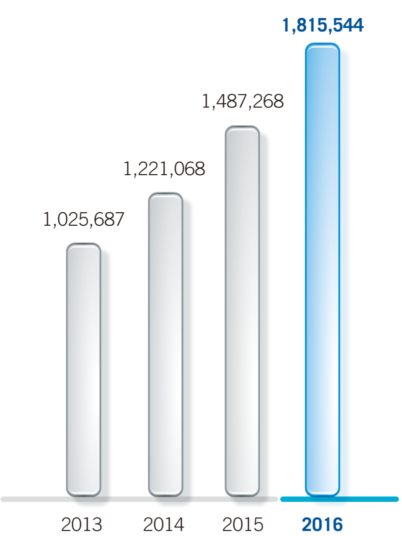


Number of Vehicle Gas Refuelling Stations



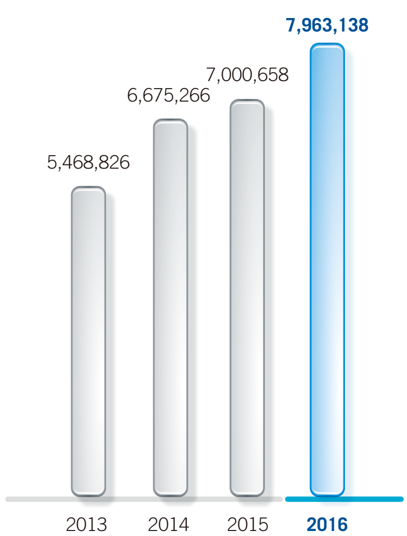
Units of Natural Gas Sold to Residential Households

('000 m^3)



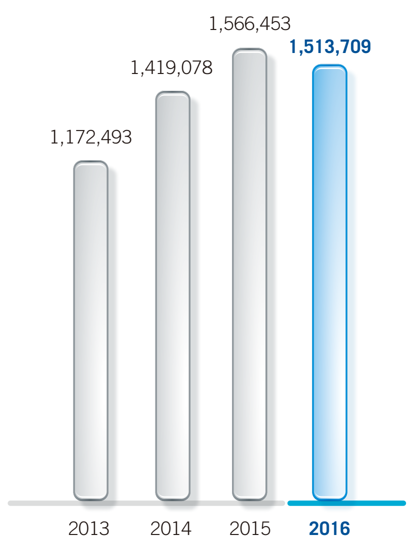
Units of Natural Gas Sold to Commercial/ Industrial Customers

('000 m^3)



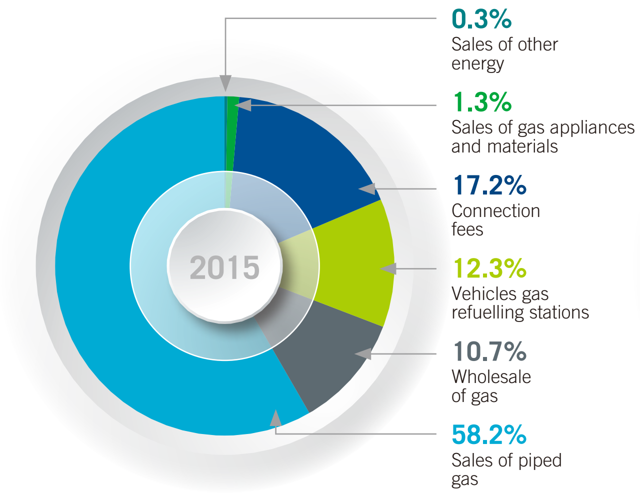
Units of Natural Gas Sold to Vehicles

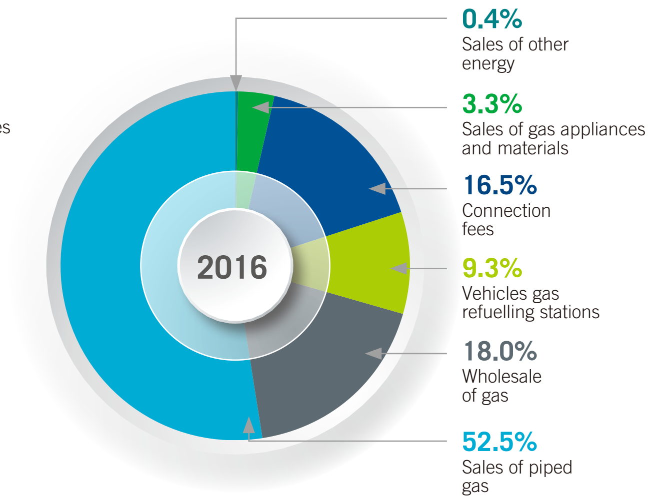
('000 m^3)



FINANCIAL HIGHLIGHTS

Turnover Breakdown by Segment

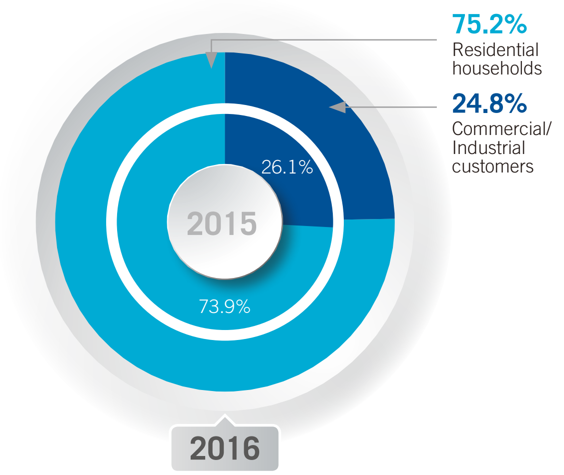




Turnover Breakdown by Customer

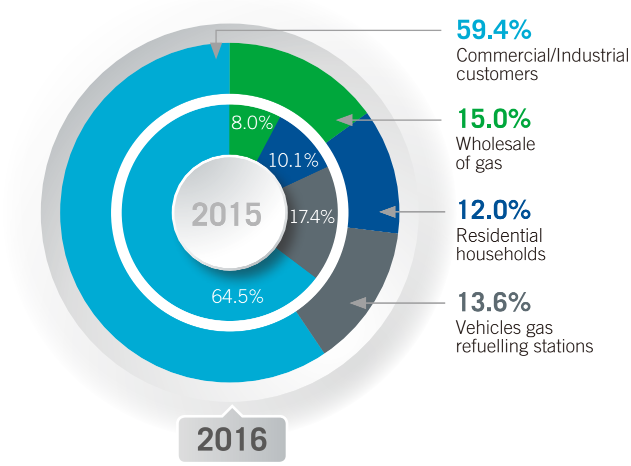
Connection Fees

(Including subsidiaries, joint ventures and associates)



Gas Sales

(Including subsidiaries, joint ventures and associates)



COMPARISON OF TEN-YEAR RESULTS

	2016	2015	2014	2013
Highlights (Group)				
Number of connected households (piped gas)	**14,146,873**	12,326,036	10,604,598	9,274,794
Installed designed daily capacity for commercial/industrial customers (piped gas) (m^3)	**71,182,166**	58,608,161	50,243,155	41,864,127
Units of piped gas sold				
Gas sold to Residential households ('000 m^3)	**1,821,136**	1,490,416	1,225,825	1,030,054
Gas sold to Commercial/industrial customers ('000 m^3)	**7,966,280**	7,001,499	6,676,785	5,538,164
Gas sold to Vehicles gas refuelling stations ('000 m^3)	**1,561,737**	1,588,928	1,441,323	1,186,697
Wholesale of gas sales volume ('000 m^3)	**3,036,778**	1,231,521	804,160	370,019
Length of existing pipelines[(1)] (km)	**32,921**	29,936	27,065	23,907
Number of existing natural gas processing stations	**166**	157	149	137
Daily capacity of existing natural gas processing stations (m^3)	**84,910,000**	80,198,000	73,617,000	58,088,000
Turnover & Profit (RMB million)				
Revenue	**34,103**	32,063	29,087	22,966
Profit before tax	**4,195**	4,027	4,747	2,760
Income tax expense	**(1,307)**	(1,306)	(1,127)	(960)
Profit for the year	**2,888**	2,721	3,620	1,800
Non-controlling interests	**(737)**	(685)	(652)	(548)
Profit and total comprehensive income for the year attributable to owners of the Company	**2,151**	2,036	2,968	1,252
Dividends	**799**	705	709	414
Assets & Liabilities (RMB million)				
Non-current assets	**32,487**	30,328	23,715	21,006
Associates	**1,350**	1,024	882	804
Joint Ventures	**3,704**	3,810	3,436	2,998
Current assets	**13,840**	11,857	15,002	11,097
Current liabilities	**(18,341)**	(19,408)	(13,540)	(10,869)
Non-current liabilities	**(15,186)**	(11,516)	(14,954)	(13,144)
Net assets	**17,854**	16,095	14,541	11,892
Capital & Reserves (RMB million)				
Share capital	**112**	113	113	113
Reserves	**14,854**	13,355	11,985	9,430
Equity attributable to owners of the Company	**14,966**	13,468	12,098	9,543
Non-controlling interests	**2,888**	2,627	2,443	2,349
	17,854	16,095	14,541	11,892
Earnings per share – basic (RMB)	**1.99**	1.88	2.74	1.16

(1) Length of existing pipelines consists of intermediate pipelines and main pipelines.

	2012	2011	2010 (Restated)	2009 (Restated)	2008	2007 (Restated)
	7,785,098	6,815,165	5,618,583	4,706,663	3,745,145	3,167,800
	33,422,696	25,767,276	18,175,160	13,486,437	9,518,438	7,594,338
	930,290	824,276	640,597	520,170	420,880	359,991
	4,345,314	3,591,898	2,765,488	2,031,242	1,816,947	1,596,608
	935,926	696,442	520,438	388,420	334,031	180,889
	248,536	260,928	222,833	–	–	–
	21,312	18,854	16,340	14,126	12,584	11,301
	126	115	100	94	90	83
	46,176,000	32,003,000	23,970,000	14,638,000	14,378,000	14,149,000
	18,027	15,068	11,215	8,413	8,266	5,756
	2,852	2,327	1,811	1,383	1,131	815
	(859)	(660)	(410)	(304)	(260)	(109)
	1,993	1,667	1,401	1,079	871	706
	(511)	(414)	(388)	(276)	(240)	(199)
	1,482	1,253	1,013	803	631	507
	362	315	297	200	158	127
	18,137	15,517	12,712	10,542	9,138	8,176
	798	694	488	324	292	386
	2,271	1,733	1,361	1,016	758	484
	9,687	8,944	5,079	4,754	4,354	3,504
	(11,614)	(9,520)	(7,489)	(5,364)	(5,428)	(3,957)
	(8,609)	(8,528)	(4,611)	(4,844)	(3,697)	(3,932)
	10,670	8,840	7,540	6,428	5,417	4,661
	113	110	110	110	106	106
	8,540	6,936	5,922	5,007	4,128	3,629
	8,653	7,046	6,032	5,117	4,234	3,735
	2,017	1,794	1,508	1,310	1,183	926
	10,670	8,840	7,540	6,427	5,417	4,661
	1.39	1.19	0.97	0.78	0.63	0.51

Apart from making significant contribution to environmental protection and energy sectors both within and beyond the country, the Group will also maximise the long-term interests of the shareholders, customers, employees, society and the corporate.

Business Review

In the face of an ever-changing operating environment, the Group stood by its customer-oriented philosophy. Supported by its excellent operation campaign and driven by reforms and innovation, the Group went all out to tap the potential of its traditional businesses. It fully leveraged the internet and technological means to vigorously develop new businesses. Thanks to the concerted effort of its employees, the Group achieved all the business goals made at the beginning of the year. The Group's gas sales volume in 2016 reached 14,386 million cubic metres, representing an increase of 27.2% year-on-year.

For the year ended 31 December 2016, total revenue and profit of the Group together with its joint ventures and associates were RMB50,298 million and RMB4,165 million respectively.

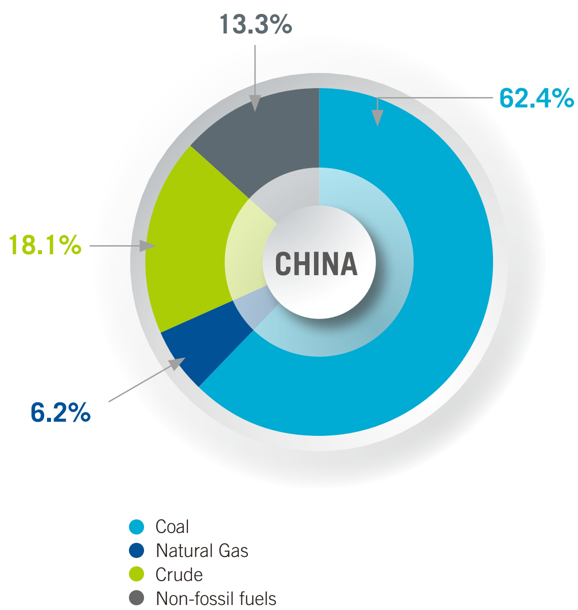
For the year ended 31 December 2016, the Group's turnover was RMB34,103 million, representing an increase of 6.4% year-on-year. Gross profit margin and net profit margin of the Group were 21.6% and 8.5% respectively, up 0.2 percentage point and remain unchanged respectively over last year. The increase of gross profit margin was mainly due to higher gross profit margin of sales of piped gas caused by smaller base of sales price after natural gas price cut. Profit attributable to shareholders increased by 5.6% compared to the corresponding period in 2015 to RMB2,151 million. Basic earnings per share increased by 5.9% compared to the corresponding period in 2015 to RMB1.99. Stripping out the impact of RMB1,061 million from the items in other gains and losses and amortisation of share option expenses, profit increased by 17.3% compared to the corresponding period in 2015 to RMB3,212 million.

City-Gas Business

Residential Customers

During the year, the Group's natural gas sales volume to residential customers was 1,816 million cubic metres, up 22.1% over last year. Such rapid growth was mainly due to the gas consumption ramp up of newly connected residential customers. As living standards in China keep improving, more residents in the southern region such as Jiangsu, Hunan and Zhejiang, in addition to the northern region, installed gas space heaters during winter. As at the end of the year, the Group had 470,000 residential households using gas space heaters, an increase of 27.0% compared with the same period last year. In the "Opinion on Accelerating the Promotion of Natural Gas Utilisation (for solicitation of opinions)", the National Energy Administration proposed that the development of urban centralised heating, gas-fired air conditioning and gas space heaters should be encouraged if gas supply is secured, and support should be given to the use of natural gas for heating in localities where necessary local conditions are satisfied in the southern region. The large amount of gas used by households adopting gas space heaters during winter will effectively increase gas sales volume of the Group's residential customers. In addition, the Group took the initiative to establish a residential tier-pricing mechanism for its city-gas projects. As at the end of 2016, 111 projects of the Group had already set up a tier pricing mechanism, representing 92% of the total residential gas sales volume, while other projects were in preparation. As more projects have already set up a tier-pricing mechanism, coupled with the continued promotion of gas space heaters, the dollar margin of residential gas sales is expected to become more reasonable.

Primary Energy Mix in 2016



C/I Customers

During the year, the Group's natural gas sales volume to C/I customers was 7,963 million cubic metres, a year-on-year increase of 13.7%, of which industrial customers and commercial customers were 6,396 million cubic metres and 1,567 million cubic metres respectively, representing a growth of 12.4% and 19.6% over last year. The accelerated growth in the gas sales volume to C/I customers was mainly due to the contribution by the newly connected C/I customers. Moreover, the Group stepped up the implementation of the coal-to-gas conversion policy and helped customers reduce the overall energy consumption costs by providing energy-saving solutions, thus attracting customers to use gas and expanding the scale of gas consumption. By applying distributed energy technology, the Group has expanded its customer base to some non-conventional gas users such as hospitals, airports, data centers and urban complexes to increase gas consumption. In addition, along with the economic structural transformation, the tertiary industry has become a new growth driver for China's economic development. The Group continued to develop commercial customers with stronger price affordability and stable gas consumption to further optimise its customer structure.

New Customers Development

During the year, the Group's connection fee revenue was RMB5,611 million, up 1.9% over last year.

The Group completed piped natural gas connection for 1,820,837 residential households during the year. The average one-off connection fee charged by the Group from its residential households was RMB2,876 per household. As at the end of 2016, the aggregate number of residential households connected to piped gas reached 14,146,873.

The connectable population coverage of the Group's city-gas projects operated in China reached 77.42 million. The average gas penetration rate increased to 54.8% from 51.7% in 2015. The target of urbanisation rate is 60% under the 13th Five-year Plan. Considering the current low level of domestic urbanisation, the new urbanisation progress will boost the continuous growth in the demand for efficient clean natural gas. During the year, the newly started gross floor area of residential buildings increased year-on-year, which would benefit the Group in providing connections to new buildings in 2017. The Group will seize the opportunity arising from the urbanisation and the recovery of the real estate industry by both stepping up new connections to new households and focusing on the development of the old housing market for thoroughly developing its market potential.

During the year, the Group connected 11,821 new C/I customers (installed designed daily capacity of 12,574,005 cubic metres for new C/I customers), with an average connection fee of RMB123 per cubic metre. As at the end of 2016, the aggregate number of C/I customers of the Group connected to piped gas reached 68,679 (total installed designed daily capacity of 71,182,166 cubic metres).

It was proposed in "The 13th Five-year Plan on Natural Gas Development" that the Beijing-Tianjin-Hebei Region, Yangtze River Delta, Pearl River Delta and northeast region should become the key regions to push forward the coal-to-gas conversion projects in key cities and expand the scope of the zone where the use of high-polluting fuel is prohibited. The National Energy Administration also stated that it would expand the scope of prohibited coal-burning areas, requiring prefecture-level cities connected to natural gas across the country to establish prohibited coal-burning areas by 2020. Environmental protection measures will be developed and an assessment and accountability mechanism will also be implemented to incorporate residential and industrial coal-to-gas conversion into the assessment.

Local governments are expected to enact more stringent regulations for pollution emissions in the future. To vigorously improve air pollution, local governments in Hebei, Guangdong, Zhejiang and other places introduced their own subsidy policies to help promote the elimination of coal-fired boilers and the use of cleaner natural gas. During the year, the Group seized the opportunity arising from the coal-to-gas conversion by proactively carrying out research on the coal-fired boiler market, adopting a flexible pricing strategy and assisting the governments in formulating and implementing their work plans, the Group emphasised on the coal-to-gas conversion of boilers with a capacity of below 10 steam tons/hour and gradually completed the work. The Group also tailor-made boiler modification and upgrade plans for customers to help improve the combustion efficiency and reduce overall energy consumption. During the year, new connections to coal-to-gas customers was 5.03 million cubic metres/day, accounting for 40% of newly connected C/I customers.

Currently, China's economy is in the process of carrying out structural reform. The tertiary industry – which mainly consists of modern service sectors including growing sectors such as food and beverage, tourism and Internet-based e-commerce sectors – has become a new growth driver of economic development. In 2016, GDP in the tertiary sector grew 7.8% year-on-year and exceeded the overall GDP growth rate of 6.7%. In addition, the tertiary sector already accounted for 51.6% of the total GDP. Therefore, the Group proactively reached out such commercial customers to optimise its customer structure. In 2016, new connections to commercial customers amounted to 4.02 million cubic metres/day. The proportion of newly connected commercial customers accounted for 32% of the total new C/I connections, an increase of 4 percentage points, indicating that the Group's customer structure was further optimised.

New Projects

The Group managed to acquire 8 new projects and 12 new concessions nearby its existing projects during the year with additional connectable urban population of 980,000. This was achieved on the back of its solid track record, ability to secure gas supply and distributed energy technology, thus further expanding its operational coverage. As at 31 December 2016, the Group had 160 projects in China, operating area covering a connectable population of 77.42 million and 68,679 C/I customers connected to piped gas. The Group will continue to develop the cities, counties, densely-populated new towns and industrial parks around the existing city-gas projects. It will expand the scope of business with economies of scale and synergies, and keep track of M&A projects to lay a solid foundation for the development of the city-gas business.

Projects	The Group's shareholding	Major industry
1. Dingzhou, Hebei	51%	Energy, automobiles and components, coal chemicals and food
2. Changle County, Shandong	70%	Chemicals, construction materials, paper making, machinery and plastics
3. Rizhao Haiyou Economic Development Zone	60%	Petrochemicals, new materials, warehousing and logistics, machinery and construction materials
4. Gongyi Private Technology and Innovation Park	100%	Manufacturing of metallic products and precision medical instruments, machinery
5. Shenzhen Bao'an (Longchuan) Industrial Transfer Park	70%	Electronic and electrical appliances, air energy and wire rope structures
6. Liaoning Yingkou Industrial Park	24%	Equipment manufacturing, shipbuilding, metallurgy, petrochemical, electronic information
7. Wuchuan City, Guangdong	65%	Agricultural by-products processing, leather and feather products, plastics, electrical machinery
8. Yanling County, Hunan	93%	Rare metal refinery, high-end ceramics, machinery

Expand the use of natural gas as a transportation fuel

The 12 new concessions nearby existing projects include:

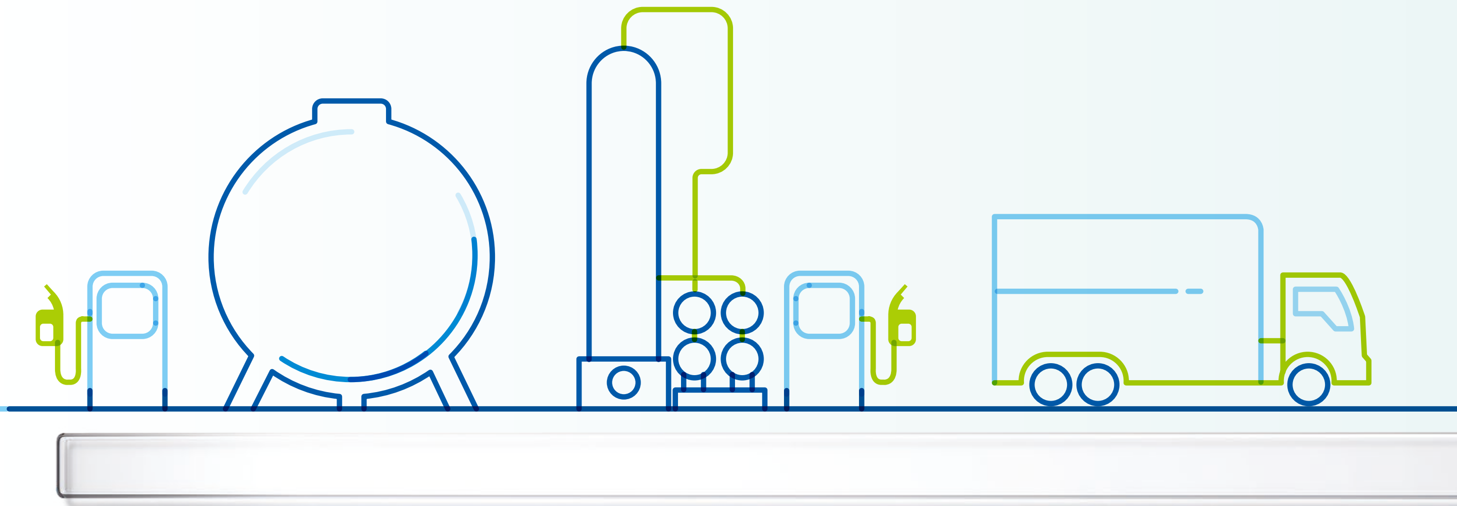
Provinces	Operational areas
Anhui Province	Sanbing Town and Ba Town in Chaonan District, Chaohu; Yaopu Town, Zhulong Town, Shiji Town, Daliu Town, Zhangguang Town and Huangnigang Town in Nanqiao District, Chuzhou City
Hebei Province	Mengjin Luobei Modern Service Industrial Zone and Langfang Airport New District
Henan Province	Luoyang Tianzhuang Industrial Zone
Shandong Province	Dongchangfu District of Liaocheng City

VEHICLE REFUELLING AND BUNKERING BUSINESS

PRC Vehicle Gas Refuelling Business

To improve the operational efficiency and profitability of the refuelling business, the Group vigorously revamped the evaluation and incentive mechanism of its vehicle gas refuelling stations. An accountability system was implemented for each of the 101 stations, under which the head of the stations are accountable to the gas sales volume, profit, safe operation and other indicators of the stations, and bonus incentives are offered if the target is exceeded to enhance the profitability of each station. Moreover, the gas sales volume was boosted via the "Smart Card" alliance by optimising the station network, capturing more customer resources as well as organising and implementing cross-regional joint marketing. With topped-up membership cards, customers could have their vehicles refuelled at the refuelling stations and alliance stations, which offered solutions to refuelling along the transportation route, while sharing resources and enhancing customer loyalty, which in turn raised the overall business competitiveness within the region. In addition, value-added businesses under the "E vehicle E station" brand including supermarket were provided at refuelling stations at the beginning of the year in order to enhance customer loyalty and broaden revenue streams. Currently, supermarkets have been rolled out at 10 refuelling stations in Langfang, Dongguan, Zhucheng, Xingtai, Quanzhou and other cities, which were popular with customers. The Group plans to extend the value-added services under the "E vehicle E station" brand to more refuelling stations.

During the year, the Group's natural gas sales volume of vehicle gas refuelling stations in China decreased by 3.4% to 1,514 million cubic metres, of which the gas sales volume of CNG refuelling stations decreased by 12.3% to 863 million cubic metres and the gas sales volume of LNG refuelling stations increased by 11.7% to 651 million cubic metres. The Group focused on enhancing the operational efficiency of the gas refuelling stations and optimising the network of these stations by adjusting the speed of constructing new stations in line with the progress in market and customer development. During the year, 14 CNG refuelling stations and 7 LNG refuelling stations were constructed and commenced operation, bringing the total number of CNG and LNG refuelling stations in operation to 320 and 277 respectively.



The overall decline in CNG gas sales during the year was primarily due to (i) the continuing low oil price despite mild recovery, and the fact that the economic advantage of natural gas prices in some areas compared to gasoline had not yet been restored to the previous level; (ii) a decrease in the conventional taxi business volume as a result of the popularity of mobile car hailing services in the Mainland China; and (iii) initiatives by individual local governments to promote electric vehicles affected the utilisation rate of CNG refuelling stations. The business of CNG refuelling stations is currently facing some challenges, but the Group has proactively adjusted the market development strategy by promoting the purchase of petro-gas hybrid vehicles on the one hand, and by expanding the oil-to-gas conversion customer base on the other hand – by way of cooperation with car-hailing service companies, increased efforts to expand new customer types for light duty trucks, urban public services and private cars. Moreover, the Group rolled out other promotional measures, such as rechargeable and cash return services, the offering of gifts using bonus points and improvement of the network of gas refuelling stations through strengthening alliances and cooperation, to attract more new customers and enhance the loyalty of existing customers.

During the year, thanks to the aggressive efforts of local governments to promote the oil-to-gas conversion for buses, coach buses and government's vehicle fleet, together with the Group's efforts to keep improving the network distribution of gas refuelling stations to open up large-scale transport corridors for logistics customers, there continued to be rapid growth in gas volume at LNG refuelling stations and the utilisation rate of these stations continued to improve with a steady rise in gross profit.

The National Energy Administration proposed that the utilisation of natural gas in vehicles and vessels should amount to 50-60 billion cubic metres by 2020, together with the construction of 12,000 gas refuelling stations for vehicles. It also calls for stepping up subsidies for the vehicle purchase, fuel consumption as well as other subsidy policies of natural gas vehicles by referring to the new energy vehicle support policy. In view of the government's aggressive efforts to promote energy conservation and emission reduction to control environmental pollution, the oil-to-gas conversion for transportation is an inevitable trend. For this reason, the Group believes that the refuelling business will usher in a new round of development and will continue to make a good profit contribution.

North America Gas Refuelling Business

In 2016, the total fuel sales volume of refuelling stations in North America amounted to 9.92 million diesel gallon equivalent ("DGE"), generating revenue of USD21.80 million and posting a net loss of USD5.25 million. In a business environment with relatively small price differences between oil and gas, the Group shared the tax rebate of USD0.85/DGE from the sales of LNG with some of its customers in North America, while implementing measures such as strengthening cost control and selling diesel at some stations, thus enabling the Group to narrow the net loss recorded in the region's gas refuelling business. The Group will continue to adopt flexible measures to cope with market changes in the future.

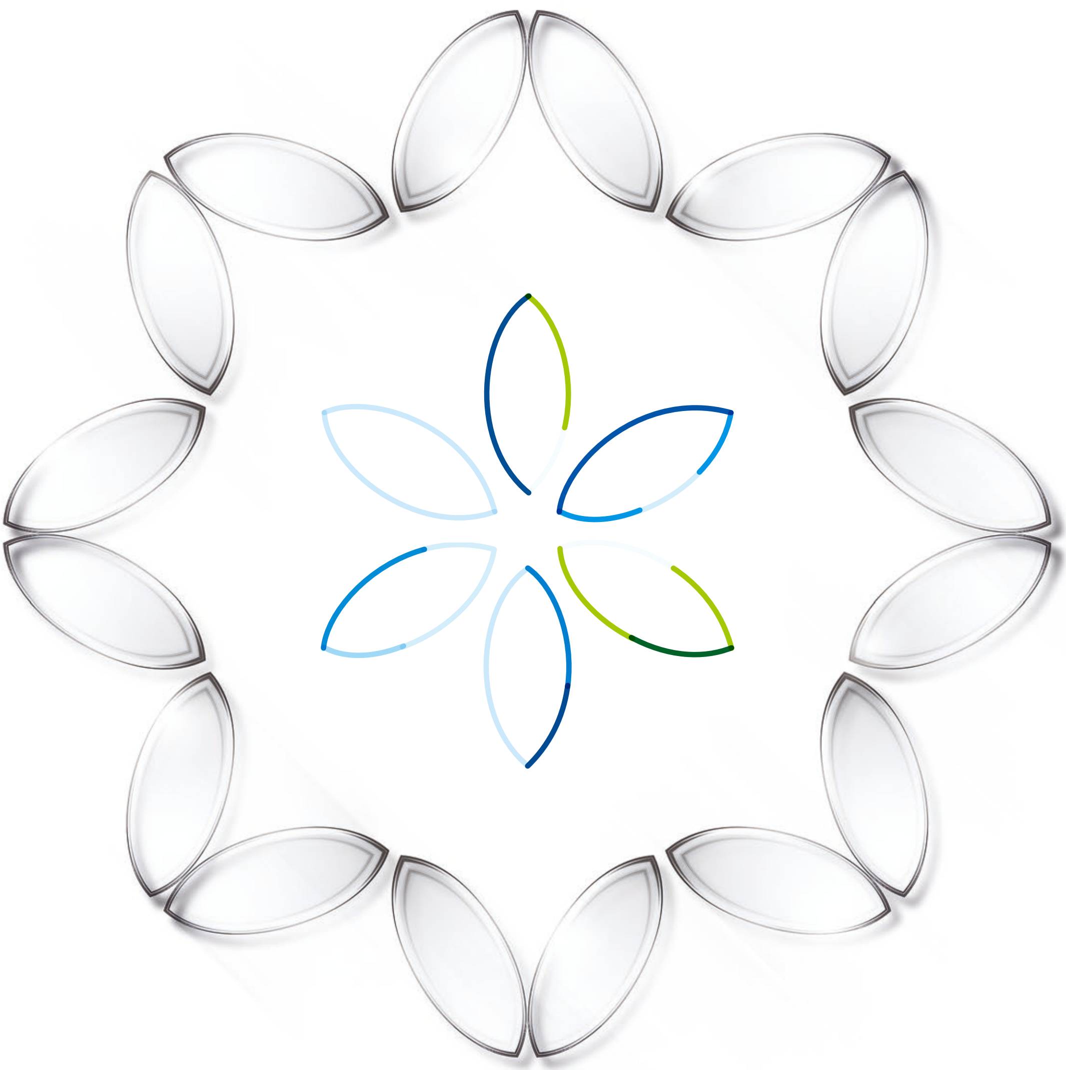
LNG Bunkering Business

During the year, the Group continued to set up more strategic alliances at major ports. It completed the conversion of the first LNG-powered roll-on roll-off ship – Beibu Bay 9 and provided pre-cooling and gas test services for NE212, the world's largest dual-fuel vehicle carrier made by NACKS. Moreover, the Group's LNG project used in water transportation in the Hangzhou-Jiaxing-Huzhou area of the Yangtze River Delta system and the Yangtze River Dongting Lake Waterway were on the list of a second batch of pilot projects for the national water transport industry. An slew of policies such as the "13th Five-year Plan for the Development of Natural Gas" and the "Opinion on Accelerating the Promotion of Natural Gas Utilisation" (for solicitation of opinions) were introduced to explicitly encourage the development of transport ships using LNG as fuel in inland rivers, lakes and coastal areas, and to offer special subsidies for the conversion of LNG-powered vessels and the building of new LNG vessels. The Group will continue to cooperate with various governmental departments to establish favorable industry policies and standards, while fostering alliances and cooperation with shipping companies, port and shipping authorities and various provincial and municipal transportation departments in optimising the distribution of refuelling stations at strategic locations, facilitating the development of the market for newly built vessels and modified vessels, and exploring integrated clean energy solutions for vessels.

Development of New Businesses

Energy Trading Business

During the year, gas sales volume of the energy trading business reached 3,037 million cubic metres, representing a significant increase of 146.6% year-on-year. In 2016, the sufficient supply of LNG kept the downstream sales prices low, while the demand from small gas companies, refuelling stations and C/I customers not covered by pipeline networks remained strong. This offered the Group favorable distribution conditions to develop customers actively. The energy trading business is an asset-light business with a lower business risk, which allows the Group to allocate gas sources to the demand side through the efficient use of the Group's

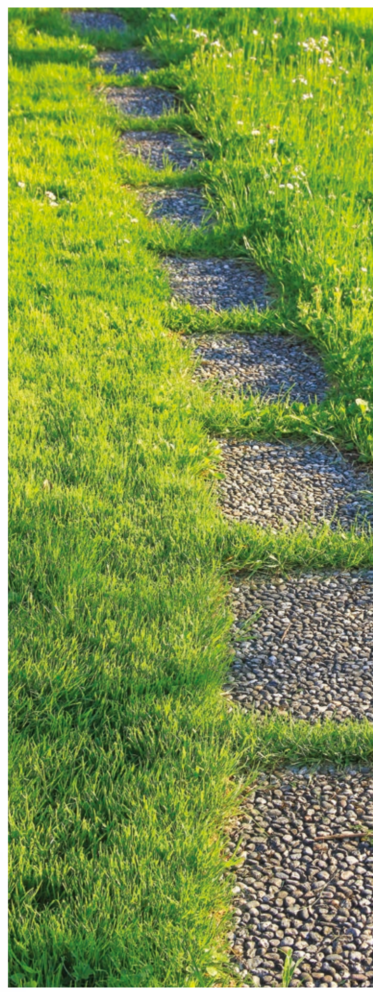


advanced dispatch system, logistics fleet and upstream resources. The Group will fully assess the gas demand, credibility of customers while drawing up trade contracts to ensure the timely collection of receivables. By equity investment in various gas trading platforms in China, the Group continues to expand the scale of energy trading, build a strong distribution network, enhance its influence in the industry and expand its revenue sources while making strategic arrangements for the full liberalisation of natural gas prices.

Development of Distributed Energy Projects

China has become one of the fastest growing markets for distributed energy in the world, boosted by a rising energy demand, increased pressure on energy conservation and emission reduction and national policies. In the "Opinions on Accelerating the Promotion of Natural Gas Utilisation" (for solicitation of opinions), the National Energy Administration particularly points out that during the period of the "13th Five-Year Plan", the development needs to be accelerated of natural gas distributed energy in large commercial areas and new industrial areas of large- and medium-sized cities. Also, the construction needs to be promoted of natural gas distributed energy projects in the development zones, industrial cluster zones, industrial parks, commercial centers, Class 1 and Class 2 airports across the country, transportation hubs, data storage centers and hospitals with cooling, heating and electricity demand.

Riding on favorable policies and taking the reform of the national electricity industry as an opportunity and leveraging the Group's customer base in the city-gas projects, the Group is actively developing the distributed energy business especially for industrial customers and customers in industrial parks. The Group tailor-made energy systems according to different energy needs of customers to boost natural gas sales volume and create additional revenue stream through the sales of integrated energy. During the year, the Group signed up 10 distributed energy projects including Qingdao Haier Industrial Park, Shengda Industrial Park in Xiaoshan and Huzhou Central Hospital. As at the end of the year, 12 projects have started to provide multiple energy, including Changsha Huanghua International Airport, Yancheng Tinghu Hospital, Zhuzhou Vocational Education City, Zhuzhou Shennong City, Zhaoqing New District, Qingdao Sino-German



Ecological Park, Shijiazhuang Junlebao, Shijiazhuang Railway Station, Chuzhou Anxing Color Polyester, Qingdao Wanda Yacht Industrial Park, Jingbin Industrial Park and Langfang Cloud Storage.

During the year, the country's electricity reform process accelerated with the introduction of the "Measures Governing the Access and Exit by Power Sales Companies" which assures a policy for cultivating power sales market players, and the "Measures Governing the Orderly Deregulation of the Power Distribution Network Business" which provides guidance for the construction of power distribution networks with private capital. As of today, the integrated pilot reform of the power system has been launched in 21 provinces; the pilot reform of the electricity transmission and distribution prices covers all the provincial power grids and the North China regional power grids, except Tibet; and 30 power exchange centers have been established. The growing scale of domestic electricity sales market sped up the market liberalisation. Beneficial results continue to be produced as boosted by the reform. On 8 January 2016, the Group announced that it would explore the electricity sales business through the application of distributed energy in Kunming High Tech Zone in Yunnan and Zhaoqing New Zone in Guangdong as pilot projects. The joint venture company in Yunnan has already obtained the electricity sale license and carried out the sales business in the second half of the year – recording electricity sales of 20.50 million kilowatt-hours for the year. As the specific policies and details about the Chinese government's liberalisation of the electricity market remain uncertain, the Group will first trial in these two pilot projects, further enhance its competitive edge in distributed energy and provide customers with supply and sales of integrated energy of higher quality.

Sale of Gas Appliances

During the year, the Group made full use of its existing 14.15 million residential households by making vigorous efforts to promote "GRATLE" branded appliances such as cooking stoves, water boilers, range hoods, space heaters and sterilisers, which generated a revenue of RMB238 million and a profit of RMB100 million. The Group stepped up its marketing strategy to expand the nationwide market so as to increase the market share. In future, the Group will make use of kitchenware as a starting point by fully expanding its brand, service and information advantages to include products into the integrated smart home solutions.

Other Major Investments

Equity Investment in initial public offering ("IPO") for Shanghai Dazhong Public Utilities in Hong Kong

During the year, the Group subscribed for 4.45% of the total issued share capital of Shanghai Dazhong Public Utilities (Group) Co., Ltd. (1635.HK) with an investment of USD60 million (approximately RMB411 million) and becomes one of its cornerstone investors through its IPO in Hong Kong. Shanghai Dazhong Public Utilities is one of the largest city-gas operators in Shanghai and also engaged in taxi operation as well as passenger and logistics vehicle business. Shanghai is one of the cities in China which highly promotes the development of distributed energy projects. Both parties will collaborate in the aspects of gas procurement and supply, customer development for gas refuelling stations and distributed energy projects. The Group believes that its equity investment in the company will enhance its bargaining power for gas source procurement and that it will have a synergistic effect on promoting business development in Shanghai.

Equity Investment in Chongqing Petroleum and Natural Gas Exchange

The Chongqing Petroleum and Natural Gas Exchange was officially incorporated on 12 January 2017, with capital contributions by 13 shareholders, including PetroChina, Sinopec, various city-gas enterprises and financial institutions. The registered capital of the exchange amounted to RMB1 billion. The Group entered into an agreement to acquire 7% equity interests of the exchange with a consideration of RMB70 million. The exchange will build an oil and gas spot trading market leveraging the diversified gas sources and well-developed pipeline network facilities in Sichuan and Chongqing, and focusing on piped gas and natural gas chemical products as major products. The exchange is the second national bulk energy commodity trading platform following the establishment of Shanghai Petroleum and Natural Gas Exchange. Both exchanges will complement each other to achieve the efficient allocation of natural gas resources in China. This will be conducive to further deepening the reform of the industry by establishing a price benchmark with an international impact. The equity investments in the two major national natural gas trading platforms will help the Group quickly obtain market information, expand the brand impact in the industry, secure diversified gas sources for the Group's city-gas business and facilitate the development of the energy trading business.

Human Resources

As at 31 December 2016, the Group employed a total of 28,735 employees. The workforce was expanded to support the Group's new projects and business development. The employees were remunerated at the market level with benefits such as bonus, retirement benefit, professional training and share option scheme.

Financial Resources Review

Key Financial Data

During the year, the Group's total revenue amounted to RMB34,103 million, representing an increase of 6.4% over last year. Gross profit margin and net profit margin of the Group were 21.6% and 8.5% respectively, up 0.2 percentage point and remain unchanged respectively over last year. Profit attributable to shareholders was RMB2,151 million, representing an increase of 5.6% year-on-year. Stripping out the impact of RMB1,061 million from the items in other gains and losses and amortisation of share option expenses, profit increased by 17.3% compared to the corresponding period in 2015 to RMB3,212 million, demonstrating improving profitability of the Group.

Liquidity and Financial Resources

Currently, the Group's operating and capital expenditures are funded by operating cash flows, current assets, bank loans and issued bonds. The Group has sufficient sources of funds and unutilised banking facilities of approximately RMB7,277 million to meet its future capital expenditure and working capital requirements.

Borrowings Structure

As at 31 December 2016, the Group's total debts amounted to RMB16,791 million (2015: RMB15,680 million) and bank balances and cash for the purpose of computing net gearing ratio amounted to RMB7,163 million (2015: RMB7,355 million). The Group's net gearing ratio, i.e., the ratio of net debt to total equity (including non-controlling interests), was 53.9% (2015: 51.7%).

Except for bank loans of USD184 million (equivalent to RMB1,276 million) and HK$388 million (equivalent to RMB347 million), the remaining bank and other loans are denominated in Renminbi and bear interests at interest rates announced by the People's Bank of China. Except for the loan amount equivalent to RMB612 million that are secured by assets with a carrying value equivalent to RMB336 million, all of other loans are unsecured. Short-term loans amounted to RMB3,944 million while the remaining loans were long-term loans with a term of one year or more.

Foreign Currency Risk

As at 31 December 2016, the principal amount of the Group's foreign currency debt amounted to USD1,115 million (2015: USD1,393 million) and HK$388 million (2015: nil). In response to the risk of RMB depreciation, the Group early repaid a bank loan of USD114 million (equivalent to approximately RMB739 million). Furthermore, the Group also repurchased USD349 million in principal amount of the USD715 million 6% senior notes due 2021 in December 2016 and refinanced by RMB2.5 billion 3.55% bonds with a tenure of three years. In addition, the Company entered into structured foreign currency forward contracts with certain financial institutions to manage its foreign currency risk, based on current estimation, the foreign exchange exposure substantially reduced from RMB9,293 million to RMB3,258 million.

Major Bonds

The Group's major bonds include follows:

Major bonds	Currency	Maturity date	As at 31 December 2016	As at 31 December 2015
Seven-year 6.45% Fixed Rate Bonds	RMB	16 February 2018	500 million	500 million
Five-year Zero-Coupon Convertible Bonds	USD	26 February 2018	500 million	500 million
Five-year 3.25% Fixed Rate Bonds	USD	23 October 2019	65 million	65 million
Three-year 3.55% Fixed Rate Bonds (note a)	RMB	2 December 2019	2,500 million	–
Maximum Five-year 3.68% Fixed Rate Bonds	RMB	17 December 2020	2,500 million	2,500 million
Ten-year 6% Fixed Rate Bonds (note b)	USD	13 May 2021	366 million	715 million

Notes:

a. On 30 November 2016, the Group issued three-year bonds with a total principal amount of RMB2.5 billion to refinance part of the Ten-year 6% Fixed Rate Bonds. The bonds carry a coupon rate of 3.55%.

b. On 12 December 2016, the Group repurchased USD349 million in principal amount of the bonds. The repurchased bonds were settled and cancelled on 16 December 2016. The total remaining outstanding principal amount of the bonds as at 31 December 2016 was USD366 million.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. WANG Yusuo, aged 53, is a cofounder, the Chairman and the Executive Director of the Company. He is responsible for overseeing the Group's overall strategic planning and providing leadership for and overseeing the functioning of the Board. He has over 30 years of experience in investment and the management of the gas business in the PRC. He holds a Doctor of Philosophy in Management from Tianjin University of Finance and Economics. He is currently a committee member of the Twelfth Chinese People's Political Consultative Conference. He is the father of Mr. Wang Zizheng, the Non-executive Director. He is a Director and a controlling shareholder of ENN Group International Investment Limited ("EGII"), a controlling shareholder of the Company, the Chairman of ENN Ecological Holdings Co., Ltd. (Stock Code: 600803) and Beibu Gulf Tourism Corporation Limited (Stock Code: 603869), whose shares are listed in Shanghai.

Mr. CHEUNG Yip Sang, aged 50, is the Executive Director and the Vice Chairman of the Company and has joined the Group in 1998. He assists the Chairman in overseeing the Group's overall strategic planning and overseeing the functioning of the Board. He graduated from The Chinese People's Armed Police Force Academy in 1990 with a Bachelor's Degree in Legal Studies and received an Executive Master of Business Administration from the Peking University in 2006. He has extensive experience in corporate governance and the market integration in the public utilities sector. He also has wide exposure in the research and development of the gas industry.

Mr. Sean S J WANG, aged 53, was appointed as the Executive Director and the Chief Executive Officer of the Company on 21 March 2017. He is responsible for strategic planning of the Group, business modelling under industry reform and capital market operation, etc. He graduated from Peking University with a major in National Economic Management and later obtained a Bachelor Degree in Science from Hamline University in 1986 and a Master of Business Administration Degree from the Carlson School of Management at the University of Minnesota in 1989. He also completed the Rongsheng Global Leaders Program of the Wharton School of the University of Pennsylvania in 2011. He held key positions at various multinational firms listed on the New York Stock Exchange, NASDAQ and the Hong Kong Stock Exchange covering a variety of industries, including real estate, heavy industry, transport and logistics, cultural, consumer electronics and funds management, etc. He has gained in-depth and extensive experience in corporate management, corporate investment, financial operation and project management. He is currently an Independent Non-executive Director of Tomson Group Limited (Stock Code: 0258), whose shares are listed Hong Kong.

Mr. HAN Jishen, aged 52, is the Executive Director and the President of the Company and has joined the Group in 1993. He takes up the overall responsibility for comprehensive business development, daily operation and management of the Group's business, reviewing the execution of strategic plans and their adjustment, ensuring the achievement of the Group's targets. He graduated from Baoding Staff University in 1990 and obtained an Executive Master of Business Administration from the Nanyang Technological University in Singapore in 2007. He has over 23 years of experience in the gas fuel industry in the PRC. He worked at the senior managerial level for over 18 years at the subsidiary level of the Group, is highly qualified with extensive experience in marketing research, business development and business management in the gas industry market.

Mr. WANG Dongzhi, aged 48, is the Executive Director of the Company. He is responsible for the major merger and acquisition, corporate financing and implementation of good corporate governance of the Group. He graduated in 1991 with a Bachelor's Degree in Engineering Management from the Beijing Chemical University. He obtained a Bachelor's Degree in Economics in 1996, the qualifications of Certified Accountant in the PRC in 2000 and a Master's Degree in Business Management from the Tianjin University in 2003. Prior to joining the Group in 2000, he was in charge of the finance department in a Sino-foreign joint venture company. He has extensive experience in financial management. He is also the President of EGII, which is a controlling shareholder of the Company.

Non-executive Directors

Mr. WANG Zizheng, aged 29, was appointed as the Non-executive Director of the Company. He graduated from Shanghai Tongji University with a Bachelor's Degree in Urban Planning. He has extensive experience in investment, merger and acquisition and operation management of overseas LNG refuelling stations. He is the Chairman of EGII, which is a controlling shareholder of the Company, the Director of Beibu Gulf Tourism Corporation Limited (Stock Code: 603869), whose shares are listed in Shanghai. He is the son of Mr. Wang Yusuo.

Independent Non-executive Directors

Mr. MA Zhixiang, aged 65, was appointed as the Independent Non-executive Director of the Company. He has held senior management positions in China Petroleum Pipeline Bureau and PetroChina Company Limited and has resigned from these positions in March 2012. He graduated from School of Mechanics of University of Petroleum (East China) with a Doctor's Degree in Engineering in Storage and Transportation. He has extensive experience in petroleum and natural gas industry.

Mr. YUEN Po Kwong, aged 48, was appointed as the Independent Non-executive Director of the Company. He is currently a partner of Fangda Partners specialising in dispute resolution and contentious regulatory compliance. He graduated from Oxford University in United Kingdom with a Master's degree in Chemistry and from Cornell University with a Master's degree in Synthetic Organic Chemistry. He then attended College of Law in Guildford, England and obtained his Diploma in Law (with Distinction) and Diploma in Legal Studies. Before studying law in England, He was a teaching fellow at Cornell University. Prior to joining Fangda Partners to establish its Hong Kong office in 2012, He was a partner of the "Magic Circle Firms", specialising in resolving China related disputes. He has extensive experience in regulatory and corporate compliance.

Mr. LAW Yee Kwan, Quinn, JP, aged 64, was appointed as the Independent Non-executive Director of the Company. He is a fellow member of HKICPA and currently a member of its Professional Conduct Committee. He is also a fellow member of the Association of Chartered Certified Accountants. At present, he serves as a council member cum audit committee chairman at the Hong Kong University of Science and Technology and a member of Financial Affairs Expert Working Group of University Grants Committee. He played significant management roles both in the private and public sector. He held directorship in several listed companies both in Hong Kong and overseas in the past. During the period from March 2008 to February 2013, he was the Deputy Chairman and Managing Director of the Urban Renewal Authority, a statutory organisation in Hong Kong. He is currently the Independent Non-executive Director of HKBN Limited (Stock Code: 1310) and Bank of Tianjin Co Ltd (Stock Code: 1578), whose shares are listed in Hong Kong.

Senior Management

Mr. CHAU Tien Hsiang, aged 47, was appointed as the Chief Financial Officer of the Company on 17 February 2017. He is responsible for the Group's treasury and financial management and investor relations management. He graduated from the University of Texas at Austin with a Bachelor's Degree in Business Administration and received a Master's Degree in Business Administration (Financial Engineering) from Massachusetts Institute of Technology in 2001, he also subsequently completed the Harvard Law School's Program on Negotiation for Senior Executives and Stanford University's Executive Program in Dynamic Corporate Strategy. Prior to joining the Group, he acted as the Chief Financial Officers of GCL New Energy Holdings Limited (Stock Code: 451) and GCL-Poly Energy Holdings Limited (Stock Code: 3800), whose shares are listed in Hong Kong. He held key financial executive positions in various world-renowned multinational corporations, including International Business Machines, American International Group and the Philips Group. He also served as a senior corporate finance and mergers and acquisitions analyst at Merrill Lynch and as a management consultant at Booz. Allen & Hamilton's strategy team. He has over 20 years of experience in corporate finance, mergers and acquisitions, asset management, and market capitalisation management.

Ms. Zhang Jin, aged 43, is the Vice President of the Company. She is responsible for general administrative work and implementation of corporate cultural building. She graduated from Renmin University of China with a Bachelor's Degree in Economics and a Master's Degree in Industrial Enterprise Business Management. Prior to joining the Group in 2016, she served as the Chief Executive Officer of Shanda Games, Senior Vice President of Shanda Network Group, Vice President of Human Resources of Shanda Group and Vice President of Human Resources of Lenovo Group. She has extensive experience in corporate management.

Mr. Ma Shenyuan, aged 55, is the Vice President of the Company. He is responsible for energy trading, vehicle refuelling and bunkering business. He graduated from the Sinopec Research Institute of Petroleum Processing in 1987 and received a Master's Degree in Applied Chemistry. Prior to joining the Group in 2014, he held several senior positions in Chinese government organisations and commercial firms, including the National Development and Reform Commission, the State Bureau of Petroleum and Chemical Industry, and served as a General Manager of business development in Shell in China. He has extensive experience in the energy sector.

Ms. WU Xiaojing, aged 49, is the Vice President of the Company. She is responsible for assisting the President in the management and business development of projects in Southern China region. She graduated from The Chinese People's Armed Police Force Academy in 1990 and obtained a Bachelor's Degree in Law with a major in Immigration Inspection and obtained an Executive Master of Business Administration from Peking University in 2011. Prior to joining the Group in 2004, she worked in the Southern China branch of Beckman Coulter, Inc. and was responsible for regional business development. She has extensive experience in business operation and market development.

Ms. GE Hua, aged 55, is the Vice President of the Company. She is responsible for assisting the President in project management and business development in Shandong Region. She obtained an Executive Master of Business Administration from the Fudan University in 2006. Prior to joining the Group in 2000, she held positions in Yancheng Zhongxiang Group, Head Office of Yancheng Economic Development Zone and Citic Yancheng Company. She has extensive experience in business operation and market development.

Mr. LIU Yongxin, aged 54, is the Vice President of the Company. He is responsible for the European transportation energy business and overseas business development. He graduated from Xi'an Transportation Science University (currently known as Chang'an University) in 1987 with a Master's Degree in Vehicle Engineering, and obtained a Master's Degree in Finance from the Massey University in New Zealand in 1999. He was awarded the Doctor of Philosophy in Finance and Investment Management from the Sun Yatsen University in 2010. Prior to joining the Group in 2008, he worked at Exxon Mobil and BP and held various important positions in marketing, operation, investment and merger and acquisition, etc. He has extensive experience in operation and market expansion in the energy sector.

Mr. ZHANG Yuying, aged 43, is the Vice President of the Company. He is responsible for marketing and strategic performance, system management, legal and administrative related work. He graduated from the Renmin University of China in 2003 with an Executive Master of Business Administration. Prior to joining the Group in 2003, he worked in Kaifeng Electromechanical Group and Henan Tongli electrical appliances Group. He has extensive experience in business operation, market development and strategic planning.

Mr. ZHANG Guozhong, aged 53, is the Vice President of the Company. He is responsible for human resources of the Group. He graduated from the Tianjing University of Finance and Economics in 2009 with an Executive Master of Business Administration. Prior to joining the Group in 2001, he worked as the Secretary of Discipline Inspection Commission in the General Armaments Department of Commission for Science, Technology and Industry for National Defence. He has extensive experience in business operation and human resources planning.

Mr. Huang Baoguang, aged 46, is the Vice President of the Company. He is responsible for business related to investment development, legal affairs and infrastructure. He graduated from the PLA Institute of International Relations in 1993 and obtained a Bachelor's Degree in International Strategic Studies (English). He received a Master's Degree in Energy, Environmental Management and Economics from the Scuola Supperiore Enrico Mattei in Italy in 2001. He has also completed training courses in the American laws and International laws in the United States and the National Law Center (Dallas) and obtained the in-house Legal Consultant Qualification in Corporation Law from the National Economic and Trade Commission. Prior to joining the Group in 2016, he worked as the General Counsel, General Manager of Legal Department and General Manager of Equity Management in China National Offshore Oil Corporation (CNOOC) Gas & Power Group and a Legal Counsel in CNOOC and CNOOC Limited. He is a member of the Association of International Petroleum Negotiators (AIPN). He has extensive experience in energy industry law, contract management and overseas business management.

Ms. WONG Chui Lai, aged 39, is the Company Secretary of the Company. She is responsible for implementation of good corporate governance. Prior to joining the Group in 2007, She worked at one of the big four international accounting firms. She graduated from the City University of Hong Kong in 2000, with a Bachelor of Business Administration (Hons) in Accountancy. She is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Association of Chartered Certified Accountants (ACCA) in England. She has over 16 years of experience in accounting and financial management.

Environmental, social and governance overview of ENN

The Group engaged in the city piped gas business since 1992 and is one of the largest clean energy distributors in the Mainland China. After more than two decades' operation, the Group has successfully built an energy distribution system, providing natural gas and other clean energies as major products for end users in civilian urban uses, industrial parks, public construction, transportation and industry sector. The Group provides energy users with tailor-made, optimised and total solutions for clean energies of a great variety of categories. The Group committed to adopting commercial ethics, business integrity and tax compliance as the basic requirements in its economic activities. The Group has established and constantly improves its anti-corruption policies and maintains effective communication channels of reporting malpractices, together with relevant training and education. Besides, the Group takes anti-corruption and business integrity as the prerequisites for selecting partners. It actively works with its suppliers and partners to promote the compliance and orderly development of the industry. For many years, the Group has been adhering to harmonious development as one of its core values. Apart from formulating sustainable planning of corporate development, the Group makes effective and continuous efforts in economic development, safe operation and environmental protection, which is in line with its corporate philosophy of "harmony between energy production and environmental protection".

This Environmental, Social and Governance Report is prepared and presented in accordance with the "Environmental, Social and Governance Reporting Guide" ("ESG Guide") set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") as well as the Sustainability Reporting Guidelines ("G4 Guidelines") issued by the Global Reporting Initiative ("GRI"). This report is prepared for the period from 1 January 2016 to 31 December 2016. Certain items may go beyond the said time frame.

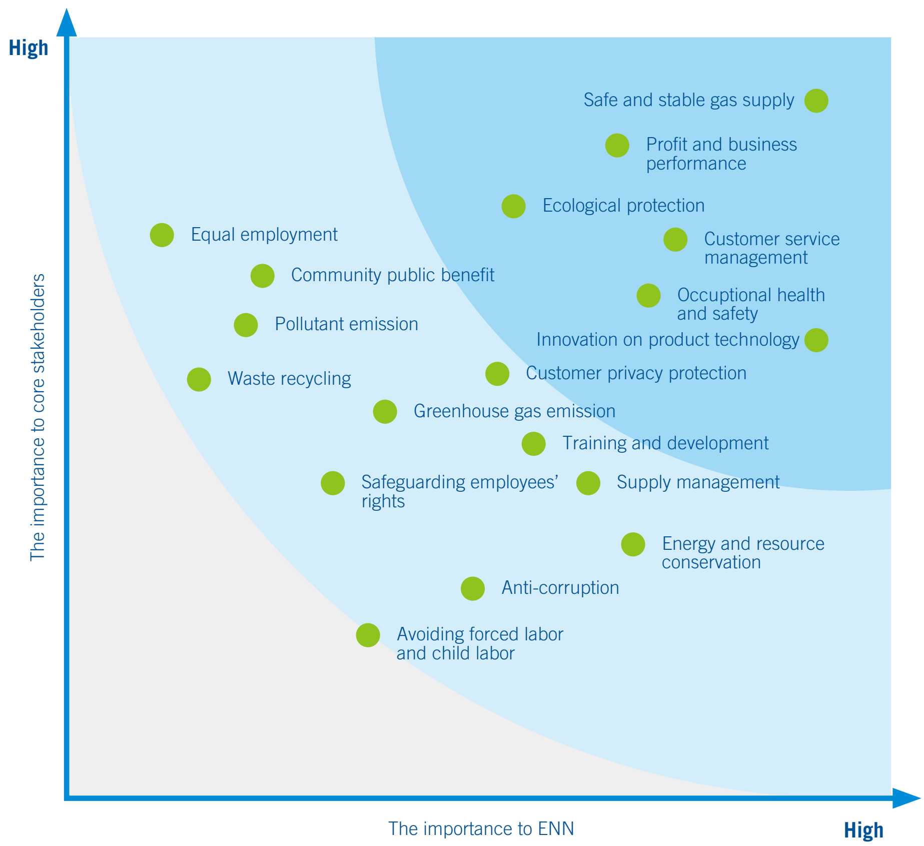
Responsibility management

- **Responsibility concept**

  The Group is committed to making significant contributions to environmental protection and the energy sector both within and beyond the country. It will also maximise the long-term interests of its shareholders, customers and employees, as well as to society and itself.

- **Responsibility issues**

  Complying with the ESG Guide and making good reference to the GRI's G4 Guidelines, the Group adopts the practices of leading companies at home and abroad in data combing, sorting, screening and reordering. As a result, the Group has identified a number of issues with major impacts on the economic, environmental and social fronts, as well as with a substantial influence on the evaluation and decision-making by stakeholders.



- **Communication with stakeholders**

The Group conducts effective communication with core stakeholders through diversified and smooth channels, so as to listen and response to their aspirations and expectations:

Stakeholders	Expectations and aspirations	Means of communication	ENN response
Shareholders	• Excellent business performance • Sustained and steady growth • Clean and transparent operation • Timely and reasonable disclosure	• General Meetings of Shareholders • Daily communication • Announcement • Interim and annual report • Company website • Road shows	• Regular disclosure of information • Efforts to improve profitability • Continuous improvement of the governance structure • Responsible investment • Availability of whistle blowing channels
The government	• Safe operation • Law-abiding operation • Promotion of industrial and regional development • Contributions to people's livelihood • Contributions to air clean-up	• Regular reporting • Daily communication • Information reporting • Participation in relevant policy formulation	• Enhancement of safety • Continuous improvement of risk management • Compliance with relevant laws, rules and regulations in business operation • Business operation in line with the needs of industrial and regional development • Active promotion of urban city-gas supply • Active promotion of coal-to-gas conversion and vehicle gas refuelling
Employees	• Equal employment opportunities • Sound career development • Safe and healthy working environment • Education and training opportunities	• Staff meetings • ENN University • The labour union • Various types of internal and external training • The "Employee Home" platform	• Diversified recruitment • Availability of a learning platforms • Availability of employee activities • Focus on employee health
Customers	• Safe and stable gas supply • Effective and efficient services • Reasonable prices • Personal information protection	• National customer service hotline: 95158 • Service quality supervision hotline: 400-86-95158 • Community service stations • Customer satisfaction surveys	• User safety checks • Timely and effective response to customer demands • Good customer services
Suppliers and business partners	• Transparent procurement • Localised procurement	• Supplier conferences • Strategic cooperation • Recruitment	• Open tendering • Availability of a supplier management system • Continuous improvement of policies and management efficiency
Community	• Safe operation • Contributions to community development • Organisation of pubic welfare activities	• Popular science education • Community publicity events • Volunteer work • Charitable activities	• ENN Charitable Foundation • Contributions to public welfare and community development • Assistance to the poor and those in need • Community volunteer services • Care for the next generation

Intelligent operation for urban ecosystem

Thanks to innovation, the Group relies on the technologies of efficient energy conversion, the large-scale network and intelligent operation platform, which actively transform the business from a fuel gas supplier to an integrated energy supplier. At the same time, it has formed an interconnected and shared energy model, which reduces energy consumption and enhances energy efficiency.

The Group continues to participate in the construction of a clean, low-carbon, safe and efficient modern energy system, with in-depth efforts to promote the reconstruction of its management system as well as strategic transformation and upgrade. Based on technologies such as block chains, big data, cloud computing and the Internet of Things, the Group is gradually constructing an integrated multilateral trading platform integrating the flows of business, logistics, capital and information. Based on an intelligent organisation which rapidly mobilises ecosystem resources to meet customer needs, the Group helps to enhance the competitiveness of core business models, including the conventional distribution of natural gas, the sale of multiple energies, online energy transactions as well as intelligent operation of the pipeline network. The Group also further promotes the interconnection of information, values and intelligence as well as data-driven intelligent development, leading to the strategic upgrade of integrated energy operators and the formation of a sharing and win-win energy ecosphere in a swift manner.

To build the intelligent value chain and realise the sharing inside the ecosphere

Procurement
- To form an open ecosphere so as to realise the win-win, sharing, and mutual-promotion situation
- To share information and use point-to-point production information purchasing service via intelligence enterprise users platform to realise value exchange
- To guarantee more multiple gas sources to provide a more stable gas supply

Production
- To realise the demand-driven production to improve the resource efficiency
- To wisely realise the quality retracing to effectively guarantee the users' relaxed and safe use of the resource
- To comply with regulation and ensure more effective control of risk by achieving cost transparent and transparent capacity
- To establish the direct, highly-efficient and quality resource service relationship between the resource elf and business elf by breaking the vertical and horizontal function setting

Logistics
- To realise the traceability of logistics circulation and intelligent delivery so as to serve customers and partners in value chain in a more convenient and wise way through the intelligence enterprise platform

Sales
- To achieve a reasonable allocation of resources and enhance energy efficiency by an intelligent enterprise platform based on users' needs

Innovation-led

Strategic innovation
To determine ENN's energy development strategy based on the energy industry development and promote the Company's leaping development through the strategic innovation

Business model innovation
To make use of business model innovation, the Company gradually transforms itself from promotion of natural gas applications to overall clean energy solutions and smart energy service; the company, which advocates the use of compressed natural gas ("CNG") technology for automobile, has developed liquefied Natural Gas ("LNG") in those inaccessible places without pipelines

Management innovation
To continuously promote the fine management model and conduct the centralised management through the information platform to have a real-time understanding of employees' service for customers and the pipeline safety, so as to have a quick response to customers' demands and adapt to the market development

Cultural values
To lead the company's faster and better development by implementing such concepts as being people-oriented, pursuit of excellence, and harmonious coexistence, focusing on customers and employees, alliance cooperation, foresight, cleaning, innovation, initiative and achievement

Technology innovation
To drive the upgrading of the Company's clean energy industry chain through the technology innovation, and vigorously build the online-to-offline industry

1.Developing with safety, robustness and credibility

Adhering to the concept of "people-oriented and safe development" in safety management, the Group always gives priority to safety in its operation. Based on the Health, Safety and Environment ("HSE") management and information technologies, the Group has built a unique system of safe operation and management to ensure safety in all aspects of energy operation. It has maintained a track record of good safety over the past two decades or so, thanks to the comprehensive systems and processes and the strict management.

1.1 Improving safety management

The Group has established a three-tier occupational safety and health (OSH) system and continuously improves the HSE management system. It continuously conducts safety assessment, comprehensive controls, safety inspections & acceptance, safety training, occupational certification and safety promotion. Active efforts are made to safeguard the health and safety of employees, improve labour protection and to create a healthy and safe working environment, with the all-rounded measures to realise "zero accidents", "zero personal injuries" and "zero environmental damages".

Three-tier Occupational Health and Safety Management System

Headquarter	Safety committee	HSE office	Safety production department of members of the Group
Regional coordination center	General manager of regional coordination center	Inspector general of regional technology safety	Regional members of the Group
Member enterprise	Safety committee of the company	Functional departments of member enterprises	Work team

Work safety standardisation	• Specifying the safety responsibilities of different positions in the holding company, regional companies (divisions) and subsidiaries • Putting forward basic requirements on safety management (including 17 aspects, such as organisation and personnel, safety responsibility system, safety education and training, safety inspection, risk management, safety investment, occupational health and labour protection and hazardous operation management)
Safety assessment – comprehensive controls	• Carrying out evaluation and inspections in five major aspects, namely integrated safety, site safety, pipeline network safety, customer safety and engineering safety • Rectifying problems identified in general inspections, with related owners, measures, deadlines, implementers and acceptance checkers identified for such rectifications
Safety monitoring and acceptance checks	• Members of the Group signing "Responsibility Contract on Goals of Safety Management" with internal departments, so as to quantify the goals of safety management and to duly conduct acceptance checks, which effectively promotes occupational health and safety work • Controlling unscrupulous instructions, non-compliant operations and regulatory deficiencies in the safety management of projects, the pipeline network, sites and the indoor environment • Signing the safety management agreement with contractors, requiring them to appoint full-time personnel of safety management and assessing contractors based on the Group's policies and the contractual terms
Safety training	• For persons-in-charge of members of the Group: Regulatory standards and requirements, safety management knowledge, as well as procedures of operation, maintenance and first-aid repair • For safety management personnel: ENN in-house OSH certification • For all employees: Contents, methods and tests of training to be designed based on the needs
Occupational certification	• Registration → Examination → Assessment (Q&A → Deliberation) → Hiring
HSE information	• Aligning the Group's HSE management with the data of corporate safety management according to the information system, business processes and policies and standards, as well as regulating and optimising the process of reviewing hazardous operations, which has been adopted by over 50% of members of the Group

1.2 Enhancing safety technologies

The Group continuously promotes the R&D and applications of safety technologies. It has established systems of safety operation and management, mainly including the integrated operation and dispatch system, the engineering visualisation system, the geographic information system ("GIS") and the supervisory control & data acquisition system ("SCADA"), which fully guarantee the safe development of the Group.

Case: Engineering visualisation

To sustainably guarantee work and operational safety, the Group has set up a management platform of engineering visualisation which perfectly integrates IT technologies with actual engineering management. To be specific, positioning technologies and the mobile Internet are used to collect, record and exchange frontline business information at project sites. The Group has also accumulated a large number of data in engineering projects by using the big data technology for the quantitative evaluation of work results and for business appraisal. Besides, it has set up analysis models to follow overall business movements and to identify defects in a detailed manner. Such initiatives guarantee the effective flowing of engineering information, realise the visualised control of project sites and further enable the optimisation of engineering work.

Case: Use of technical means to ensure the transport safety

To ensure the efficiency and safety of logistics and transportation, the Group adopts advanced technologies and a perfect mechanism of safety guarantee, with three measures, precaution, recording and installation, as follow:

Precaution: "Global positioning system identification card" + "Beidou system"	In order to prevent fatigue driving, driver identification cards are used together with the Beidou system, so that administrators can keep abreast of the working conditions of each driver, thus enhancing driving safety during the transport process.
Recording: Real-time recording with in-vehicle cameras	In-vehicle cameras are installed at important parts, so that the working conditions of each driver and each vehicle are timely recorded and monitored by the back office on a real time basis, thus greatly enhancing the safety performance during the logistics process.
Installation: Hydraulic retarders to improve safety performance	Since dangerous goods transport vehicles are larger and heavier, hydraulic retarders are installed to enable sufficient buffer time for vehicles in braking, thus significantly reducing the risk of fire caused by tyre and body frictions under high temperatures.

1.3 Promoting safe operation

The Group attaches great importance to safety in gas production and operation. Detailed management is conducted in each aspect by means of core systems of the intelligent enterprise platform. The Group also continuously improves and enhances the management mechanism through the use of advanced technologies, so as to ensure controllable safety in gas production and operation ranging from construction, operation, transportation to customer safety. The logistics subsidiary of the Group was the first logistics corporation in China to receive PetroChina's HSE-MS certification. It was also the first company to obtain the qualification of dangerous goods transport, as well as the level 1 qualification of road freight transport from the China Road Transport Association.

Construction of LNG plants, pipeline network and refuelling stations	• Strict management of quality of engineering materials and construction
Operation of LNG plants, pipeline network and refuelling stations	• Hierarchical management and regular inspections of pipelines, with timely renovation of aged pipelines, strengthened monitoring and early warning against key risks • General safety inspections of sites and stations in operation, with related owners, measures, deadlines, implementers and acceptance checkers identified for related rectifications
Logistics operation	• Regular inspections of the Group's own fleet of natural gas transport vehicles to remove hidden dangers • Technological means to prevent fatigue driving • "Dangerous Map" as a precautionary approach
Customer safety	• Development and implementation of an integrated solution which covers innovative technologies and compliance management, together with operating standards or guidelines covering the whole process of design, model selection, installation, publicity and safety inspections • Measures to ensure intrinsic safety, including publicity and training on safe gas use, and the addition of fuel gas protective devices • Various training for hotline service personnel on safe gas use • Pipeline inspections and household surveys on a regular basis

Mr Wang Yusuo, Chairman, takes part in the safety inspection in Zhuzhou

Case: Large-scale safety inspection in winter

To strengthen the concept of "safe development" and to test the effectiveness of work safety measures at all levels, the Group organises a large-scale safety inspection at the end of each reporting period, with several teams deployed to examine the safe gas supply in winter and review the safety performance of members of the Group throughout the year. Key risks identified in the inspection will be addressed in the following year under the direct supervision of the General Manager. Such an inspection not only effectively ensures the timely rectifications of safety risks, but also guarantees the smooth progress of work safety.

Case: Job skills competition in Kaifeng Xinao Gas Company

Kaifeng Xinao Gas Company organised a job skills competition in 2016 to ensure work safety, to exchange related experience and to demonstrate related skills. Frontline staffs from different trades competed with each other in pipeline welding and other items, with both theoretical testing and live demonstration. The event allowed frontline staffs to show their high level of professional skills and to learn from each other, thus being conducive to frontline safety.

2. Creating satisfaction for valued customers

Adhering to the service philosophy of "creating satisfaction for valued customers", the Group adopts a customer needs-oriented approach, with the goals of timely responding to customer needs, meeting its performance pledge, providing differentiated products/services, and branding of its service culture. Relying on the effective information-based platform and the outstanding team of energy service management, the Group continuously improves its service awareness and capability, enhances customer satisfaction and protects customer privacy.

2.1 Considerate services

Adopting the model of community grid service management together with advanced equipment, the Group conducts comprehensive design in gas purchase and gas use, providing tailor-made and considerate services for all customers, so as to enhance customer experience.

Gas purchase	• Constructing self-operated business outlets • Setting up business outlets in post offices, banks, supermarkets, etc., and allowing payment over the counter or at self-service terminals • Setting up more transfer machines or payment collection points in larger communities
Gas use	• Conducting regular safety inspections of residential, industrial and commercial users, together with the use of unmanned aerial vehicles ("UAV(s)") and other advanced technologies to improve the overall safety rate • Setting up the 95158 service hotline to timely handle gas use problems • Promoting gas use safety through offline and online business outlets

Case: Using UAVs to detect gas leaks

Adopting a customer needs-oriented approach, the Group strives to enhance the safety and the efficient detection in gas use by means of advanced technologies. For example, Xiangtan Xinao Gas Company, one of its subsidiaries, used the latest "UAV-borne gas safety detector" to detect household gas leaks within the reporting period. Being highly accurate and responsive, the detector is fully automatic during the mission. It can cover one household within several seconds and 1,000 households in a day. Besides, it doesn't cause any damage to human eyes. The related UAVs are not installed with cameras in the operation, thus fully protecting the privacy of residents. Their use is in strictly complied with national and local laws and regulations, including "Air Control Regulation" and "UAVs Flight Management Rule".

2.2 Handling complaints

The Group believes that customer complaints can improve its management and contribute to its improvement and innovation. The Group actively meets its performance pledge and has formulated the "Management Rules for Customer Complaints", to ensure that customer complaints are addressed in a timely, fair and reasonable manner. The

Handling rate
100%

In 2016, all 313 complaints reported were handled promptly effective management of customer complaints enables the two-way communication with customers, so that the Group can get closer to the market. Besides, it helps to integrate potential customer needs to the Group's products and services, in order to timely respond to customer needs and meet its performance pledge.

Case: Timely response to customers

The Group attaches importance to customer needs and has formulated the "Management Rules for Customer Complaints" to ensure that customer complaints are addressed in a timely, fair and reasonable manner. During the reporting period, the Group continued using the 95158 hotline to provide around-the-clock services for all customers, so that they could easily contact related gas companies at any time. The Group is also committed to giving a response within 24 hours upon the receipt of any customer complaint, and to proposing a solution together with a clear reply within three calendar days. The Group thus gains worldwide acknowledgement from customers with a handling rate of 100%.

3. Growing together with business partners

Upholding the core value of "harmonious coexistence", the Group starts with guaranteeing "stable gas supply" and "consistent quality materials" and is dedicated to "promoting the development of the industry". It actively communicates and cooperates with suppliers, contractors, peer companies and other stakeholders to promote the healthy growth of the business ecosystem.

3.1 Win-win cooperation

The Group strictly implements its standards of approval on suppliers and contractors, with related assessment in terms of integrity, safety risks, environmental risks, corruption risks and other aspects. It also actively communicates and cooperates with suppliers and contractors to promote their quality management and to achieve a win-win situation.

Supplier management	Source gas supplier	• System sharing and two-way supervision via the intelligent operation platform • Online and offline multi-dimensional procurement via www.greatgas.cn • Hierarchical procurement ((A) as main gas sources with strategic significance, (B) as long-term standby gas sources and (C) as emergency gas sources) • Diversifying gas sources via international cooperation
	Material supplier	• Hierarchical procurement • "Code tracking" to guarantee product quality and traceability
Contractor management		• "Engineering visualisation" for strict management of engineering projects and to ensure project quality • A year-long campaign to effectively tackle common problems of inadequate quality • Project tendering and contractor pre-qualification assessment

Case: Promoting diversified gas sources via international cooperation

The Group has long been committed to the stability and diversification of gas sources. To ensure the long-term development of core downstream businesses, the Group actively takes advantage of the low oil prices and secure medium and long term LNG supplies. During the reporting period, the Group signed LNG sale and purchase agreements with Chevron from the United States, Total from France and Origin from Australia, completing the first batch of medium-term and long-term LNG procurement of 1.43 million tonnes per year.

Case: www.greatgas.cn

In order to facilitate the smooth communication between gas users and suppliers and to guarantee the stability of gas sources, the Group has developed the first e-commerce website covering the whole LNG industry chain in China (www.greatgas.cn), featuring online and offline multi-dimensional cooperation with source gas suppliers to ensure a win-win situation. Being a multilateral LNG trading platform integrating the flows of business, logistics, capital and information, the website also provides users with value-added services such as intelligent logistics, industry big data and industry chain finance. The website is interconnected with the integrated operation scheduling system, sharing the information of demand, supply, inventory and logistics, so as to optimise operation. As of the end of the reporting period, the website had 596 certified users and more than 1,606 registered users in 28 provinces and cities across China. According to the official site of the National Energy Administration, www.greatgas.cn has been selected as one of the first exemplary projects of "Internet +" Smart Energy (energy internet) in China.

Case: "Code tracking"

Unique or QR codes of products are used for the traceability management of quality information throughout the product process, from raw materials, production all the way to maintenance. Such an initiative effectively guarantees and enhances product quality and services of manufacturers, and realises mutual benefits and a win-win situation among stakeholders.

3.2 Promoting the development of the industry

The Group is committed to promoting the development of the fuel gas industry, based on its own positioning as well as its existing advantages in business deployment, resource allocation and operational experience. By means of technological innovation, standards formulation and intra- and cross-industry cooperation, the Group fosters its competitiveness in resource development, technological innovation and quality services, so as to achieve complementarity and win-win cooperation and to promote the development of the industry.

Technological innovation (2016)	• 15 technological development projects initiated by the Group • 9 master engineering topics initiated by members of the Group • 80 outstanding and creative ideas proposed • 11 outstanding technical achievements and 22 innovative projects promoted or introduced • Nearly 100 business units and employees honoured as outstanding ones
Standards formulation	• Participating in the drafting and formulation of related regulations and standards, including the "Safety Technical Specification for Operation, Maintenance and Rush-repair of City Gas Facilities CJJ51-2016", the "Standard for the Operation Safety Assessment of Gas System", the "Safety Technical Standards for City Gas Operation", the "Guidelines for Preparation of Emergency Response Plans in the Fuel Gas Industry", the "Measures for Protection of City Gas Facilities", the "Management Rules for Safety Monitoring of Pressure Pipelines", the "Guidelines for Investigation into Safety Accidents of City Gas", and the "Diaphragm Gas Meters with Wireless Remote-reading CJ/T 503-2016".

Intra- and cross-industry cooperation	• Working with Sinopec, Beijing Gas, Shanghai Dazhong Public Untilities and other companies in the industry to promote the development of the vehicle natural gas market • Working with China Classification Society, Shanghai Ship and Shipping Research Institute, Beijing Tianhai and other companies to promote the innovation and research and development of marine technologies • Working with the Korean Samchully Company, the Xijiang Group and several port operators to promote the development of the LNG shipping market

4. Protecting the environment with harmonious coexistence

With the mission of "innovating clean energy, improving living environment and enhancing the quality of life", as well as the vision of "striving for excellence and harmony through a people-oriented approach", the Group has spared no effort in providing clean and convenient natural gas for its users as well as improving the urban ecological environment. The Group also insists on the ecological concepts of "green office" and "low-carbon operation", with a view to maximising the utilisation of resources and minimising the impact of its operation on the environment and natural resources.

4.1 Supplying clean energies

Air pollution is a serious environmental problem facing China. Related alerts are frequently issued in Chinese cities, in particular the Beijing-Tianjin-Hebei region, threatening the living space for Chinese urbanites. Among other things, smog is caused by the widespread burning of coal in large quantities and the emissions from motor vehicle. The Group actively engages in the improvement of air quality and continues to promote the "coal-to-gas" conversion in cities. It is making full efforts to promote the use of natural gas in vehicles and vessels, relying on its edge in CNG and LNG production, storage, transport and distribution, as well as its rich experience in the construction and operation of refuelling stations.

City gas & energy trading business	For city gas and energy trading, the Group recorded a gas sales volume of 12.815 billion cubic metres, equivalent to a reduction of 17.045 million tonnes in coal use and 16.908 million tonnes in CO_2 emissions.
Transportation business	As of the end of 2016, the Group had a total of 320 CNG refuelling stations and 277 LNG refuelling stations, with a total gas sale volume of 1.514 billion cubic metres, including 863 million cubic metres of CNG and 651 million cubic metres of LNG for vehicles, equivalent to a reduction of 785,600 tonnes in gasoline consumption, 611,400 million tonnes in diesel consumption, and 982,000 tonnes in CO_2 emissions.

Case: Actively promoting "coal-to-gas" conversion in Hebei Province

In view of the smog problem, cities in the Beijing-Tianjin-Hebei region have adopted a cooperative mechanism for the joint prevention and control of ecological hazards. The Ministry of Environmental Protection has promulgated the "Air Pollution Prevention and Control Measures for Beijing, Tianjin and Hebei (2016-2017)", further stipulating the requirement of gradually eliminating fuel coal in designated areas. In 2016, Langfang Xinao Gas, Shijiazhuang Xinao Gas, Shijiazhuang Kunlun

Xinao Gas and Baoding Xinao Gas carried out "coal-to-gas" conversion works in urban villages and peripheral rural areas in line with arrangements by competent authorities of Hebei Province. Renovation works are completed for nearly 170,000 househelds in 374 villages in total, laying more than 4,000 kilometres of medium-level and low-level pipelines. With its outstanding performance, Baoding Xinao Gas Company was honoured as an "Advanced Entity" by Hebei provincial government. And Shijiazhuang Xinao Gas, Shijiazhuang Kunlun Xinao Gas and Langfang Xinao Gas were commended by local municipal governments. Significant contributions have been made to the early realisation of a clean and beautiful environment in the cities.

Case: "Xijiang ENN 01", the first inland waterways bunkering ship in the Mainland China

With the official launch of the "dual-core driving" strategy, Guangxi Region is vigorously promoting the use of clean energies in the water transport industry, in order to enhance the ecological environment on and around the Xijiang River. As a technical pioneer in LNG bunkering, the Group provided guidelines and technical support for "Xijiang ENN 01", which was the first standardised LNG bunkering barge built after the official announcement of the "Specifications for Classification and Construction of LNG-powered Bunkering Barge" by China Classification Society, and it was built within the shortest construction period in China. The ship enables the recovery and avoidance of the waste of evaporated natural gas. It is also more economical and eco-friendly than vessels with diesel generating sets. Serving as an innovator and role model in the industry, the Group has thus made contributions to the extensive use of clean energies in the Xijiang River region and to local environmental protection with lower carbon emissions.

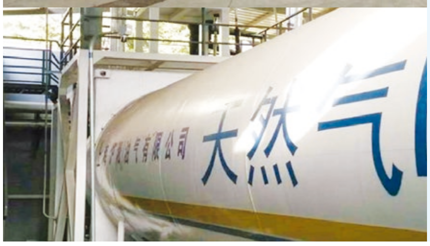
Case: Building a regional smart energy network to improve energy efficiency

Natural gas is used as the fuel in the distributed energy system to realise cascade energy use, so as to provide customers with an integrated energy solution of cooling, heating, steam and electricity. As a pioneer in the use of distributed energies and the smart energy network technology, the Group has been operating a number of related projects across China. Qingdao Sino-German Ecopark, located on the west coast of Jiaozhou Bay, is the first model ecological park of sustainable development jointly developed and constructed by the Chinese and the German Governments. Some energy stations under the project have been put into operation. When all of them are commissioned, the comprehensive energy utilisation ratio can reach 81%, while the whole-system energy saving can reach 51%. Besides, it will reduce CO_2 emissions by up to 65%, SO_2 emissions by up to 86%, NO_x emissions by up to 71%, and dust emissions by up to 82%. It is one of the first model projects of multi-energy complementary integrated optimisation announced by the National Energy Administration. With the distributed energy system, the Group supplies clean energies in a more stable and efficient manner, which helps to promote the use of clean energies and to enable a green and low-carbon model of social and ecological development.

4.2 Green operation

The Group always adheres to the low-carbon concept in its business operation and implements the idea of green operation via such measures as green office, control of pollutants, development of new technologies, and green construction. The Group strives to improve quality and efficiency without compromising the environment, and actively assumes the responsibilities and liabilities as a corporate citizen.

Energy conservation and emission reduction	• Recycling of resources: Developing units of tanker residual gas recovery and LNG tank boil-off gas ("BOG") re-liquefaction, for the sake of recycling natural gas vented in the handling and storage processes, so as to save resources and reduce GHG emissions • Green logistics: Vehicles of the logistics fleet running on natural gas instead of diesel to reduce greenhouse gas ("GHG") emissions • Green office: Using the iCome electronic office platform to reduce paper use; using geothermal heat pumps at the headquarters building to reduce heat outsourcing and power consumption
Pollutant discharge management	• Setting up an internal platform of idle assets trading, so as to maximise the recycling of idle equipment and facilities • Effectively handling compressor waste oil, scrapped odorant barrels, circuit boards of used gas meters and other hazardous wastes, which are recovered centrally and transferred professional recycling companies • Effectively handling scrapped pipelines as well as harmless wastes arising from the manufacture or maintenance of gas meters, which are handed over to qualified recycling companies; shipping domestic waste to government-approved sites for recycling • Domestic sewage going into the municipal network for centralised treatment • Covering all earthwork excavated in construction process with dense nets; building separation units; frequently washing engineering vehicles in construction sites to reduce dust • Carrying out construction work with adequate consideration of the daily routines of local residents to minimise impacts of noise pollution
Ecological protection	• Advocating the "diagonal pipe crossing" construction technology for laying pipes, which features higher costs but minimal impacts on the earth's surface, in environmentally sensitive areas where the flora and fauna are abundant or scarce, so as to minimise damages to the local habitats • Minimising disturbance to the natural environment during construction and daily operation by covering all excavated earthwork with dense nets and building separation units, so as to prevent animal accidents and to protect the eco-environment and biological diversity

Case: Addressing LNG challenges for technological innovation

Methane BOG, in association with gasification under great difference with the ambient temperatures is generated during the transport and storage of LNG. BOG prevents remaining gas in the tanker from going into tanks and it causes pressure rise in the tanker. The Group has actively carried out technological innovation to address the problem. As a result, it has developed units of tanker residual gas recovery and BOG re-liquefaction, which help recycle resources and reduce GHG emissions. The Group has been granted three national invention patents for the technology. In 2016, the said units recovered a total of about 3.09 million square metres of residual gas.

Pollutant generation in 2016

Index	Unit	2016
Total quantity of scrapped odorant barrels	t	6.6
Total quantity of compressor waste oil	t	48.6
Total quantity of scrapped circuit boards of gas meters	t	1.83
Total quantity of office and domestic waste	t	1,504
Total quantity of domestic sewage	m^3	70,459.2
Total quantity of harmless waste generated during the manufacture and maintenance of gas meters	t	28
Total quantity of scrapped pipelines	t	47.9

Energy and resource consumptions in 2016

Energy/resource	Unit	2016
Outsourced power consumption	MWh	164,226.7
Fuel coal consumption	t	60,344.39
Diesel consumption	m^3	1,726.89
Petrol consumption	m^3	2,514.6
Natural gas consumption	10,000m^3	1,099.9
Comprehensive energy consumption	tce	82,781.9
Water consumption	10,000m^3	1,328.77
Comprehensive energy consumption per gas supply unit	tce/10,000m^3	0.0578

5. Growing with employees with a people-oriented approach

The Group always regards its employees as its most valuable assets and the key determinant of its ongoing development and success. Guided by the "people-oriented" philosophy, the Group adheres to legal and reasonable employment on an equal basis. It pays attention to the training of employees and provides guidance in their career development. It also creates a pleasant and comfortable working environment for employees.

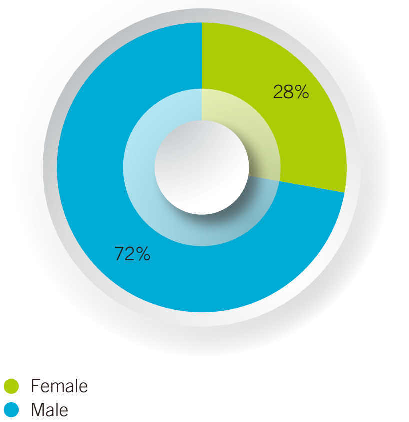
5.1 Teams with diversification and equality

The Group strictly abides by the relevant labour laws in China and adheres to the equality policy in recruitment and employment. Specifically, a number of human resources rules have been developed on recruitment, selection and promotion, so as to ensure the openness, fairness, rationality and legality in recruitment, employment and selection. The Group never uses child labour and prohibits forced labour. In line with relevant national policies, the Group actively performs its duties and obligations in supporting the employment of the disabled and of demobilised forces.

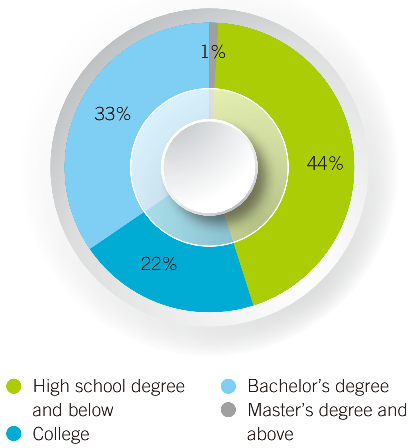
The Group guarantees the basic rights with all employees and signs labour contracts with them. Labour protection necessities including fully paid social security, and housing provident funds for all employees are provided also for all frontline workers. The Group duly follows the national holiday schedule in China, and ensures fringe benefits for employees, such as the supplementary commercial insurance, the festive allowance, the high temperature allowance and marriage and funeral grants.

As at the end of the reporting period, the Group had a total of 28,735 employees, including 52 disabled ones. There were 196 persons working in the governance structure, accounting for 0.7% of the total number of employees. The Group was not involved in any labour-related litigation during the reporting period.

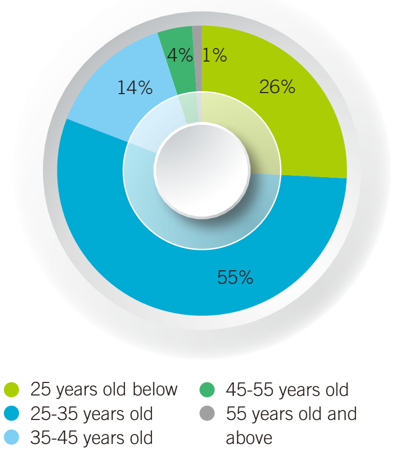
Proportion of employee (by gender)



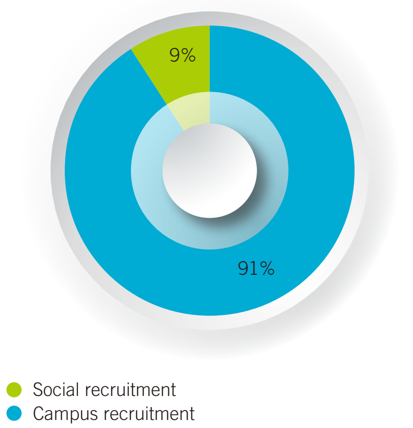
Proportion of employees' education background



Proportion of employee turnover (by age)



Proportion of new employee (by recruitment method)



5.2 Training and development

The Group is fully aware of the importance of high-calibre talents for development and actively advances strategy of "becoming stronger with talents". To be specific, development plans are tailored for employees at different stages, so that they can utilise their talents and create values at different positions. The Group also strives to enable employees' self-achievement and career development, for the sake of common growth.

Case: ENN training, a platform of personnel training and innovative development

In order to enable knowledge flows and enhance employee skills, the Group has established a complete training system free of functional barriers. It is intended to enhance the overall capabilities of the Group and rapidly promote strategic upgrading. In 2016, the Group launched a total of 35 personnel training programmes with a total of 2,700 teaching hours. A total of 2,020 employees received accreditation of technical skills. Outstanding results have been achieved for initiatives such as "Online Learning Platform", "ENN E-learning", "Internet Learning System" and "ENN Night School", which enable online and offline learning and interactions among participants and encourage more employees to start self-learning in various manners, thus effectively guaranteeing the foundation for the personnel training and innovative development of the Group.

5.3 Care for employees

Adhering to the concept of "happy work and healthy life", the Group attaches importance to the work and life balance of employees. On the "Moon Festival" on the fifteenth day of the first lunar month, members of the Group invite families of their employees for visits, seminars and various recreational activities, for the sake of "celebrating the results and sharing the joy". And on the anniversary day, 6 August, a variety of cultural and sports activities are organised to bring pleasure and happiness to employees from the Group or each members of the Group. The Group also invests heavily to improve the working environment, so that employees can feel like home even at work.

6. Staying true to the mission and giving back to the community

As a witness and beneficiary of the reform and opening-up and the policy enriching the people in China, the Group never forgets its origin and always remains grateful. The Group takes harmonious coexistence as a social responsibility and actively participates in public welfare and charitable initiatives, giving back to the community in a concrete manner.

6.1 ENN Charitable Foundation

ENN Charitable Foundation was established in December 2005, with the donations from the Group and related companies controlled by Mr. Wang, the Chairman of the Company. With the missions of "promoting energy saving & environmental protection, supporting education and helping enhance social harmony", ENN Charitable Foundation has launched a variety of projects, mainly in terms of greening, school building, motivation and education. It also plays an active role in disaster relief and poverty alleviation, supporting cultural, sports and sanitation development. From the establishment of the Foundation in 2005 to the end of the reporting period, the Group had donated a total of RMB240 million to charitable causes, making contributions to social harmony and mutual care.

By means of its website, idea solicitation and advocacy campaigns, ENN Charitable Foundation actively communicates with and gets inspired by the public as regards its volunteer services. Related efforts also help enhance the awareness of charity and encourage care and love for others. With a strong support and influence, ENN Charitable Foundation takes the lead in promoting charity and works for the harmonious coexistence with people and society.

6.2 Close attention to energy conservation and environmental protection

The Group pays close attention to energy conservation and environmental protection, advocating the “low carbon” concept. It promotes environmental protection by supporting related scientific research and actual applications, working for the improvement of the human living environment.

Case: Joining hands to protect our home in “ENN Charity Day”

For many years, the Group has always been passionate about charitable causes and active to assume its social responsibilities. And with its influence, it has also encouraged the participation of more citizens in such causes. On 10 September 2016, the seventh “ENN Charity Day” was celebrated simultaneously in ten cities to promote environmental protection by ENN Charitable Foundation. With the theme of “paying attention to waste problems and protecting our green home”, related activities were organised to raise public awareness of waste problems and advocate a green and low-carbon lifestyle among the public. Nearly 180 volunteers from 6 members of the Group participated in related activities in Liaocheng, Jiaocheng, Huludao, Chuzhou, Zhanjiang and Quzhou, distributing 1,800 environmental protection brochures and 1,800 eco-friendly shopping bags. The activities evoked enthusiastic response from members of the public, who actively shared their views on waste problems with the volunteers, and wrote down their environmental concerns and commitments.

Case: Campaign by Xiangtan Xinao Gas to “Protect the Mother River”

Xiangtan Xinao Gas has launched an environmental campaign to “Protect the Mother River”, by means of proactive communication with the authorities of water works and environmental protection of Xiangtan City, Hunan Province. To be specific, the company offers to assume the long-term duty of waste removal along riverbanks designated as drinking-water source zones subject to Level 1 protection. And it undertakes to clear wastes at specified sites within such zones at designated times on a regular basis. Nearly 30 waste removal have been organised within related zones, with more than 460 active participants devoting 700 service hours, including staff of Xiangtan City Environmental Protection Association, members of the public, as well as employees of the Group and their families. ENN’s volunteering in waste removal is highly recognised by local authorities of environmental protection, water works and riverbank administration, which are promoting the practice among other companies in the city. Xiangtan Xinao’s Gas project of “Protecting the Mother River” is indeed a role model for routine and region-specific initiatives of environmental protection.

6.3 Promoting social harmony

The Group actively fulfil its social commitments and take the responsibilities as a corporate citizen by participating in poverty alleviation and disaster relief, so as to make contributions to social harmony.

Case: "Life Warm Currents" initiative by Dongguan Xinao to show care for vulnerable groups

In 2016, the "Life Warm Currents" initiative carried out by Dongguan Xinao brought care to different vulnerable groups. Volunteers paid visit to elderly people who live alone, lose their only child, or suffer from sickness, disability and poverty. They also visited a village accommodating elderly homes, leprosy patients in Dongguan Si'an, as well as welfare centres for deaf and autistic children. During the reporting period, "Life Warm Currents" organised 4 major visits to elderly people living alone and Dongguan Si'an village, 16 charitable activities to help autistic children and 8 visits to elderly's home, with more than 300 volunteers devoting over 7,000 service hours to help nearly 300 beneficiaries.

Education is of utmost importance for the future of a nation and a people. Being well aware of that, the Group devotes resources in many aspects to help more young people realise their dreams.

Case: Rewarding outstanding students and helping impoverished ones

With the financial support of the Group, ENN Charitable Foundation launched a programme in 2010 to help impoverished students in Langfang area to pay tuition fees for the first year of college, with a total of RMB1.51 million being donated to benefit 291 students over the past few years. Besides, in 2016, the Foundation donated a total of RMB5.78 million to set up scholarships in China University of Petroleum, Tongji University, Shandong University of Science and Technology, Southwest Petroleum University, Beijing University of Chinese Medicine and other colleges and universities to reward outstanding undergraduate and postgraduate students and to help impoverished ones. At the same time, Dongguan Xinao and Xiangtan Xinao also made donations to help students from impoverished families to complete their studies.

CORPORATE GOVERNANCE REPORT

The Company strongly believes that shareholders' confidence and faith in the Company comes with good corporate governance, which is fundamental to enhancing shareholders' value and interests. The Company is committed to upholding good corporate governance practices. The principles of the Company's corporate governance emphasise on an effective board, prudent internal and risk controls, transparency as well as clear and comprehensive disclosure, and, most importantly, accountability to shareholders.

The board of directors (the "Board") and the management of the Company have been continually reviewing and enhancing the corporate governance practices with reference to local and international standards. Since its listing on the Stock Exchange, the Company has adopted the Code of Corporate Governance (the "CG Code") as the main guideline for corporate governance. The Board believes that its continuous efforts in enhancing the Company's corporate governance practices have, directly and indirectly, contributed to the strong business growth of the Company and its subsidiaries (the "Group") in the past years. The Company is honoured to have received numerous awards from independent bodies in recognition of the Group's achievements in its business and management which include the following:

Institutional Investor Magazine

- Year 2016 – All-Asia Executive Team Ranking:
  – Best CFOs Rank No. 2 (Power Sector)
  – Best Analyst Meeting Days, Rank No. 3 (Power Sector)
- Year 2015 – All-Asia Executive Team Ranking:
  – Best CFOs Rank No. 2 (Power Sector)
  – Best CEOs Rank No. 1 (Power Sector)
- Year 2014 – All-Asia Executive Team Ranking:
  – Best CFOs Rank No. 2 (Power Sector)
  – Best Investor Relations Companies, Rank No. 2 (Power Sector)
  – Best Investor Relations Professionals, Rank No. 2 (Power Sector)
- Year 2013 – All-Asia Executive Team Ranking:
  – Best Companies in China, Rank No. 1 (Power Sector)
  – Best CEOs Rank No. 2 (Power Sector)
  – Best CFOs Rank No. 3 (Power Sector)
  – Best Investor Relations Companies, Rank No. 3 (Power Sector)
  – Best Investor Relations Professionals, Rank No. 3 (Power Sector)
- Year 2012 – All-Asia Executive Team Ranking:
  – Best CEOs Rank No. 1 (Power Sector)
  – Best CFOs Rank No. 1 (Power Sector)
  – Best Investor Relations Companies, Rank No. 2 (Power Sector)

Forbes Global

- Year 2013 "China's Best CEO"
- Year 2012, 2013 "Asia's Fabulous 50"
- Year 2001, 2002, 2003 "The 200 Best Under a Billion"

The Asset

- Year 2014 "Triple A Greater China Awards 2014 for Corporates in Environment"
- Year 2012 "China's Most Promising Companies 2012"
- Year 2009 "China's Most Promising Companies 2009"

Corporate Governance Asia

- Year 2015 5th Asian Excellence Awards "Best CFO", "Best Investor Relations Company" and "Best Investor Relations Professional"

IR Magazine

- Year 2015 "Best Investor Relations in Greater China"
- Year 2013/2014 "Top 100 for Investor Relations in Greater China"

FinanceAsia

- Year 2014 "Asia's Best Companies – Best Investor Relations 6th Place for 2014"
- Year 2005 "The Best Small Cap in China"
- Year 2002 "Best Financial Management"
- Year 2001 "The Best Small Cap IPO"

Yazhou Zhoukan

- Year 2014, 2015 "Best Company in Clean and Renewable Energy Industry"

All-China Federation of Trade Unions

- Year 2016 "National May 1st Labour Certificate"

Ta Kung Pao

- Year 2013 "China Securities Golden Bauhinia Awards – Best Performer in Corporate Social Responsibility"

Platts

- Year 2013, 2014, 2015 "The Platts Top 250 Global Energy Companies"

Fortune

- Year 2016 "China Top 500"

QQ.come and Finet

- Year 2015 "Top 100 Listed Companies in Hong Kong"

Annual International ARC Awards

- Year 2015, "Silver, Overall Annual Report: Electric & Gas Services"
- Year 2012, "Gold, Overall Annual Report: Electric & Gas Services"
- Year 2011 "Merit, Cover Design: Oil and Natural Gas Production and Service"
- Year 2010 "Bronze, Interior Design: Gas Distribution, Transport and Transmission"
- Year 2010 "Silver, Overall Annual Report: Gas Distribution, Transport and Transmission"
- Year 2008 "Gold, Overall Annual Report: Gas Distribution, Transport and Transmission"
- Year 2004, 2006, 2007 "Honors, Overall Annual Report"

International LACP Awards

- Year 2015 "Silver, Vision Awards Annual Report: Energy – Oil, Gas & Consumable Fuels"
- Year 2011 "Platinum, Vision Awards Annual Report: Energy – Oil, Gas & Consumable Fuels"
- Year 2010 "Gold, Vision Awards Annual Report: Energy – Oil, Gas & Consumable Fuels"

The following policies and guidelines in connection with corporate governance are periodically reviewed and form the supplementary components of the Company's governance framework:

- Policy for appointment of Directors;
- Policy for remuneration of Directors and senior management;
- Duties and responsibilities of Directors and senior management;
- Procedures for Directors to seek independent professional advice;
- Division of the duties of the Chairman of the Board and General Manager of the Company;

- Procedures for Disclosure of Interests in Shares of the Company and its Associated Corporations;
- Code for Securities Transactions by Relevant Persons;
- Procedures for Shareholders to Propose a Person for Election as a Director;
- Shareholders' Communication Policy;
- Internal Whistleblowing Policy;
- Information Disclosure Policy; and
- Board Diversity Policy.

For the year ended 31 December 2016, the Company complied with all the code provisions of the CG Code.

A. Board of Directors

The Board

The Board assumes the responsibility for leadership and control of the Group, and is collectively responsible for promoting the success of the Group.

Decisions which are taken by the Board mainly include those relating to:

- long-term direction and objectives;
- strategic business development;
- corporate governance;
- risk management and internal control assessment;
- material financing projects;
- material acquisitions and disposals;
- interim and final results and dividends;
- connected and major transactions;
- appointments to the Board; and
- remuneration of the senior management.

The Board meets regularly to keep abreast of the business and operational performance of the Group. For the year ended 31 December 2016, the Board has, amongst others:

1. reviewed the performance and formulated business strategies of the Group;
2. reviewed and approved annual results of the Group for the year ended 31 December 2015, and interim results for the six months ended 30 June 2016;
3. considered and approved the change in the composition of the Board;
4. reviewed and approved the overall adjustments to remuneration of the members of the Board and senior management;
5. reviewed the effectiveness of risk management and internal controls taken by the Group;
6. reviewed the general mandate to issue and repurchase the shares of the Company;
7. reviewed and approved the repurchase and cancellation of certain part of the shares of the Company;
8. reviewed and approved the connected transactions (including continuing connected transactions) of the Group; and
9. reviewed and approved the offer, by the Company, to repurchase in cash any and all of the outstanding amount of the US$400 million 3.25% bonds due in 2019.

The Board is also responsible for performing the corporate governance functions of the Company, including developing, reviewing and monitoring the Company's policies and practices on corporate governance, compliance with legal and regulatory requirements and the code applicable to employees and Directors; reviewing the Company's compliance with the CG Code and disclosure in its Corporate Governance Report.

Notice of a regular Board Meeting is given to all Directors at least 14 days in advance. Directors are invited to include items which they wish to be included in the agenda for the same to be finalised and the agenda will, together with the relevant meeting papers be given to the Directors at least three days prior to a Board or Board Committee meeting.

Directors are properly briefed on agenda items and provided with opportunities to raise questions or comment at meetings. Where necessary, professional advisers will be invited to attend the meeting to give professional advice and explanations to the Directors on agenda items.

Where a Director is unable to attend a meeting, he is informed about the matters to be discussed and encouraged to express his views to the Chairman or the Company Secretary prior to the meeting.

As most of the Directors are on occasional, and sometimes unexpected, business trips and/or are stationed in different regions of China, it may, in practice, be inconvenient to convene a full Board Meeting on a frequent basis. Hence, the Board may review and approve certain issues in form of a written resolution. Relevant reference materials regarding the resolutions to be passed will be circulated with the draft resolutions. Nevertheless, to decide on any matter in relation to a notifiable transaction, a Board Meeting will be convened; and to decide on any matter in which a substantial shareholder or a Director has a material interest, a Board Meeting will be held with the presence of Independent Non-executive Directors who, and whose associates, have no interest in such matter.

The Chairman and the senior management will ensure all Directors (including the Non-executive Directors) have access to adequate,complete and timely information so that they can make informed decisions and discharge their duties and responsibilities as Directors. Directors may request further briefing or explanation on any aspect of the Group's operations or business and seek advice from the Company Secretary on company secretarial and regulatory matters, including Board procedures and corporate governance practices. Where appropriate, they can also seek independent professional advice at the Company's expenses.

The Company Secretary is responsible for taking minutes of Board and Board Committee Meetings. Draft minutes and written resolutions will be circulated to all Board members or Board Committee members for review and comment for a reasonable period. Final version of the minutes and written resolutions will be signed within a reasonable time, and kept in the Company's minutes book maintained by the Company Secretary for Directors' inspection.

With a view to facilitating Directors' attendance at Board Meetings and Committee Meetings as well as corporate events, the Company Secretary will seek advice from the Board and prepare an annual plan for the Board.

Chairman, Vice Chairman and President

The management of the Board and the daily management of the Group's operation are clearly segregated to ensure a balance of power and authority.

The roles of the Chairman, Vice Chairman and President are segregated with a clear division of responsibilities set out in writing. During the year under review, Mr. Cheung Yip Sang, the Vice Chairman, assisted Mr. Wang Yusuo, the Chairman, to be responsible for overseeing the Group's overall direction and strategic planning. In addition, the Chairman and the Vice Chairman also play key roles in promoting all Directors to actively contribute to Board affairs and establishing good corporate governance practices and procedures. The Chairman holds a face-to-face meeting with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors at least once a year. Being an Executive Director and the President, Mr. Han Jishen is responsible for leading the senior management to execute the strategies and plans set out by the Board, managing the daily operation of the Group and reporting to the Board on the Group's operation from time to time to ensure proper discharge of duties delegated by the Board.

Save as acting as a director or chief executive in certain companies controlled and/or owned by Mr. Wang Yusuo, Mr. Han Jishen does not have any other relationships with Mr. Wang Yusuo.

Board composition

As at 21 March, 2017, the members of the Board are:

Mr. Wang Yusuo	(Executive Director and Chairman)
Mr. Cheung Yip Sang	(Executive Director and Vice Chairman)
Mr. Sean S J Wang	(Executive Director and Chief Executive Officer, appointed on 21 March 2017)
Mr. Han Jishen	(Executive Director and President)
Mr. Wang Dongzhi	(Executive Director)
Mr. Wang Zizheng	(Non-executive Director)
Mr. Ma Zhixiang	(Independent Non-executive Director)
Mr. Yuen Po Kwong	(Independent Non-executive Director)
Mr. Law Yee Kwan, Quinn	(Independent Non-executive Director)

The Board now consists of nine members of which three are Independent Non-executive Directors which constitutes one-third of the Board, bringing in sufficient independent voices. The other members are five Executive Directors and one Non-executive Director. The list of Directors and their roles and functions has been published on the websites of the Stock Exchange and the Company.

The Board members come from a wide range of professional and educational backgrounds, including legal, accounting and corporate finance, economics, management and industry expertise. It brings a diverse and balance set of skills and experience to the Board, playing a leading role in the effective operation of the Group. Latest biographical details of all Directors are given in the section headed "Directors and Senior Management" on pages 34 to 37 of this Annual Report.

The Company has received from each Independent Non-executive Director a written confirmation of his independence pursuant to the requirement of the Listing Rules. With reference to such confirmations, the Company, to its best knowledge, considers all the Independent Non-executive Directors fulfill the guidelines on independence as set out in Rule 3.13 of the Listing Rules and all to be independent.

As at the date of this report, except that Mr. Wang Zizheng (Non-executive Directors) is the son of Mr. Wang Yusuo, no relationship (neither financial, business nor family) exists among members of the Board.

Responsibilities of Directors

The Directors shall take decisions objectively in the best interests of the Group as a whole. They meet regularly to keep abreast of the Group's conduct, business activities, operational performance and latest development. Details of Directors' attendance at Board and Board Committee meetings and general meetings held in 2016 are set out in the paragraph headed "Directors' attendance" in this section.

The Independent Non-executive Directors are specifically responsible for providing independent judgement to the Board. They take the lead where potential conflicts of interests arise and monitor the Company's performance in achieving agreed corporate goals and objectives and the relevant reporting.

In relation to each connected transaction or other transaction of the Company that requires independent shareholders' approval, an independent board committee comprising Independent Non-executive Directors who have no interest therein will be formed to give independent opinion on the transactions. Also, in relation to each connected transaction that requires the Board's approval, the Company will engage an independent financial adviser to provide independent professional advice regarding the resolution of the transaction for reference for the Board.

The Directors ensure that they can give sufficient time and attention to the affairs of the Company. All Directors have disclosed to the Company, upon their appointment, and in a timely manner for any change, of their offices held in other public companies or organisations and other significant commitments, if any. Information of Directors' offices in other companies which is of significant nature is set out in the section headed "Directors and Senior Management" on pages 34 to 37 of this Annual Report.

The Company has issued and adopted it own Code for Securities Transactions by Relevant Persons as the code of conduct regarding dealing in securities of the Company by the Directors and specific employees of the Company or its subsidiaries who, because of his office or employment in the Company or such subsidiary, is or is likely to possess inside information in relation to the Company or its securities. Such code is on terms no less exacting than those set out in the Model Code.

Each Director is required to confirm with the Company in writing, twice a year, that he has complied with the Model Code. All the Directors have confirmed that they complied with the required standards thereof throughout the year ended 31 December 2016.

A.5. Directors' attendance

The Board meets at least once on a quarterly basis. A total of 8 Board Meetings (including four regular Board Meetings) were held in 2016. Details of Directors' attendance record of Board Meetings, Board Committee Meetings and general meetings in 2016 are as follows:

	No. of meetings attended during 2016 (Note 1)					
	Board	*Audit Committee*	*Nomination Committee*	*Remuneration Committee*	*Risk Management Committee*	*Annual General Meeting*
Executive Directors:						
Wang Yusuo (Note 2)	5/8 (4/4)*	–	1/1	–	–	1/1
Cheung Yip Sang (Note 2)	5/8 (4/4)*	–	–	–	2/2	1/1
Han Jishen (Note 2)	6/8 (4/4)*	–	–	–	2/2	0/1
Wang Dongzhi	8/8 (4/4)*	–	–	–	2/2	0/1
Yu Jianchao (Note 4)	2/2 (1/1)*	–	–	–	–	0/1
Non-executive Directors:						
Wang Zizheng (Note 2)	7/8 (4/4)*	–	–	–	2/2	0/1
Jin Yongsheng (Note 2)	5/8 (4/4)*	–	1/1	1/1	–	0/1
Lim Haw Kuang (Note 3)	1/2 (1/1)*	0/1	0/1	0/1	–	–
Independent Non-executive Directors:						
Yien Yu Yu, Catherine (Note 4)	2/2 (1/1)*	1/1	1/1	1/1	–	1/1
Ma Zhixiang	7/8 (4/4)*	3/3	1/1	1/1	2/2	0/1
Yuen Po Kwong	8/8 (4/4)*	3/3	1/1	1/1	2/2	1/1
Law Yee Kwan, Quinn	8/8 (4/4)*	3/3	1/1	1/1	2/2	1/1

Notes:

1. * Regular Board Meetings

2. Two Board Meetings in the year were convened to approve a connected transaction and the continuing connected transactions up to the year ended 31 December 2018. Mr. Wang Yusuo, Mr. Cheung Yip Sang, Mr. Wang Zizheng and Mr. Jin Yongsheng were deemed as having material interests in the resolutions of the two meetings. Save as Mr. Wang Zizheng attended one of the two meetings and abstained from voting on the relevant resolution of the Board, all other three Directors did not attend the meetings; Mr. Han Jishen was also deemed as having material interests in one of the connected transactions and did not attend the meeting.

3. As at 7 April 2016, Mr. Lim Haw Kuang retired as the Non-executive Director of the Company, hence ceased to be the members of Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee.

4. As at 31 May 2016, Ms. Yien Yu Yu, Catherine retired as the Independent Non-executive Director of the Company, hence ceased to be the members of Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee; Mr. Yu Jianchao retired as the Executive Director of the Company on the same day.

B. Directors' training and professional development

All Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Company is responsible for arranging suitable training programmes and seminars for the Directors covering various topics, including interpretation of government policies, execution of company strategy, establishment of market system, corporate governance, as well as human resource management, etc. The overall attendance is satisfactory.

Newly-appointed Directors will be briefed by the Company's external legal advisor on Director's responsibilities under the relevant legal and regulatory requirements (including but not limited to the Companies Ordinances, the Listing Rules and the SFO). They will also be provided with a memorandum on Directors' duties and obligations which assists them in understanding their responsibilities as Directors. The Chairman or the Vice Chairman will give general introduction on the Group and the Company will provide relevant information and organise various activities, for example, visits to key projects and main facilities, to ensure they properly understand the business and governance policies of the Company.

To update Directors' understanding of the Group's operations and business and refresh their knowledge and skills as Directors, the Company provides the Board with materials on relevant regulation updates and on issues of significance or on new opportunities of the Group.

For the year ended 31 December 2016, all the Directors had provided their training records to the Company.

C. Appointments and Resignations of Directors

The Nomination Committee identifies and recommends to the Board of suitable candidates as Directors, taken into account various criteria such as their education, qualification and experience to determine whether their attributes are relevant to the business of the Group and can complement to the capabilities of existing Directors, having due regard for the benefits of diversity on the Board, and their independence (in the case of candidates as Independent Non-executive Directors). The committee also makes recommendations to the Board on matters relating to the re-appointment of and succession planning for Directors.

The Articles stipulate that all Directors are subject to retirement by rotation at least once every three years and retiring Directors are eligible for re-election at the AGM at which they retire.

All Non-executive Directors (including the Independent Non-executive Directors) are appointed for a specific term of three years, subject to retirement by rotation.

D. Board Diversity Policy

The Company understands that having a diverse Board is of vital importance to the Company's business development. A summary of the Board Diversity Policy is set out below:

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, educational background, professional qualifications and work experience. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, educational background, professional qualifications and work experience. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Board will consider to develop a measurement objective to facilitate the implementing of the policies and from time to time review relevant objectives to ensure their appropriateness and determine the procedures to be taken for achievement. The Board has not developed any measurement objectives. The Nomination Committee will review the policy from time to time to maximise the effectiveness of the Board.

E. Remuneration of Directors and Senior Management

The Company's policy on remuneration is to maintain fair and competitive remuneration packages under a formal and transparent procedure to recruit, retain and motivate talents.

The key components of the remuneration package of Executive Directors and senior management of the Company include basic salary and management bonus. The remuneration packages of Non-executive Directors (including Independent Non-executive Directors) includes a fixed director's fee. Share options are granted as a long-term incentive to motivate Directors and senior management in pursuit of corporate goal and objectives.

The level of remuneration is mainly based on the experience, scope of duties, work performance and time committed to the Company, prevailing market rates, salaries paid by comparable companies and remuneration packages elsewhere in the Company and its subsidiaries. The Company has established a formal and transparent procedure for fixing remuneration packages of all Directors and senior management of the Company. The Remuneration Committee will review such policy periodically, and consult the Chairman, Vice Chairman and/or President regarding proposed remuneration of other Executive Directors and senior management during formal or informal meetings and seek independent professional advice at the Company's expenses when necessary and make recommendations to the Board of the remuneration of Non-executive Directors. No person shall be involved in deciding his own remuneration.

Details of the Remuneration Committee are set out in the section headed "Delegation by the Board" in this report.

Details of Directors' remuneration for the two years ended 31 December 2016 and 2015 respectively are listed out in Note 12 to the consolidated financial statements.

The remuneration payable to the Directors and senior management of the Company for the year ended 31 December 2016 fell within the following bands:

Remuneration Bands (HK$)	Number of individuals
1 to 1,000,000	7
1,000,001 to 2,000,000	2
2,000,001 to 3,000,000	2
3,000,001 to 4,000,000	4
4,000,001 to 5,000,000	3
5,000,001 to 6,000,000	–
6,000,001 to 7,000,000	2
Total	20

F. Delegation by the Board

Management functions

The Board gives clear directions as to the power delegated to the management for the administrative and management functions of the Company.

Division of functions reserved to the Board and those delegated to the management are set out clearly in writing and will be reviewed by the Board on a periodic basis and appropriate adjustments may, from time to time, be made to ensure the effective discharge of the Board's decision.

During the year under review, the senior management, led by the President, is responsible for executing strategies and plans set out by the Board and reporting to the Board periodically to ensure proper execution. Functions and responsibilities of the Board are set out in the section headed "Board of Directors" in this report.

Board committees

To streamline its duties and uphold good corporate governance, the Board allocates certain of its executive and monitoring functions to four committees, namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the Risk Management Committee.

Each of the committees has adopted clear written terms of reference setting out details of its authorities and duties and obligations on no less exacting terms than the CG Code to report its findings, decisions and recommendations to the Board. Full terms of reference of each of the committees have been published on the websites of the Stock Exchange and the Company.

In common with the Board, senior management will provide adequate resources to the committees. The committees can also seek independent professional advice where necessary at the Company's expense and is supported by the Company Secretary of the Company.

Audit Committee

The Audit Committee was established on 28 March 2001. During the year, the Committee is chaired by Mr. Law Yee Kwan, Quinn (Independent Non-executive Director) and was composed of all three Independent Non-executive Directors, including Ms. Yien Yu Yu, Catherine, Mr. Ma Zhixiang and Mr. Yuen Po Kwong. On 31 May 2016, Ms. Yien Yu Yu, Catherine retired from the Board and was no longer a member of the Audit Committee. As at 31 December 2016, the committee members are:

Mr. Law Yee Kwan, Quinn	(Independent Non-executive Director and the Chairman of Audit Committee)
Mr. Ma Zhixiang	(Independent Non-executive Director)
Mr. Yuen Po Kwong	(Independent Non-executive Director)

The major responsibilities of the Audit Committee are:

1. making recommendation to the Board on the appointment, re-appointment and removal of the external auditor, approving the remuneration and terms of engagement of the external auditor, and addressing any questions of its resignation or dismissal;
2. reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
3. developing and implementing policy on engaging the external auditor to supply non-audit services;
4. reviewing the external auditors' management letter and the management's response thereto;
5. monitoring the integrity of the annual reports and accounts and interim reports of the Company and reviewing significant financial reporting judgements contained therein; and
6. reviewing the effectiveness of the Group's risk management and internal control systems.

The committee meets the external auditor and senior management of the Company regularly. During 2016, the Audit Committee held three meetings and reviewed, amongst others:

- the interim and annual results of the Group, and discussed with the external auditor the impact of any changes in accounting policy as well as the scope of annual review and interim review;
- the remuneration and terms of engagement of the external auditor for the year ended 31 December 2015;
- the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- the nature and scope of audit and reporting obligations of the external auditor;
- the external auditor's management letters and the management's response thereto; and
- the effectiveness of the Group's risk management and internal control systems for 2016, and made recommendations to the Board;

Auditors' remuneration

For the year ended 31 December 2016, audit services provided to the Group by Deloitte Touche Tohmatsu ("Deloitte"), the auditors of the Company, and the amounts of remuneration paid and payable in connection therewith are as follows:

	Approximate Amount (RMB)
Annual audit services fee to Deloitte	4,780,000
Non-audit services fee to Deloitte	
• Interim results review	1,024,000
• Consultancy service on ESG reporting	550,000
• Consultancy service on treasury control security	860,000
Audit services fee paid to other auditors	6,996,000
Total	14,210,000

Save as disclosed above, the Group did not engage Deloitte to provide other services in 2016 and up to the date of this report.

Nomination Committee

The Board has established a Nomination Committee on 30 March 2012. During the year, the committee is chaired by Mr. Wang Yusuo (Chairman of the Board) and comprises all Independent Non-executive Directors (including Ms. Yien Yu Yu, Catherine, Mr. Ma Zhixiang, Mr. Yuen Po Kwong, Mr. Law Yee Kwan, Quinn) and a Non-executive Director (namely Mr. Jin Yongsheng). As at 31 May 2016, Ms. Yien Yu Yu, Catherine retired as a director, and ceased to be a member of the Nomination Committee.

The Nomination Committee identifies and recommends to the Board of suitable candidates as Directors, makes recommendations to the Board on matters relating to the appointment and re-appointment of and succession planning for Directors, and assesses the independence of Independent Non-executive Directors. When the Nomination Committee considers necessary or desirable to appoint a new member to the Board (whether to fill a casual vacancy or otherwise), each member of the Board may nominate suitable individual(s) as candidate(s) of member(s) of the Board for the decision of the Board.

In 2016, the Nomination Committee had, amongst others:

- reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and made recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- considered the need for identifying individuals suitably qualified to become Directors and selected or made recommendations to the Board on the selection of individuals nominated for directorships;
- assessed the independence of Independent Non-executive Directors; and
- made recommendation to the Board on retirement plan of the Directors.

Remuneration Committee

The Company's Remuneration Committee was established on 31 December 2004. During the year, the Remuneration Committee is chaired by Mr. Yuen Po Kwong (Independent Non-executive Director), and comprises three Independent Non-executive Directors (including Ms. Yien Yu Yu, Catherine, Mr. Ma Zhixiang and Mr. Law Yee Kwan, Quinn) and a Non-executive Director (namely Mr. Jin Yongsheng). As at 31 May 2016, Ms. Yien Yu Yu, Catherine retired as a director, and ceased to be a member of the Remuneration Committee.

The Remuneration Committee formulates a formal and transparent procedure for developing the remuneration policy of the Company, including proposing the remuneration packages of individual Directors and senior management to the Board, and supervising the relevant procedures.

In 2016, the Remuneration Committee has (among others) sought opinion from the Chairman and the Vice Chairman of the Board considered and reviewed the remuneration packages of directors (except members of the Remuneration Committee) appointed and re-designated in the year and other Directors, and made recommendations to the Board.

The Risk Management Committee

The Company's Risk Management Committee was established on 9 December 2015. In 2016, the Committee is chaired by Mr. Cheung Yip Sang (Executive Director and Vice Chairman) and comprises Executive Directors Mr. Han Jishen and Mr. Wang Dongzhi and comprises Mr. Wang Zizheng and Independent Non-executive Directors, namely, Ms. Yien Yu Yu, Catherine, Mr. Ma Zhixiang, Mr. Yuen Po Kwong and Mr. Law Yee Kwan, Quinn. As at 31 May 2016, Ms. Yien Yu Yu, Catherine retired as a director, and ceased to be a member of the Risk Management Committee.

The Risk Management Committee is responsible for assisting the Board to evaluate and determine the nature and extent of the risks the Group is willing to take in achieving its strategic objectives, and to ensure the Group has established and maintained suitable and effective internal monitoring and risk management systems. Further information relating to the key features and measures of internal monitoring and risk management systems is set out in the section "Risk Management and Internal Control".

The Risk Management Committee held two meetings during the year under review, mainly reviewed the Group's risk management procedure for identifying, assessing and managing the substantial risks, and gave recommendations on the effectiveness of the risk management system and the internal monitoring system to the board of the Company.

G Company Secretary

All Directors have access to the advice and services of the Company Secretary, Ms. Wong Chui Lai. The Company Secretary reports to the Chairman, Vice Chairman and/or the Chief Financial Officer on corporate governance matters, supports the Chairman, the Board and the Board Committees by ensuring good information flow within the Board and that Board policy and procedures are followed, facilitating communications among Directors as well as with shareholders and management.

The Company Secretary's biography is set out on page 37 under the section headed "Directors and Senior Management" and on the Company's website. During 2016, the Company Secretary undertook over 15 hours of relevant professional training.

H. Accountability and Audit

Financial reporting

The Board is collectively responsible for ensuring a balanced, clear and understandable assessment of the Group's annual and interim reports and other financial disclosures and reports under statutory requirements.

In order to enable the Board to make an informed assessment of the financial and other information put before its approval, the Board is provided with general financial information with explanation thereof (if appropriate) of the Group on a regular basis. Moreover, the management also regularly meets with the Directors to present results and discuss any variance between the budget and the actual results (if any). Moreover, all the Executive Directors of the Board are provided with monthly operational analysis report and brief financial report from the management, to enable them to assess the Company's operational performance and financial position in a timely manner.

The accounting and finance department of the Company, headed by the Chief Financial Officer of the Company, is specifically responsible for the accounting and financial reporting functions of the Group and for coordinating and supervising the relevant departments of all the operating subsidiaries of the Company. A majority of the staff of such departments possess academic qualifications and extensive working experience in accounting and financial reporting. The Group provides continuous training seminars, on-the-job training and offers allowance for external training programmes by professional bodies to motivate the staff to enhance and refresh their knowledge on an on-going basis.

The annual and interim results of the Group are announced in a timely manner within three months and two months respectively after the end of the respective financial periods. The integrity of the financial statements is monitored by the Audit Committee. A statement of the reporting responsibility of the external auditor is set out in the Independent Auditor's Report on page 86.

Risk Management and Internal controls

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. Such risk management and internal control systems are designed for managing instead of eliminating the risks of failing to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Risk Management Committee that set up by the Board is responsible for oversee and review the risk management and internal control systems of the Group, and monitor the design, implementation and monitoring functions on the risk management and internal control systems. Through the reporting and recommendation given by the internal audit team, the Audit Committee is responsible to review and comment the effectiveness of the risk management and internal control system.

Management has reported and confirmed to the Audit Committee and the Board that the relevant systems have been effective for the year ended 31 December 2016 and the Board has considered the results of the review of the Audit Committee and confirmed that the Group's risk management and internal control systems are effective.

The processes used to identify, evaluate and manage significant risks by the Group are summarised as follows:

Risk Identification

- Identifies risks that may potentially affect the Group's business and operations.

Risk Assessment

- Assesses the risks identified by using the assessment criteria developed by the management; and
- Considers the impact on the business and the likelihood of their occurrence.

Risk Response

Prioritises the risks by comparing the results of the risk assessment.

- Determines the risk management strategies and internal control procedures to prevent, avoid or mitigate the risks; and
- Strengthens the monitoring and warning function of the system continuously based on the result of risk assessment.

Risk Monitoring and Reporting

- Establishes hierarchical supervisory responsibilities in the Group to ensure that risk monitoring is objective and effective;
- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control procedures are in place;
- Revises the risk management strategies and internal control procedures in case of any significant change of situation; and
- Reports the results of risk monitoring to the management and the Board regularly.

Internal Audit Team

The Group has established an internal audit team, which assesses the adequacy and effectiveness of the risk management and internal control systems of the Group regularly, and reports to the Audit Committee and the Board on the audit results semi-annually and makes recommendations to the Board and the management to address the significant deficiencies of the system or problems that identified during the monitoring process.

Whistleblowing Policy

The Company is committed to achieving and maintaining the highest possible standards of openness, probity and accountability. A whistleblowing policy is in place to create a system for the employees and business partners to raise concerns to the Audit Committee and the Board about possible improprieties relating to the Group. The identity of the whistleblower will be treated with the strictest confidence.

Information Disclosure Policy

Regarding the disclosure of inside information, the Company has a mechanism in place for monitoring its business development so that potential inside information can be promptly identified and escalated up for deciding whether an announcement should be made, so as to ensure the compliance with the ongoing disclosure obligations under the Listing Rule and the statutory obligations in relation to disclosure of inside information under the SFO.

In determining whether certain information constitutes inside information, the Company adopts a bottom-up approach to gather information about business developments of the organisation. The final decision on the outcome of inside information assessment shall rest with the Board. The Company designates delegates to speak on behalf of the Company when communicating with external parties such as investors, analysts or media. Furthermore, all Directors and relevant employees (as defined in the Listing Rules) of the Group are required to follow the Company's Code for Securities Transactions by Relevant Persons when dealing with the Company's securities.

The Directors confirmed that they had conducted reviews on the effectiveness of the risk management and internal control system of the Group in accordance with the Listing Rules and the Group's operational procedure guidelines. The Board considered the risk management and internal control system of the Group are effective and adequate throughout the year.

I. Non-compete Undertakings

In order to protect the best interests of the Group and uphold the integrity of independence from its controlling shareholder, the Company entered into the Deed of Non-compete Undertakings with its controlling shareholder on 18 April 2002, which was amended by entering the Supplemental Deed of Non-competition on 21 November 2013 to specify the restricted scopes of business. Such amendment has been approved by an extraordinary general meeting that held on 30 December 2013. Details of the amended Deed of Non-compete Undertakings are set out in the Circular of the Company dated 9 December 2013.

J. Communication with Shareholders

Effective communication

The Board believes that effective communication of full and clear information of the Company is the key to enhance corporate governance standards and shareholders' confidence.

The Company holds conferences with analysts and the press to announce its annual results. In order to facilitate communication between the Company, shareholders and the investment community, the Directors and designated employees will maintain on-going dialogue with investors and analysts through one-on-one meetings, roadshows and marketing activities for investors.

The Company will keep the shareholders and the investment community informed of its latest development via various publications such as announcements, circulars, annual and interim reports and press releases, which are available on the Company's website in both English and Chinese.

An AGM provides a constructive forum to maintain regular and mutual communication with shareholders. The Company will arrange the Chairman of the Board and the respective chairman or member(s) of each of the Board Committees (including the Independent Board Committee, where applicable), or if failing so due to unexpected and/or uncontrollable reasons, his/their duly appointed delegate(s), to attend the general meetings to exchange views with shareholders and answer their questions. All Directors are encouraged to attend general meetings and develop a balance understanding of the view of shareholders.

The external auditor will also be invited to attend the AGMs to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

Separate resolutions are proposed on each substantially separate issue, including the election or re-election of each Director nominated.

To ensure the votes cast are properly counted and recorded, it is the practice of the Company to appoint representatives of its branch share registrar as scrutineer of the voting procedures in general meetings.

Shareholders' rights

The Company is committed to ensure shareholders' interest. The Company communicates with its shareholders through various channels, including annual general meetings, extraordinary general meetings (if any), annual reports, notices of general meetings, circulars sent to shareholders, announcements, press releases and other corporate communications available on the Company's website.

Registered shareholders are notified by post for the shareholders' meetings. Any registered shareholder is entitled to attend annual and extraordinary general meetings of the Company provided that their shares have been fully paid up and recorded in the register of members of the Company. In respect of the financial year ended 31 December 2016, an AGM of the Company will be held on 26 May 2017 and it is currently expected that interim results for the six months ended 30 June 2017 will be announced in August 2017. Notice of the forthcoming AGM will be dispatched to shareholders at least 20 clear business days before the meeting.

Pursuant to article 72 of the Articles of Association of the Company, any two or more members of the Company or any one member of the Company which is a recognised clearing house (or its nominee(s)) may convene a general meeting by depositing at the principal office of the Company in Hong Kong the written requisition specifying the objects of the meeting and signed by the requisitionist(s), provided that such requisitionist(s) hold(s) as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The procedures on proposing a person for election as a Director is available at the Company's website at www.ennenergy.com.

Shareholders' enquiries

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong Brand Share Registrar and Transfer Office.

Shareholders may make enquiries with the Board at the general meetings. Alternatively, shareholders may at any time send their enquiries and concerns to the Board at the principal place of business in Hong Kong at Rooms 3101-04, 31st Floor, Tower 1, Lippo Centre, No. 89 Queensway, Hong Kong (email: enn@ennenergy.com).

General meetings held in 2016

In 2016, the Company held one general meeting which is an AGM.

The most recent general meeting was the AGM held on 31 May 2016 at Tianshan Room, Level 5 Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Central, Hong Kong. All resolutions proposed at the AGM were passed as ordinary resolutions of the Company, as more than 50% of the votes were cast in favour of these resolutions, the resolution were duly passed as ordinary resolution at the AGM. The resolutions considered and approved include:

- To consider the audited consolidated financial statements for the year ended 31 December 2015 together with the directors' and independent auditor's reports.
- To declare a final dividend for the year ended 31 December 2015.
- To re-elect retiring Directors and to authorise the Board of Directors to fix the Directors' remuneration.
- To re-appoint auditors and to authorise the Board of Directors to fix their remuneration; and
- To grant the general mandate to issue shares and repurchase shares.

The full text of the above resolutions is set out in the Notice of AGM of the Company dated 8 April 2016. The poll result of the AGM was published on the website of the Stock Exchange and the Company.

Amendments to the Memorandum and Articles of Association

For the year ended 31 December 2016, the Company has not revised its Memorandum and Articles of Association. The latest consolidated version of the Company's Memorandum and Articles of Association has been published on the websites of the Stock Exchange and the Company.

Investor Relations

The Company regards communication with institutional and other investors as an important means to enhance the transparency of the Group and to collect views and feedbacks from such investors. The Group has an Investor Relations Department to handle matters relating to investor relations. In the year under review, the Executive Directors and senior management of the Company participated in 30 international investors' conferences and 2 international road shows in Hong Kong, the Mainland China, Japan, Singapore, Europe and the United States to communicate with existing shareholders and the investment community in respect of the Group's latest results, prospects and development strategies. In addition, the Company led nearly 20 tours of investors to inspect the city-gas projects and vehicle gas refuelling stations, to enhance the investor's intuitive understanding of the Group's business.

The Company also dispatched high-quality interim and annual reports to shareholders which provide them with information on the natural gas industry, policy in China, prospect and the financial performance of the Group. In addition, the Company also maintains communication with the media through press conferences, news releases to the media and published on the Company's website and promptly reply to enquiries from the media.

Shareholders, investors and the media can make enquiries to the Company through the following means:

Hotline telephone number:	(852) 2528 5666/(86) 316 2599928
By fax:	(852) 2865 7204
By post:	Rooms 3101–04, 31st Floor, Tower 1, Lippo Centre, No. 89 Queensway, Hong Kong
Attention:	Mr. Chau Tien Hsiang/Ms. Hedy Shen/Ms. Grace Wei
By email:	enn@ennenergy.com

By order of the Board
WANG YUSUO
Chairman

Hong Kong, 21 March 2017

DIRECTORS' REPORT

The Directors have pleasure in submitting to shareholders their annual report and the audited consolidated financial statements (the "Consolidated Financial Statements") for the year ended 31 December 2016.

Principal Activities

The principal activity of the Company is investment holding. The Group is principally engaged in gas supply business in the PRC, including but not limited to the sales of piped gas, gas connection, construction and operation of vehicles gas refuelling stations, wholesale of gas, sales of other energy and sales of gas appliances and materials.

An analysis of the Group's revenue and results by reportable segments which are also the operating segments for the year are set out in Note 7 to the Consolidated Financial Statements.

Business Review and Performance

A fair review of the business of the Company and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the Chairman's Statement from pages 6 to 9 and Management Discussion and Analysis Report from pages 24 to 33 in this Annual Report. The principle risks and uncertainties affecting the Group are provided under the heading of "Financial Resources Review" in Management Discussion and Analysis on page 33 and Notes 5 and 53 to the Consolidated Financial Statements. The risk management and internal control policies are provided in the Corporate Governance Report from pages 65 to 66 in this Annual Report. Particulars of important events affecting the Company that have occurred since the end of the financial year 2016, if any, can also be found in the abovementioned sections and the Notes to the consolidated financial statements. The outlook of the Company's business is discussed throughout this Annual Report including the Chairman's Statement from pages 6 to 9 of this Annual Report. In addition, more details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, relationship with stakeholders and compliance with laws and regulations that have a significant impact on the Group are confirmed in the Environmental, Social and Governance Report from pages 38 to 54 in this Annual Report.

This discussion forms part of this Directors' Report.

Results and Appropriations

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 88.

The Directors recommend the payment of a final dividend of HK$0.83 (equivalent to approximately RMB0.74) per share to the shareholders on the register of members on 6 June 2017. The total dividend amount is approximately RMB799 million, and the retention of the remaining profit for the year is approximately RMB1,434 million.

Financial Summary

Details of the summary of the published financial information of the Group for the past ten years are set out on pages 22 to 23.

Property, Plant and Equipment

During the year, the Group continued to expand its pipeline infrastructure and other related facilities. An aggregate of RMB31 million has been incurred in acquiring property, plant and equipment.

Details of the movements during the year in property, plant and equipment of the Group are set out in Note 16 to the Consolidated Financial Statements.

Share Capital

Details of movements during the year in the share capital of the Company are set out in Note 37 to the Consolidated Financial Statements.

Reserves

Details of movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on page 91 and Note 56 to the Consolidated Financial Statements.

Bank and Other Loans

Details of bank and other loans of the Group are set out in Note 39 to the Consolidated Financial Statements.

Charitable Donations

Charitable donations by the Group for 2016 amounted to RMB33 million.

Directors' and Senior Management Members' Emoluments

Details of Directors' and senior management members' emoluments are set out in Note 12 to the Consolidated Financial Statements and the corporate governance report on page 61 to 62.

Directors

The Directors of the Company during the year and up to the date of this report are:

Executive Directors:

Mr. Wang Yusuo (Chairman)
Mr. Cheung Yip Sang (Vice Chairman)
Mr. Sean S J Wang (Chief Executive Officer, appointed on 21 March 2017)
Mr. Han Jishen (President)
Mr. Wang Dongzhi
Mr. Yu Jianchao (retired on 31 May 2016)

Non-executive Directors:

Mr. Wang Zizheng
Mr. Jin Yongsheng (resigned on 21 March 2017)
Mr. Lim Haw Kuang (retired on 7 April 2016)

Independent Non-executive Directors:

Ms. Yien Yu Yu, Catherine (retired on 31 May 2016)
Mr. Ma Zhixiang
Mr. Yuen Po Kwong
Mr. Law Yee Kwan, Quinn

In accordance with Article 99 of the Company's Article of Association, Mr. Sean S J Wang shall retire at the forthcoming Annual General Meeting ("AGM") of the Company, while in accordance with Article 116 of the Company's Article of Association, Mr. Wang Zizheng, Mr. Ma Zhixiang and Mr. Yuen Po Kwong shall retire by rotation at the forthcoming AGM of the Company. All the above retiring Directors are eligible and offer themselves for re-election.

Mr. Yu Jianchao and Ms. Yien Yu Yu, Catherine who did not offer himself and herself for re-election due to change of position and personal development respectively, have both retired at the AGM that held on 31 May 2016. Mr. Lim Haw Kuang retired as a non-executive director upon the expiry of his service contract on 7 April 2016. Also, Mr. Jin Yongsheng has resigned as a non-executive director of the Company due to re-designation of duties on 21 March 2017. All of them have confirmed that they have no disagreement with the Board and there is no further information in relation to their resignation that needs to be brought to the attention of the shareholders of the Company or The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

As of 31 December 2016, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Group which does not expire or is not determinable by the relevant member of the Group within one year without compensation (other than statutory compensation).

The Company has received an annual confirmation from each of the Independent Non-executive Directors as regards their independence to the Company, and each of the Independent Non-executive Directors is considered independent to the Company.

Permitted Indemnity Provision

The Articles of Association of the Company provides that every director shall be indemnified out of the asset of the Company against all liability incurred or sustained by him/her as such director in defending any proceedings, whether civil or criminal, in which judgment is given in his/her favour, or in which he/she is acquitted.

The Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the Directors of the Company.

Disclosure of Interests

Directors' interests or short positions in shares, underlying shares and debenture

As at 31 December 2016, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), Appendix 10 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, were as follows:

Name of Director	Capacity	Interests in shares-Corporate interests	Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital as at 31 December 2016
Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	329,249,000 (Note 1)	329,249,000	580,000	329,829,000	30.47%
Cheung Yip Sang	Beneficial owner	–	–	532,000	532,000	0.05%
Han Jishen	Beneficial owner	–	–	421,000	421,000	0.04%
Wang Dongzhi	Beneficial owner	–	–	382,000	382,000	0.04%
Wang Zizheng	Beneficial owner	–	–	60,000	60,000	0.01%
Jin Yongsheng	Beneficial owner	–	–	142,000	142,000	0.01%
Yuen Po Kwong	Beneficial owner	–	–	60,000	60,000	0.01%
Ma Zhixiang	Beneficial owner	–	–	60,000	60,000	0.01%
Law Yee Kwan, Quinn	Beneficial owner	–	–	60,000	60,000	0.01%

Note:

1. Such shares are held by ENN Group International Investment Limited ("EGII"), which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao Baoju ("Ms. Zhao"), the spouse of Mr. Wang.

Details of the Directors' interests in share options granted by the Company are set out under the heading "Directors' rights to acquire shares" in this report.

Save as disclosed above, as at 31 December 2016, the register maintained by the Company pursuant to section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code recorded no other interests or short positions of the Directors in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

Directors' rights to acquire shares

Pursuant to the Company's share option schemes, the Company has granted options to subscribe for the Company's ordinary shares in favour of certain Directors, the details of which are as follows:

Name of Director	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2016	Reclassified during the year (Note 2)	Exercised/ Lapsed during the year (Note 2)	Number of shares subject to outstanding options as at 31 December 2016
Wang Yusuo	09.12.2015	01.04.2017–08.12.2025	40.34	145,000	–	–	145,000
	09.12.2015	01.04.2018–08.12.2025	40.34	145,000	–	–	145,000
	09.12.2015	01.04.2019–08.12.2025	40.34	145,000	–	–	145,000
	09.12.2015	01.04.2020–08.12.2025	40.34	145,000	–	–	145,000
Cheung Yip Sang (Note 3)	09.12.2015	01.04.2017–08.12.2025	40.34	133,000	–	–	133,000
	09.12.2015	01.04.2018–08.12.2025	40.34	133,000	–	–	133,000
	09.12.2015	01.04.2019–08.12.2025	40.34	133,000	–	–	133,000
	09.12.2015	01.04.2020–08.12.2025	40.34	133,000	–	–	133,000
Han Jishen (Note 3)	09.12.2015	01.04.2017–08.12.2025	40.34	105,250	–	–	105,250
	09.12.2015	01.04.2018–08.12.2025	40.34	105,250	–	–	105,250
	09.12.2015	01.04.2019–08.12.2025	40.34	105,250	–	–	105,250
	09.12.2015	01.04.2020–08.12.2025	40.34	105,250	–	–	105,250
Wang Dongzhi (Note 3)	09.12.2015	01.04.2017–08.12.2025	40.34	95,500	–	–	95,500
	09.12.2015	01.04.2018–08.12.2025	40.34	95,500	–	–	95,500
	09.12.2015	01.04.2019–08.12.2025	40.34	95,500	–	–	95,500
	09.12.2015	01.04.2020–08.12.2025	40.34	95,500	–	–	95,500
Yu Jianchao (Notes 3 & 4)	09.12.2015	01.04.2017–08.12.2025	40.34	60,500	(60,500)	–	–
	09.12.2015	01.04.2018–08.12.2025	40.34	60,500	(60,500)	–	–
	09.12.2015	01.04.2019–08.12.2025	40.34	60,500	(60,500)	–	–
	09.12.2015	01.04.2020–08.12.2025	40.34	60,500	(60,500)	–	–
Wang Zizheng	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	15,000
Jin Yongsheng	09.12.2015	01.04.2017–08.12.2025	40.34	35,500	–	–	35,500
	09.12.2015	01.04.2018–08.12.2025	40.34	35,500	–	–	35,500
	09.12.2015	01.04.2019–08.12.2025	40.34	35,500	–	–	35,500
	09.12.2015	01.04.2020–08.12.2025	40.34	35,500	–	–	35,500

Name of Director	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2016	Reclassified during the year (Note 2)	Exercised/ Lapsed during the year (Note 2)	Number of shares subject to outstanding options as at 31 December 2016
Lim Haw Kuang	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	(15,000)	–	–
(Note 5)	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	(15,000)	–	–
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	(15,000)	–	–
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	(15,000)	–	–
Yien Yu Yu, Catherine	14.06.2010	14.12.2010–13.06.2020	16.26	100,000	–	(100,000)	–
(Note 6)	14.06.2010	14.06.2012–13.06.2020	16.26	100,000	–	(100,000)	–
	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	(15,000)	–
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	(15,000)	–
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	(15,000)	–
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	(15,000)	–
Ma Zhixiang	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	15,000
Yuen Po Kwong	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	15,000
Law Yee Kwan, Quinn	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	15,000
Total				2,859,000	(302,000)	(260,000)	2,297,000

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. "Year" refers to the period from 1 January 2016 to 31 December 2016.
3. The vesting of share options is subject to the fulfilment of performance target.
4. Mr. Yu Jianchao had retired from the position as an executive director of the Company and did not offer himself for re-election at the AGM held on 31 May 2016. The remaining 242,000 share options held by him have been reclassified as share options held by employees.
5. Mr. Lim Haw Kuang had retired from the position as a non-executive director of the Company upon the completion of his service agreement on 7 April 2016. The remaining 60,000 share options held by him have been reclassified as share options held by employees.
6. Ms. Yien Yu Yu, Catherine, has retired from the position as an independent non-executive director of the Company and did not offer herself for re-election at the AGM held on 31 May 2016. Therefore, the 60,000 share options held by her under 2012 Scheme lapsed. The remaining 200,000 share options held by her have been fully exercised before the lapse of the share options.
7. The closing price of the Company's shares immediately before the date on which the share options were exercised HK$41.20.

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

Substantial Shareholders

As at 31 December 2016, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of Part XV of the SFO were as follows:

Name of shareholder	Capacity	Total interests in the Company	Respective interests in share according to share options	Total aggregate interests in shares and underlying shares (Note 4)	Approximate percentage of the Company's total issued share capital as at 31 December 2016
Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	329,249,000 (Note 1)	580,000 (Note 2)	329,829,000(L)	30.47%
Zhao Baoju ("Ms. Zhao")	Interest of controlled corporation and interest of spouse	329,249,000 (Note 1)	580,000 (Note 2)	329,829,000(L)	30.47%
EGII	Beneficial owner	329,249,000 (Note 1)	–	329,249,000(L)	30.41%
The Capital Group Companies, Inc.	Interest of controlled corporation	129,880,700 (Note 3)	–	129,880,700(L)	12.00%
Capital Research and Management Company	Investment manager	128,156,700	–	128,156,700(L)	11.84%
Commonwealth Bank of Australia	Interest of controlled corporation	86,196,509	–	86,196,509(L)	7.96%
JPMorgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/approved lending agent	65,421,851	–	65,421,851(L) (including 705,501(S) 62,027,458(P))	6.04%

Notes:

1 The three references to 329,249,000 shares relate to the same block of shares. Such shares are held by EGII, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.

2. As Mr. Wang's spouse, Ms. Zhao is deemed as holding Mr. Wang's interests in shares.

3. Of these shares, 128,156,700 shares are held by Capital Research and Management Company (a company which is wholly owned by The Capital Group Companies, Inc.)

4. (L) represents Long Position; (S) represents Short Position; (P) represents Lending Pool.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2016, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Save as disclosed above, as at 31 December 2016, the Company had not been notified of any other person who had interest or short position in the shares or underlying shares of the Company, which are required to be recorded in the register maintained by the Company pursuant to section 336 of Part XV of the SFO and Listing Rules.

Share Option Scheme

The Company has adopted the "2002 Scheme" and the "2012 Scheme" of the share option schemes pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 21 May 2002 and passed at an annual general meeting of the Company held on 26 June 2012 respectively.

Details of the share option scheme are set out in Note 45 to the Consolidated Financial Statements and the section headed "Director's rights to acquire shares" in this report.

The following table discloses details of the Company's share options held by the employees (including Directors) and movements in such holdings under the 2002 Scheme and 2012 Scheme during the year:

Grantee	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2016	Reclassified during the year	Exercised/ Lapsed during the year (Note 2)	Number of shares subject to outstanding options as at 31 December 2016
2002 Scheme							
Directors	14.06.2010	14.12.2010–13.06.2020	16.26	100,000	–	(100,000)	–
	14.06.2010	14.06.2012–13.06.2020	16.26	100,000	–	(100,000)	–
Employees	14.06.2010	14.12.2010–13.06.2020	16.26	100,000	–	–	100,000
	14.06.2010	14.06.2012–13.06.2020	16.26	100,000	–	–	100,000
Total				400,000	–	(200,000)	200,000
2012 Scheme							
Directors	09.12.2015	01.04.2017–08.12.2025	40.34	664,750	(75,500)	(15,000)	574,250
	09.12.2015	01.04.2018–08.12.2025	40.34	664,750	(75,500)	(15,000)	574,250
	09.12.2015	01.04.2019–08.12.2025	40.34	664,750	(75,500)	(15,000)	574,250
	09.12.2015	01.04.2020–08.12.2025	40.34	664,750	(75,500)	(15,000)	574,250
Employees	09.12.2015	01.04.2017–08.12.2025	40.34	2,335,250	75,500	(156,750)	2,254,000
	09.12.2015	01.04.2018–08.12.2025	40.34	2,335,250	75,500	(156,750)	2,254,000
	09.12.2015	01.04.2019–08.12.2025	40.34	2,335,250	75,500	(156,750)	2,254,000
	09.12.2015	01.04.2020–08.12.2025	40.34	2,335,250	75,500	(156,750)	2,254,000
Total				12,000,000	–	(687,000)	11,313,000

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
2. A total number of 200,000 shares, representing 0.02% of the issued share capital of the Company as at the date of this report are available for issue under the 2002 Scheme and a total number of 11,313,000 shares, representing 1.05% of the issued share capital of the Company as at the date of this report are available for issue under the 2012 Scheme. The vesting of certain part of the 11,313,000 share options is subject to the fulfilment of performance target.

Details of the movements in the share options granted to the Directors by the Company during the Period are set out under the heading "Directors' rights to acquire shares" in this report.

Save as disclosed above, no share option was granted, exercised, lapsed or cancelled during the year.

Directors' and Controlling Shareholders' Interests in Transactions, Agreements or Contracts and Connected Transactions

During the year, the Group has entered into the transactions and arrangements as described below with persons who are "connected" for the purposes of the Listing Rules.

Continuing Connected Transactions

During the year, the Group carried out the following transactions which constituted continuing connected transactions under Chapter 14A of the Listing Rules and were subject to annual review.

(A) On 30 December 2013, those Wang Family Companies (Note 1) being property management companies have entered into an agreement with the Group to provide the Group with property management services to the properties situated in the PRC occupied by the Group. For the year ended 31 December 2016, the property management services fee paid by the Group amounted to RMB15,245,000, which is below the annual cap amount RMB23,000,000 as set forth in the Group's announcement dated on 30 December 2013 about this matter.

Property Management Services

Service providing party (Note 1)	**Service accepting party**	**Contract date**	**Contract period**	**Property**	**Transaction sum** (RMB)
Langfang Elephant Club Property Services Company Limited ("Elephant Club Services")	(i) Langfang Xinao Gas Company Limited	1.1.2016	1 year	Office building in Langfang city	2,264,000
	(ii) Xinao Gas Development Company Limited	1.1.2014	3 years	Office building in Langfang city	1,829,000
	(iii) Langfang Xinao Gas Equipment Company Limited	1.1.2016	1 year	Office building in Langfang city	934,000
	(iv) Xinao Energy Logistics Company Limited	1.1.2014	1-3 years	Office building in Langfang city	2,584,000
	(v) Xinao Energy Trading Company Limited	1.1.2014	3 years	Office building in Langfang city	319,000
	(vi) Xinao Gas Engineering Company Limited	1.1.2016	1 year	Office building in Langfang city	887,000
	(vii) ENN Finance Company Limited	1.1.2016	1 year	Office building in Langfang city	2,679,000
	(viii) Xinao (China) Gas Investment Company Limited	1.1.2016	1 year	Office building in Langfang city	3,749,000
					15,245,000

(B) On 30 December 2013, the Group and the Wang Family Companies entered into an agreement, whereby the Wang Family Companies agreed to provide the Group with administrative services, including but not limited to catering, accommodation, training of employees, maintenance, gasoline refuelling and travel agency services. For the year ended 31 December 2016, the administrative services fee paid by the Group amounted to RMB52,146,000, which is below the annual cap amount RMB87,000,000 as set forth in the Company's announcement dated on 30 December 2013 about this matter.

Administrative Services

Service providing party (Note 1)	**Service accepting party**	**Services**	**Transaction sum** (RMB)
(i) Beijing Ovation AiTe Arts Development Company Limited	Subsidiaries under ENN Energy Holdings Limited	• Travel agency services	52,146,000
(ii) Langfang City Natural Gas Limited		• Chinese medical services	
(iii) Langfang Huijia Property Service Limited		• Cultural services	
(iv) Elephant Club Services		• Gasoline refuelling services	
(v) Langfang Tongcheng Vehicle Services Company Limited		• Hotel services	
(vi) Langfang Xinao Energy Solution Company Limited		• Transportation services	
(vii) Ovation Qixiu Hotel Management Company Limited		• Employees training services	
(viii) Xinyuan Yangguang Agriculture Company Limited		• Maintenance services	
(ix) ENN Solar Energy Company Limited		• Meal services	
(x) Xinao Smart Energy Network Technology Holdings Company Limited		• Provision of office equipments	
(xi) ENN Science & Technology Development Company Limited		• Catering and administrative services	
(xii) Xinao Group Co., Limited			
(xiii) Xinzhi Smart Energy Network Technology Company Limited			
(xiv) Subsidiaries under Beibu Gulf Tourism Corporation Limited			
(xv) Subsidiaries under Ovation Culture Development Company Limited			

(C) On 30 December 2013, the Group and the Wang Family Companies entered into an agreement, whereby the Wang Family Companies agreed to provide energy efficiency technology services to the Group, including but not limited to energy efficiency planning, energy efficiency management consultation and setting up of smart energy efficiency platform. For the year ended 31 December 2016, the energy technology services fee paid by the Group amounted to RMB61,161,000, which is below the annual cap amount RMB200,000,000 as set forth in the Company's announcement dated on 30 December 2013 about this matter.

Energy Efficiency Technology Services

Service providing party (Note 1)	**Service accepting party**	**Service**	**Transaction sum** (RMB)
(i) ENN Science & Technology Development Company Limited	Subsidiaries under ENN Energy Holdings Limited	Energy efficiency technology services	61,161,000
(ii) Langfang Xinao Energy Saving Service Company Limited			
(iii) Xinao Energy Service (Shanghai) Company Limited			
(iv) Xinao Smart Energy Network Technology Company Limited			
(v) Langfang Xinao Energy Solution Company Limited			

(D) On 30 December 2013, the Wang Family Companies and the Group entered into an agreement, whereby the Wang Family Companies agreed to provide electronic business services to the Group. For the year ended 31 December 2016, the electronic business services fee paid by the Group amounted to RMB315,000, which is below the annual cap amount RMB31,000,000 as set forth in the Company's announcement dated on 30 December 2013 about this matter.

Electronic Business Services

Service providing party (Note 1)	**Service accepting party**	**Service**	**Transaction sum** (RMB)
(i) Bituo E-commerce Company Limited	Subsidiaries under ENN Energy Holdings Limited	Electronic business services	315,000
(ii) Xinzhi Smart Energy Network Technology Company Limited			
(iii) EnNiuChengFu Public Services Technology Company Limited			

(E) On 30 December 2013, the Group and the Wang Family Companies entered into an agreement, whereby the Wang Family Companies agreed to sell equipment and provide modification services to the Group. For the year ended 31 December 2016, the equipment purchased and modification services fee paid by the Group amounted to RMB47,000, which is below the annual cap amount RMB61,000,000 as set forth in the Company's announcement dated on 30 December 2013 about this matter.

Equipment Purchasing and Modification Services

Seller (Note 1)	**Buyer**	**Transaction**	**Transaction sum** (RMB)
Bituo E-commerce Company Limited	Subsidiaries of ENN Energy Holdings Limited	Purchase of system and equipment	47,000

(F) On 30 December 2013, the Wang Family Companies and the Group entered into an agreement, whereby the Group will, upon the requests of the Wang Family Companies, provide the Wang Family Companies with gas connection services. For the year ended 31 December 2016, the gas connection service fees charged by the Group amounted to RMB5,873,000, which is below the annual cap amount RMB29,000,000 as set forth in the Company's announcement dated on 30 December 2013 about this matter.

Gas Connection Services

Service providing party	**Service accepting party** (Note 1)	**Service**	**Transaction sum** (RMB)
Xinao Gas Development Company Limited	(i) Langfang Xinao Property Development Company Limited (ii) Ovation Qixiu Hotel Management Company Limited (iii) ENN Science & Technology Development Company Limited (iv) KaiSin City Development Construction Company Limited (v) Xindi Energy Engineering Technology Company Limited	Gas connection	5,873,000

(G) On 12 May 2014, the Company entered into a Master Construction Services Agreement with a Wong Family Company for a term commencing from 12 May 2014 and expiring on 31 December 2016, whereby the Wang Family Company agreed to provide the Group with construction services. For the year ended 31 December 2016, the construction services fee paid by the Group amounted to RMB596,218,000, which is below the annual cap amounted RMB1,055,000,000 as set forth in the Company's announcement dated on 12 May 2014 about this matter.

Construction Services

Service providing party (Note 1)	**Service accepting party**	**Service**	**Transaction sum** (RMB)
Xindi Energy Engineering Technology Company Limited	Subsidiaries under ENN Energy Holdings Limited	Construction of pipelines	596,218,000

(H) On 15 August 2014, the Company entered into a Master LNG Supply Agreement with a Wang Family Company for a term commencing from 15 August 2014 end expiring on 31 December 2016, whereby the Wang Family Company agreed to provide the Group with LNG supply. For the year ended 31 December 2016, the LNG purchasing cost paid by the Group amounted to RMB106,126,000, which is below the annual cap amounted RMB274,271,000 as set forth in the Company's announcement dated on 15 August 2014 about this matter.

LNG Supply

Seller (Note 1)	**Buyer**	**Transaction**	**Transaction sum** (RMB)
Shanxi Qinshai Xinao Gas Company Limited	Xinao Energy Trading Company Limited	Purchase of LNG	106,126,000

(I) On 17 October 2016, the Company entered into a Master Information Technology Services Agreement with a Wang Family Company for a term commencing from 17 October 2016 end expiring on 31 December 2018, whereby the Wang Family Company agreed to provide the Group with information technology services. For the year ended 31 December 2016, the information technology services fee paid by the Group amounted to RMB60,323,000, which is below the annual cap amounted RMB127,570,000 as set forth in the Company's announcement dated on 17 October 2016 about this matter.

Information Technology Services

Seller (Note 1)	**Service accepting party**	**Transaction**	**Transaction sum** (RMB)
XinZhiYun Data Services Company Limited	Subsidiaries under ENN Energy Holdings Limited	Information technology services	60,323,000

Notes:

1. Wang Family Companies are companies controlled (entitled to exercise, or control the exercise of 30% or more of the voting power at any general meeting of the relevant company) by Mr. Wang, the Chairman, an Executive Director and a controlling shareholder of the Company, and/or his associates (including Ms. Zhao, a controlling shareholder of the Company and the spouse of Mr. Wang), thereby being connected persons of the Group during the year.

2. Most subsidiaries, joint ventures and associates of the Company in the PRC, minority equity interest holders and related parties mentioned above have names in Chinese only, and the English names used here are for reference only.

In the opinion of the Independent Non-executive Directors, these transactions were carried out in the ordinary course of business of the Group and on normal commercial terms.

Other than as disclosed above, no other transactions, agreements or contracts of significance to which the Company, its parent holding company or its subsidiaries or fellow subsidiaries was a party and in which a Director or a controlling shareholder of the Company or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Auditor has issued an unqualified letter containing findings and conclusions in respect of the continued connected transactions disclosed by the Group as above in accordance with Chapter 14A.56 of the Listing Rules.

The auditor of the Company has conducted an engagement with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants and has provided a letter to the Board of Directors of the Company confirming that based on the procedures carried out on the continuing connected transactions by the auditor of the Company and the letter has been submitted to the Stock Exchange:

(a) nothing has come to the auditor's attention that causes the auditor to believe that the continuing connected transactions disclosed in this report have not been approved by the Company's Board of Directors.

(b) for transactions involving the provision of goods or services by the Group. nothing has come to our attention that causes us to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.

(c) nothing has come to the auditor's attention that causes the auditor to believe that the continuing connected transactions disclosed in this report were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

(d) with respect to the aggregate amount of each of the continuing connected transactions disclosed in this report, nothing has come to the auditor's attention that causes the auditor to believe that the continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the Company's announcement made in respect of each of the continuing connected transactions.

The Board of Directors of the Company confirmed that the disclosure requirements of Chapter 14A of the Listing Rules have been complied.

Disclosure under Rule 14A.72 of the Listing Rules

Under Chapter 14A of the Listing Rules, the related party transactions as disclosed in Note 54 to the Consolidated Financial Statements included connected transactions under relevant Listing Rules and of which the relevant disclosures have been made in accordance with the disclosure requirements under Chapter 14A of the Listing Rules in the above section. However, since all the applicable percentage ratios in respect of certain connected transactions are less than 0.1%, those transactions fell within de minimis exemption under Chapter 14A.76 of the Listing Rules and were exempted from the annual review, disclosure and shareholders' approval requirements. Other related party transactions taken place during the year ended 31 December 2016 which were disclosed in Note 54 to the Consolidated Financial Statements did not constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Directors' rights to Acquire Shares or Debentures

Other than the share options as set out in the section headed "Directors' rights to acquire shares" and the details of share options disclosed in Note 45 to the Consolidated Financial Statements, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2016. At no time during the year was the Company, its parent company, or any of its subsidiaries a party to any arrangements 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.

Equity-Linked Agreements

Save for share option scheme as disclosed in this Annual Report, no equity-linked agreements were entered into during the year or subsisted at the end of the year.

Major Customers and Suppliers

Both the percentage of the purchases attributable from the Group's five largest suppliers and the percentage of the revenue attributable from the Group's five largest customers were approximately 37.7% and 4.2% respectively during the year.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Environmental Policies and Performance

The Group's mission is "advocating clean energy, improving living environment, increasing system energy efficiency and creating value for clients". With an aim to meet customers' needs, the Group leverages its clean energy reserve and transportation resources accumulated for a long time and develops the most efficient tailor-made energy solutions for domestic and overseas clients through its system energy efficiency technology platforms. The Group reduced the harm to environment caused by economic development by promoting clean energy and conducting energy saving and emission reduction projects. In 2016, the Group recorded a volume of 12.815 billion cubic meters of natural gas sales for city-gas and energy trading business, equivalent to reducing 17.045 million tons of standard coals and reducing 16.908 million tons of carbon dioxide. Volume of gas sales for vehicle business amounted to 1.514 billion cubic meters during the year, equivalent to reducing 1.397 million tons of oil consumption and reducing the emission of 0.982 million tons of carbon dioxide.

Compliance with Laws and Regulations

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. The Board review and monitor the Group's policies and practices on compliance with legal and regulatory requirements in a regular basis. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

During the year under review, to the best of our knowledge, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

Purchase, Sale or Redemption of Listed Securities

During the year, the Company repurchased a total of 1,032,000 shares on the Stock Exchange at an aggregate consideration of HK$32,744,800. Details of the repurchase are as follows:

Date	Total number of shares repurchased	Price per share Highest HK$	Price per share Lowest HK$	Aggregate Consideration HK$
11 January 2016	200,000	34.00	33.50	6,761,300
21 January 2016	32,000	33.00	32.45	1,054,200
22 December 2016	400,000	31.00	30.60	12,317,600
23 December 2016	400,000	31.90	30.95	12,611,700
	1,032,000			32,744,800

232,000 and 800,000 ordinary shares repurchased during the year were cancelled on 28 April 2016 and 14 March 2017 respectively.

The purpose of share repurchase is to increase net asset value per share and earnings per share. The share repurchase complied with the general mandate to the Board to repurchase the Company's shares that passed in the Company's 2016 AGM. Save as above, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company's listed securities.

Audit Committee

The Company established an Audit Committee in accordance with requirements under the Listing Rules for the purpose of reviewing with management the accounting principles and practices adopted by the Group and discuss auditing, internal control and financial reporting matters.

The Audit Committee of the Company has reviewed the annual results and the audited annual accounts for the year ended 31 December 2016 at the Audit Committee meeting held on 20 March 2017.

The Corporate Governance Code

To the knowledge of the Board, the Company has complied with the Code Provisions set out in the Code on the Corporate Governance Code (the "Code") as contained in Appendix 14 to the Listing Rules. Details are set out on page 55 to 68 of the Corporate Governance Report.

The Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as contained in Appendix 10 to the Listing Rules. Specific enquiries have been made with all Directors who have confirmed that they complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

Loan Agreements Imposing Specific Performance Obligations on Controlling Shareholders

The Company issued 10-year senior notes on 13 May 2011 (the "2021 Senior Notes") in an aggregate amount of US$750 million (equivalent to RMB4,863 million) and 5-year zero-coupon convertible bonds on 26 February 2013 (the "Convertible Bonds") in an aggregate amount of US$500 million (equivalent to RMB3,141 million). The terms and conditions of the 2021 Senior Notes and Convertible Bonds require Mr. Wang Yusuo, the controlling shareholder of the Company, to retain at least 25% of the total issued share capital of the Company throughout the term of the respective agreements. The total balance of loans outstanding as at 31 December 2016 are US$366 million (equivalent to RMB2,507) million and US$500 million (equivalent to RMB3,515 million) respectively.

On 23 October 2014, the Company issued 5-year bonds and the terms and conditions of the bonds required Mr. Wang Yusuo, the controlling shareholder of the Company, to retain at least 20% of the total issued share capital of the Company throughout the term of the bonds. The total amount of the loan involved is US$400 million (equivalent to RMB2,460 million). As at 31 December 2016, the outstanding balance is US$64.80 million (equivalent to RMB446 million).

Interests in Competitors

During the year, none of the Directors or the management shareholders of the Company or their respective associates had an interest in a business which competes or may compete with the business of the Group.

Auditor

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
WANG Yusuo
Chairman

Hong Kong, 21 March 2017

Deloitte.
德勤

TO THE SHAREHOLDERS OF ENN ENERGY HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of ENN Energy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 88 to 184, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Impairment assessment of goodwill allocated to gas refuelling business in the United States	
We identified the impairment assessment of goodwill allocated to gas refuelling business in the United States ("the US CGU") as a key audit matter due to that an impairment loss of RMB552 million recognised in relation to the US CGU during the year ended 31 December 2016 and the assessment process requires significant judgements and estimates of the Group's management including estimating the future cash flow, profit margins, revenue growth rate and discount rate used in the impairment model. The changes to these may have significant impact on determining whether any impairment is required and the amount of impairment. Details of goodwill and the related key estimation uncertainty are set out in Notes 5 and 19 to the consolidated financial statements.	Our procedures in relation to impairment assessment of goodwill allocated to the US CGU included: • Evaluating management's methodology and models for impairment assessment of goodwill and corroborating the discount rate used through analysing the cost of capital of the Group against comparable corporations with the assistance of internal valuation expert; • Challenging the future cash flows of the US CGU and the process by which they were drawn up, including checking the accuracy of the underlying calculations and the consistency between the forecasts and the latest budgets approved by the board of the directors; • Comparing the profit margins, short-term growth rate and long-term growth rate assumed to the Group's historical performances or external market data where available.
Capital expenditure of properties under construction	
We identified the capital expenditure of properties under construction as a key audit matter due to the significance of the amount and the judgement of the Group's management whether the expenditure qualifies for the capitalisation. The Group continues to invest in properties under construction with capital expenditure of RMB2,099 million during the year ended 31 December 2016 as detailed in Note 16, of which are mainly the construction of underground gas pipelines difficult to observe. It leads us to focus on the judgement of the Group's management on the determination of whether the expenditure met to the capitalisation criteria and categorised between operating expenditure and capital expenditure appropriately.	Our procedures in relation to capital expenditures of properties under construction included: • Assessing the key controls relating to capital expenditure of properties under construction; • Testing the appropriateness of expenditure capitalised with reference to supporting documents on a sample basis; • Performing site visit for additions in the year on a sample basis and discussing with the project manager on site regarding the completion status.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Tsang Kai Tai.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong

21 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016** **RMB million**	2015 RMB million
Revenue	6	**34,103**	32,063
Cost of sales		**(26,753)**	(25,197)
Gross profit		**7,350**	6,866
Other income	8	**650**	391
Other gains and losses	9	**(1,010)**	(700)
Distribution and selling expenses		**(534)**	(500)
Administrative expenses		**(2,223)**	(2,183)
Share of results of associates		**73**	116
Share of results of joint ventures		**498**	579
Finance costs	10	**(609)**	(542)
Profit before tax	11	**4,195**	4,027
Income tax expense	13	**(1,307)**	(1,306)
Profit for the year		**2,888**	2,721
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of properties arising from the transfer to investment properties		**14**	–
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating foreign operations		**69**	58
Fair value gain on available-for-sale financial assets		**2**	–
		71	58
Other comprehensive income for the year		**85**	58
Total comprehensive income for the year		**2,973**	2,779
Profit for the year attributable to:			
Owners of the Company		**2,151**	2,036
Non-controlling interests		**737**	685
		2,888	2,721
Total comprehensive income for the year attributable to:			
Owners of the Company		**2,233**	2,094
Non-controlling interests		**740**	685
		2,973	2,779

		2016 **RMB**	2015 RMB
Earnings per share	15		
– Basic		**1.99**	1.88
– Diluted		**1.82**	1.88

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 RMB million	2015 RMB million
Non-current Assets			
Property, plant and equipment	16	**22,297**	21,121
Prepaid lease payments	17	**1,221**	1,190
Investment properties	18	**208**	114
Goodwill	19	**188**	752
Intangible assets	20	**1,487**	1,454
Interests in associates	21	**1,350**	1,024
Interests in joint ventures	22	**3,704**	3,810
Available-for-sale ("AFS") financial assets	23	**4,882**	4,169
Financial assets at fair value through profit or loss ("FVTPL")	24	**154**	–
Other receivables	25	**32**	27
Amounts due from associates	27	**89**	74
Amounts due from joint ventures	28	**407**	190
Deferred tax assets	30	**745**	582
Deposits paid for investments	31	**61**	26
Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights		**227**	123
Restricted bank deposits	34	**489**	506
		37,541	35,162
Current Assets			
Inventories	32	**515**	404
Trade and other receivables	25	**4,423**	3,051
Prepaid lease payments	17	**30**	28
Financial assets at FVTPL	24	**16**	–
Amounts due from customers for contract work	33	**303**	197
Amounts due from associates	27	**185**	156
Amounts due from joint ventures	28	**790**	455
Amounts due from related companies	29	**63**	46
Restricted bank deposits	34	**352**	99
Cash and cash equivalents	34	**7,163**	7,355
		13,840	11,791
Assets classified as held for sale		**–**	66
		13,840	11,857

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 RMB million	2015 RMB million
Current Liabilities			
Trade and other payables	35	**8,323**	7,133
Amounts due to customers for contract work	33	**2,149**	2,248
Amounts due to associates	27	**218**	66
Amounts due to joint ventures	28	**1,645**	1,988
Amounts due to related companies	29	**416**	400
Taxation payables		**732**	706
Bank and other loans – due within one year	39	**3,944**	2,600
Corporate bonds	40	**–**	498
Medium-term notes	42	**700**	–
Convertible bonds at FVTPL	43	**–**	3,556
Financial guarantee liability	38	**22**	29
Deferred income	36	**192**	150
		18,341	19,374
Liabilities associated with assets classified as held for sale		**–**	34
		18,341	19,408
Net Current Liabilities		**(4,501)**	(7,551)
Total Assets less Current Liabilities		**33,040**	27,611
Capital and Reserves			
Share capital	37	**112**	113
Reserves		**14,854**	13,355
Equity attributable to owners of the Company		**14,966**	13,468
Non-controlling interests		**2,888**	2,627
Total Equity		**17,854**	16,095
Non-current Liabilities			
Bank and other loans – due after one year	39	**197**	836
Corporate bonds	40	**5,482**	2,489
Senior notes	41	**2,507**	4,584
Medium-term notes	42	**–**	700
Convertible bonds at FVTPL	43	**3,515**	–
Unsecured bonds	44	**446**	417
Deferred tax liabilities	30	**397**	393
Deferred income	36	**2,642**	2,097
		15,186	11,516
		33,040	27,611

The consolidated financial statements on pages 88 to 184 were approved and authorised for issue by the Board of Directors on 21 March 2017 and are signed on its behalf by:

Wang Yusuo
DIRECTOR

Wang Dongzhi
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Equity attributable to owners of the Company											
	Share capital RMB million (Note 37)	Share premium RMB million	Special reserve RMB million (note a)	Revaluation reserve RMB million	Share options reserve RMB million	Exchange reserve RMB million	Statutory surplus reserve fund RMB million (note b)	Designated safety fund RMB million (note c)	Retained earnings RMB million	Total RMB million	Non-controlling interests RMB million	Total equity RMB million
At 1 January 2015	113	769	(18)	–	1	(2)	1,160	44	10,031	12,098	2,443	14,541
Profit for the year	–	–	–	–	–	–	–	–	2,036	2,036	685	2,721
Other comprehensive income for the year	–	–	–	–	–	58	–	–	–	58	–	58
Profit and total comprehensive income for the year	–	–	–	–	–	58	–	–	2,036	2,094	685	2,779
Recognition of equity-settled share-based payment (Note 45)	–	–	–	–	3	–	–	–	–	3	–	3
Share repurchase (Note 37)	–	(16)	–	–	–	–	–	–	–	(16)	–	(16)
Acquisition of subsidiaries (Notes 47 & 48)	–	–	–	–	–	–	–	–	–	–	48	48
Acquisition of additional interests in subsidiaries	–	–	(2)	–	–	–	1	–	(1)	(2)	(24)	(26)
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	15	15
Capital withdrawal by non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	(32)	(32)
Disposal/derecognition of subsidiaries (Note 49)	–	–	–	–	–	–	–	–	–	–	(6)	(6)
Dividends appropriation (Note 14)	–	(709)	–	–	–	–	–	–	–	(709)	–	(709)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	(502)	(502)
Transfer to statutory surplus reserve fund	–	–	–	–	–	–	455	–	(455)	–	–	–
Transfer to designated safety fund	–	–	–	–	–	–	–	2	(2)	–	–	–
At 31 December 2015	113	44	(20)	–	4	56	1,616	46	11,609	13,468	2,627	16,095
Profit for the year	–	–	–	–	–	–	–	–	2,151	2,151	737	2,888
Other comprehensive income for the year	–	–	–	13	–	69	–	–	–	82	3	85
Profit and total comprehensive income for the year	–	–	–	13	–	69	–	–	2,151	2,233	740	2,973
Recognition of equity-settled share-based payment (Note 45)	–	–	–	–	51	–	–	–	–	51	–	51
Share repurchase (Note 37)	(1)	(28)	–	–	–	–	–	–	–	(29)	–	(29)
Issue of ordinary shares upon exercise of share options (Note 45)	–	4	–	–	(1)	–	–	–	–	3	–	3
Acquisition of subsidiaries (Notes 47 & 48)	–	–	–	–	–	–	–	–	–	–	38	38
Acquisition of additional interests in subsidiaries	–	–	(74)	–	–	–	–	–	19	(55)	(41)	(96)
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	56	56
Disposal of subsidiaries (Note 49)	–	–	–	–	–	–	–	–	–	–	(3)	(3)
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	–	(6)	(6)
Dividends appropriation (Note 14)	–	–	–	–	–	–	–	–	(705)	(705)	–	(705)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	(523)	(523)
Transfer to statutory surplus reserve fund	–	–	–	–	–	–	253	–	(253)	–	–	–
At 31 December 2016	112	20	(94)	13	54	125	1,869	46	12,821	14,966	2,888	17,854

Notes:

a. The balance represented the difference between the fair values of consideration paid and the carrying values of the underlying assets and liabilities attributable to the additional interests in subsidiaries acquired.

b. In accordance with the People's Republic of China ("PRC") regulations, the statutory surplus reserve fund retained by subsidiaries in the PRC is non-distributable.

c. Pursuant to relevant PRC regulation, the Group is required to transfer 1.5% on revenue generated from transportation of gas or other dangerous chemical into a designated fund. The fund will be used for installation and repair and maintenance of safety facilities. The movement during the year represents the difference between the amount provided based on the relevant PRC regulation and the amount utilised during the year.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 RMB million	2015 RMB million
OPERATING ACTIVITIES			
Profit before tax		**4,195**	4,027
Adjustments for:			
Share of results of associates		**(73)**	(116)
Share of results of joint ventures		**(498)**	(579)
Exchange differences		**305**	403
Fair value (gain) loss of convertible bonds at FVTPL		**(41)**	200
Fair value gain of financial assets at FVTPL		**(170)**	–
Impairment loss on goodwill		**601**	–
Impairment loss on trade and other receivables, net		**35**	25
Loss (gain) on disposal of property, plant and equipment		**37**	(11)
Gain on disposal of prepaid lease payments		**(2)**	(6)
Gain on disposal/derecongnition of subsidiaries/a business	49	**(46)**	(8)
Dividend income from an AFS investment		**(180)**	–
Increase in fair value of investment properties		**(4)**	(26)
Depreciation of property, plant and equipment		**969**	956
Amortisation of intangible assets		**95**	87
Release of prepaid lease payments		**36**	40
Share-based payment expenses		**51**	3
Financial guarantee income		**(7)**	(19)
Loss on repurchase of unsecured bonds	44	**–**	38
Loss on repurchase of senior notes	41	**308**	23
Bank interest income		**(153)**	(137)
Finance costs		**609**	542
		6,067	5,442
Movements in working capital:			
(Increase) decrease in inventories		**(105)**	108
Increase in trade and other receivables		**(871)**	(158)
(Increase) decrease in amounts due from customers for contract work		**(106)**	10
(Increase) decrease in amounts due from associates		**(51)**	4
Decrease in amounts due from joint ventures		**8**	16
(Increase) decrease in amounts due from related companies		**(12)**	9
Increase (decrease) in trade and other payables		**1,263**	(192)
Decrease in amounts due to customers for contract work		**(99)**	(120)
Increase in amounts due to joint ventures		**36**	46
Increase (decrease) in amounts due to associates		**28**	(22)
Increase in deferred income		**621**	570
Increase in amounts due to related companies		**39**	210
Cash generated from operations		**6,818**	5,923
PRC enterprise income tax paid		**(1,452)**	(1,207)
Net cash generated from operating activities		**5,366**	4,716

	Notes	2016 RMB million	2015 RMB million
INVESTING ACTIVITIES			
Dividends received from joint ventures		**769**	317
Dividends received from associates		**33**	37
Dividend received from an AFS investment		**180**	–
Interest received		**124**	136
Purchases of property, plant and equipment		**(3,049)**	(2,514)
Increase in prepaid lease payments		**(106)**	(59)
Deposits paid for investments		**(53)**	(14)
Deposits paid for prepaid lease payments		**(32)**	(9)
Deposits paid for acquisition of property, plant and equipment		**(77)**	(30)
Net cash outflow on acquisition of subsidiaries	47 & 48	**(49)**	(95)
Net cash inflow (outflow) on disposal/derecognition of subsidiaries/a business	49	**12**	(12)
Proceeds from disposal of assets classified as held for sale		**34**	–
Acquisition of additional interests in an associate		**–**	(3)
Proceeds from capital released from a joint venture		**–**	17
Purchases of AFS investments		**(711)**	(4,055)
Purchases of wealth management products		**(8,728)**	–
Release of wealth management products		**8,177**	–
Amounts advanced to banks and other financial institutions by Xinao Finance Company Limited ("ENN Finance")		**(100)**	(1,830)
Amounts withdrawal from banks and other financial institutions by ENN Finance		**100**	1,831
Investments in joint ventures		**(165)**	(104)
Investments in associates		**(134)**	(45)
Acquisition of intangible assets		**(25)**	(108)
Proceeds from disposal of property, plant and equipment		**727**	132
Proceeds from disposal of prepaid lease payments		**23**	11
Addition of restricted bank deposits		**(796)**	(553)
Release of restricted bank deposits		**560**	62
Amounts advanced to associates		**(102)**	(106)
Amounts repaid by associates		**109**	11
Amounts advanced to joint ventures		**(941)**	(185)
Amounts repaid by joint ventures		**387**	234
Amounts advanced to related companies		**(13)**	(1)
Amounts repaid by related companies		**6**	73
Net cash used in investing activities		**(3,840)**	(6,862)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 RMB million	2015 RMB million
FINANCING ACTIVITIES		
Interest paid	**(668)**	(624)
Net proceeds from shares issued upon exercise of share options	**3**	–
Repurchase of shares	**(29)**	(16)
Proceeds from issuance of corporate bonds	**2,490**	2,489
Amounts advanced from banks and other financial institutions by ENN Finance	**200**	–
Amounts repaid to banks and other financial institutions by ENN Finance	**(200)**	–
Proceeds used in repurchase of senior notes	**(2,706)**	(247)
Proceeds used in repurchase of unsecured bonds	**–**	(2,179)
Contribution from non-controlling shareholders	**56**	15
Acquisition of additional interests in subsidiaries	**(85)**	(26)
Capital withdrawal by non-controlling shareholders	**–**	(32)
Dividends paid to non-controlling shareholders	**(523)**	(502)
Dividends paid to shareholders	**(705)**	(709)
New bank loans raised	**7,339**	5,226
Repayment of bank loans	**(6,630)**	(4,892)
Amounts advanced from associates	**124**	12
Amounts repaid to associates	**–**	(13)
Amounts advanced from joint ventures	**25**	695
Amounts repaid to joint ventures	**(404)**	(166)
Amounts advanced from related companies	**56**	6
Amounts repaid to related companies	**(79)**	(55)
Net cash used in financing activities	**(1,736)**	(1,018)
Net decrease in cash and cash equivalents	**(210)**	(3,164)
Effect of foreign exchange rate changes	**18**	16
Cash and cash equivalents at the beginning of the year	**7,355**	10,503
Cash and cash equivalents at the end of the year	**7,163**	7,355

1. General Information

ENN Energy Holdings Limited (the "Company") is an exempted company incorporated in the Cayman Islands under the Companies Law and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of its registered office and principal place of business are disclosed in the section headed "Corporate Information" of the Company's Annual Report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 55.

2. Basis of Preparation of Consolidated Financial Statements

In preparing the consolidated financial statements, the directors of the Company (the "Directors") have given careful consideration of the Group in light of its net current liabilities of approximately RMB4,501 million as at 31 December 2016. At the date of approval of the consolidated financial statements, the Group has unutilised credit facilities of approximately RMB7,277 million, which are subject to renewal within twelve months from the end of the reporting period. So the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the consolidated financial statements for the year ended 31 December 2016 have been prepared on a going concern basis.

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

Application of Amendments to HKFRSs

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

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

Except as described below, the application of the above 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.

Amendment to HKAS 1 Disclosure Initiative

The Group has applied the amendments to HKAS 1 Disclosure Initiative for the first time in the current year. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial performance.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The Group has applied these amendments retrospectively. The grouping and ordering of certain notes have been revised to give prominence to the areas of the Group's activities that management considers to be most relevant to an understanding of the Group's financial performance and financial position. Specifically, information to financial instruments was reordered to Note 53 while information in relation to segment was reordered to Note 7. Other than the above presentation and disclosure changes, the application of the amendments to HKAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

[1] Effective for annual periods beginning on or after 1 January 2018

[2] Effective for annual periods beginning on or after 1 January 2019

[3] Effective for annual periods beginning on or after a date to be determined

[4] Effective for annual periods beginning on or after 1 January 2017

The Company anticipates that the application of the new and revised HKFRSs, other than set out below, will have no material impact on the consolidated financial statements.

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 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be 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 values at the end of subsequent reporting 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.

- With regard to the measurement of financial liabilities designated as at FVTPL, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL was presented in profit or loss.

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

New and revised HKFRSs in issue but not yet effective *(continued)*

HKFRS 9 Financial Instruments (continued)

- 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 policies as at 31 December 2016, the Company anticipates that the adoption of HKFRS 9 in the future may have impact on the classification and measurement of the Group's financial assets and financial liabilities set out below:

- The Group's AFS financial assets, including those currently stated at cost less impairment, will either be measured as FVTPL or be designated as FVTOCI (subject to fulfillment of the designation criteria).
- The expected credit loss model may result in early provision of credit losses which are not yet incurred to the Group's financial assets measured at amortised cost.
- The change in fair value of the Group's convertible bonds at FVTPL that is attributable to changes in credit risk would be presented in other comprehensive income.

However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs 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 obligation, principal versus agent consideration, as well as licensing application guidance.

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

New and revised HKFRSs in issue but not yet effective *(continued)*

HKFRS 15 Revenue from Contracts with Customers (continued)

The Directors are in the process of assessing the potential impacts of HKFRS 15 in respect of the Group contracts with customers, in particular, the identification of performance obligations under HKFRS 15 and the allocation of total consideration (including subsidies and connection fee received from the customers for the construction of the Group's main gas pipelines) to the respective performance obligations that will be based on relative fair values. For example, for gas connection contracts with a commitment to provide ongoing access to gas supply, the considerations will be allocated over both gas connection service and the obligation to supply gas based on relative fair values, which may 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 Group performs 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 other. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will presented as financing and financing cash flows respectively.

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 31 December 2016, the Group has non-cancellable operating lease commitments of RMB461 million as disclosed in Note 51. 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 changes in measurements, presentation and disclosure as indicated above and prepaid lease payments in the consolidated statement of financial position will be reclassified as right-of-use assets. However, it is not practicable to provide a reasonable of the financial effect until the Group performs a detailed review.

3. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

New and revised HKFRSs in issue but not yet effective *(continued)*

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair value; (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted.

The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

4. 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 of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments, which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

4. Significant Accounting Policies *(continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved where the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e., reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of non-common control businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

4. Significant Accounting Policies *(continued)*

Business combinations *(continued)*

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (which cannot exceed one year from the acquisition date), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGUs") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes.

A CGU (or group of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs). Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of profit or loss and other comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGUs, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of associates is described below.

4. Significant Accounting Policies *(continued)*

Interests in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portions so classified is accounted for in accordance with HKFRS 5. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

4. Significant Accounting Policies *(continued)*

Interests in associates and joint ventures *(continued)*

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss be recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKAS 39, the Group measures the retained interest at fair value on the date it lost significant influence or joint control over the investee and the fair value is regarded as its fair value on initial recognition. Upon disposal or partial disposal of the Group's interest in an associate or a joint venture, the difference between the carrying amount of the associate or joint venture at the date the Group lost significant influence or joint control over the investee, and the fair value of any retained interest and any proceeds from disposing of a partial interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When a group entity transacts with an associate or a joint venture of the Group (such as a sale or contribution of assets), profits or losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

4. Significant Accounting Policies *(continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

The Group's policy for the recognition of revenue from gas connection contract is described in the accounting policy for gas connection contract below.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Service income is recognised at the time when services are provided.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

When the Group receives cash from a customer for the construction or acquisition of an item of property, plant and equipment and the Group must then use the item of property, plant and equipment to provide the customer with ongoing access to a supply of gas, the item of property, plant and equipment is recognised in accordance with HKAS 16 "Property, Plant and Equipment" and the revenue (the credit resulting from the initial recognition of the item of property, plant and equipment) is recognised in accordance with HKAS 18 "Revenue". When an ongoing service is identified as part of the agreement, the period over which revenue is recognised for that service is generally determined by the terms of the agreement with the customer. When the agreement does not specify a period, the revenue is recognised over a period no longer than the useful life of the relevant property, plant and equipment used to provide the ongoing service.

Gas connection contracts

Where the outcome of a gas connection contract can be estimated reliably and the stage of contract completions at the end of the reporting period can be measured reliably, contract costs are charged to the consolidated statement of profit or loss and other comprehensive income by reference to the stage of completion of the contract activity at the end of the reporting period on the same basis as revenue from gas connection contract is recognised.

Where the outcome of a gas connection contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

When a gas connection contract provides that the Group is committed to provide ongoing access to gas supply, revenue relating to the gas supply service is recognised on a straight-line basis over the shorter of the gas supply period and the useful lives of the related assets. The unearned portion of the gas connection income received is stated as deferred income in the consolidated statement of financial position.

4. Significant Accounting Policies *(continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating lease is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the term of the relevant lease. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis, except for those classified as investment properties and accounted for using the fair value model.

4. Significant Accounting Policies *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the respective functional currency (i.e., the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e., RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit scheme contribution

Payable to the Mandatory Provident Fund Scheme and the retirement funds scheme managed by local social security bureau in accordance with the government regulations of the PRC, are recognised as an expense when employees have rendered service entitling them to the contributions.

4. Significant Accounting Policies *(continued)*

Short-term and other long-term employee benefit

Short-term employee benefits are recognised at the undiscounted amount of the benefits to be paid as and when employees rendered the service. All short-term employee benefits are recognised as expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Share-based payment arrangements

Share options granted by the Company to employees (including directors) of the Group in an equity-settled share-based payment arrangement

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of fair value of equity-settled share-based transactions are set out in Note 45.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). Vesting conditions, other than market condition, shall not be taken into account when estimating the fair value of the share options at the measurement date. Instead, vesting conditions, i.e., a specified service period with or without a performance target, shall be taken into account in estimating the number of equity instrument that will ultimately vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share capital and share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

4. Significant Accounting Policies *(continued)*

Taxation *(continued)*

Deferred tax liabilities are recognised for taxable temporary difference associated with investments in subsidiaries and interests in associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment included building and leasehold land (classified as finance lease) held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost or deemed cost for properties transferred from investment properties, less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production or supply of goods or services, or for administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

4. Significant Accounting Policies *(continued)*

Property, plant and equipment *(continued)*

Depreciation is recognised so as to write off the costs or deemed cost of assets (other than properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the profit or loss in the period which the item is derecognised.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

For a transfer from investment property to property, plant and equipment, the investment property is measured at the fair value at the date of transfer. Gain or losses arising from changes in the fair value of investment property are recognised in the profit or loss for the period in which the investment property is transferred. The fair value of the investment property will be recognised as the deemed cost of the property for subsequent accounting in accordance with the accounting policy of property, plant and equipment as set out above.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference the carrying amount and the fair value of that item (including the relevant prepaid lease payments) at the date of transfer is recognised in other comprehensive income and accumulated in revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

4. Significant Accounting Policies *(continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development or from the development phase of an internal project is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any).

Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination are recognised separately from goodwill and are initially measured at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are carried at costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

4. Significant Accounting Policies *(continued)*

Intangible assets *(continued)*

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss in the period when the asset is derecognised.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if applicable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories, including construction materials, gas appliances and gas for sales, consumables and spare parts, are stated at the lower of cost and net realisable value. Costs are determined using weighted average cost formula. Net realisable value represents the estimated selling price for inventories less all estimated costs to completion and the costs necessary to make the sale.

4. Significant Accounting Policies *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into the following specified categories: financial assets at FVTPL, AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant reporting periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial assets is (i) held for trading; (ii) it is designated as at FVTPL; or (iii) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item. Fair value is determined in the manner described in Note 53.

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, amounts due from associates, amounts due from joint ventures, amounts due from related companies, restricted bank deposits and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any identified impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets and are measured at fair value at the end of each reporting period, unless the fair value cannot be measured reliably. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method recognised in profit or loss. Dividends on AFS equity are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of AFS investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the AFS investments revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For an AFS equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets *(continued)*

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 to 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, amounts due from associates, joint ventures and related parties, where the carrying amount is reduced through the use of an allowance account. When a trade and other receivables, amounts due from associates, amounts due from joint ventures and amounts due from related companies is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance accounts are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent reporting period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. In respect of AFS debt investment, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant reporting periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Convertible bonds

The Group designated the convertible bonds as financial liabilities at FVTPL as the convertible bonds contained one or more embedded derivatives including the convertible option, which will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, and HKAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract to be designated as at FVTPL. Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on measurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in the "other gains and losses" line item. Fair value is determined in the manner described in Note 53.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, amounts due to associates, amounts due to joint ventures, amounts due to related companies, bank and other loans, corporate bonds, medium-term notes, senior notes and unsecured bonds) are subsequently measured at amortised cost, using the effective interest method.

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments (continued)

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group is initially measured at its fair value and if not designated as at FVTPL, are subsequently measured at the higher of: (i) the amount of the obligation under the contract, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, where appropriate, cumulative amortisation. Amount initially recognised is amortised over the duration of the guarantee using the straight line method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposure and are readily separable and independent of each other.

Contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments are recognised as derivative financial instruments with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements.

Derecognition

The Group derecognises a financial asset only when the rights to receive cash flows from the assets expire or, when it transfers the financial assets and substantially all the risks and rewards of ownership of the assets to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. Key Sources Of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 4, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the reporting period in which the estimate is revised if the revision affects only that reporting period, or in the reporting period of the revision and future reporting periods if the revision affects both current and future reporting periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated which is the higher of fair value less cost of disposal and its value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash inflows, further impairment loss may arise. As at 31 December 2016, the carrying amount of goodwill less impairment losses is RMB188 million (2015: RMB752 million). Details of the calculation of the recoverable amount are set out in Note 19.

Estimated impairment of intangible assets

Determining whether intangible assets are impaired requires the estimation of the recoverable amount of the CGUs to which intangible assets have been allocated which is the higher of the fair value less cost of disposal and its value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss may arise. As at 31 December 2016, the carrying amount of intangible assets less accumulated amortisation is RMB1,487 million (2015: RMB1,454 million).

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will impact the depreciation charges in the year in which the estimates change. As at 31 December 2016, the carrying amount of property, plant and equipment less accumulated depreciation and accumulated impairment losses is RMB22,297 million (2015: RMB21,121 million).

6. Revenue

	2016 RMB million	2015 RMB million
Revenue comprises the following:		
Sales of goods		
Sales of piped gas	**17,900**	18,680
Vehicle gas refuelling stations	**3,169**	3,931
Wholesale of gas	**6,153**	3,429
Sales of other energy	**153**	83
Sales of gas appliances	**238**	138
Sales of material	**879**	294
	28,492	26,555
Provision of service		
Gas connection	**5,611**	5,508
	34,103	32,063

7. Segment Information

Information reported to the chief operating decision maker, the President of the Company (the "President") for the purposes of resource allocation and performance assessment among segments focuses specifically on different type of goods and services. Specifically, the Group's operating and reportable segment under HKFRS 8 are gas connection, sales of piped gas, vehicle gas refuelling stations, wholesale of gas, sales of other energy, sales of gas appliances and sales of material. Segment profit reviewed by the President represents the gross profit earned by each segment. The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 4.

Segment revenue and results

Segment profit represents the profit earned by each segment without allocation of central administration costs, distribution and selling expenses, share of profit of associates and joint ventures, other income, other gains and losses and finance costs. This is the measure reported to the President for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

The following is an analysis of the Group's revenue and results by reportable segments which are also the operating segments for the years under review:

2016	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Sales of other energy RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Segment revenue	6,663	23,133	3,181	10,081	153	616	2,059	45,886
Inter segment sales	(1,052)	(5,233)	(12)	(3,928)	–	(378)	(1,180)	(11,783)
Revenue from external customers	5,611	17,900	3,169	6,153	153	238	879	34,103
Segment profit before depreciation and amortisation	3,769	3,805	398	99	31	102	26	8,230
Depreciation and amortisation	(176)	(562)	(124)	(2)	(14)	(2)	–	(880)
Segment profit	3,593	3,243	274	97	17	100	26	7,350

7. Segment Information *(continued)*

Segment revenue and results *(continued)*

2015	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Sales of other energy RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Segment revenue	6,473	24,243	3,939	6,653	83	444	1,268	43,103
Inter segment sales	(965)	(5,563)	(8)	(3,224)	–	(306)	(974)	(11,040)
Revenue from external customers	5,508	18,680	3,931	3,429	83	138	294	32,063
Segment profit before depreciation and amortisation	3,622	3,444	503	40	26	57	34	7,726
Depreciation and amortisation	(160)	(581)	(103)	(4)	(10)	(2)	–	(860)
Segment profit	3,462	2,863	400	36	16	55	34	6,866

Segment assets and liabilities

An analysis of the Group's total assets and liabilities by segment is as follows:

2016	**Gas connection RMB million**	**Sales of piped gas RMB million**	**Vehicle gas refuelling stations RMB million**	**Wholesale of gas RMB million**	**Sales of other energy RMB million**	**Sales of gas appliances RMB million**	**Sales of material RMB million**	**Consolidation RMB million**
Assets:								
Segment assets	**3,677**	**18,141**	**3,555**	**658**	**202**	**424**	**186**	**26,843**
Interests in associates								**1,350**
Interests in joint ventures								**3,704**
Unallocated corporate assets								**19,484**
Consolidated total assets								**51,381**
Liabilities:								
Segment liabilities	**8,835**	**4,116**	**476**	**250**	**30**	**132**	**299**	**14,138**
Bank and other loans								**4,141**
Corporate bonds								**5,482**
Senior notes								**2,507**
Medium-term notes								**700**
Convertible bonds at FVTPL								**3,515**
Unsecured bonds								**446**
Unallocated corporate liabilities								**2,598**
Consolidated total liabilities								**33,527**

7. Segment Information *(continued)*

Segment assets and liabilities *(continued)*

2015	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Sales of other energy RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Assets:								
Segment assets	3,107	16,732	3,487	617	303	282	80	24,608
Interests in associates								1,024
Interests in joint ventures								3,810
Unallocated corporate assets								17,577
Consolidated total assets								47,019
Liabilities:								
Segment liabilities	7,433	3,448	448	214	17	118	164	11,842
Bank and other loans								3,436
Corporate bonds								2,987
Senior notes								4,584
Medium-term notes								700
Convertible bonds at FVTPL								3,556
Unsecured bonds								417
Unallocated corporate liabilities								3,402
Consolidated total liabilities								30,924

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than unallocated corporate assets, mainly include unallocated property, plant and equipment, intangible assets, goodwill, prepaid lease payments, investment properties, interests in associates, interests in joint ventures, deferred tax assets, trade and other receivables and deposit, amounts due from associates, joint ventures and related companies, AFS financial assets, financial assets at FVTPL, restricted bank deposits and cash and cash equivalents. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and
- all liabilities are allocated to reportable segments other than unallocated corporate liabilities, mainly include trade and other payables, amounts due to associates, joint ventures and related companies, taxation payables, bank and other loans, corporate bonds, senior notes, medium-term notes, convertible bonds at FVTPL, unsecured bonds, financial guarantee liability and deferred tax liabilities. Liabilities for which segments are jointly liable are allocated in proportion to segments assets.

For the purposes of presenting segment revenue, results, assets and liabilities, the Group allocates certain property, plant and equipment and prepaid lease payments to certain segments with the related depreciation and release of prepaid lease payments to those segments.

7. Segment Information *(continued)*

Other segment information

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Sales of other energy RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Amounts included in the measure of segment profit or loss or segment assets:								
2016								
Additions to non-current assets (note b)	**479**	**2,161**	**377**	**73**	**77**	**30**	**8**	**3,205**
Depreciation and amortisation	**176**	**562**	**124**	**2**	**14**	**2**	**–**	**880**
2015								
Additions to non-current assets (note b)	386	2,163	345	56	18	15	6	2,989
Depreciation and amortisation	160	581	103	4	10	2	–	860

	Additions to non-current assets (note b)		Depreciation and amortisation	
	2016 RMB million	2015 RMB million	**2016 RMB million**	2015 RMB million
Segment total	**3,205**	2,989	**880**	860
Adjustments (note a)	**244**	180	**184**	183
Total	**3,449**	3,169	**1,064**	1,043

Notes:

a. Adjustments represent amounts incurred for corporate headquarters and are not allocated to operating segments.

b. Non-current assets include property, plant and equipment, prepaid lease payments, goodwill and intangible assets.

There is no single customer contribute more than 10% of the total revenue of the Group.

Substantially all of the Group's revenue and non-current assets are located in the PRC. For the year ended 31 December 2016, the revenues from PRC and overseas were RMB33,946 million (2015: RMB31,920 million) and RMB157 million (2015: RMB143 million), respectively. As of 31 December 2016, the non-current assets located in the PRC were RMB24,629 million (2015: RMB23,357 million) and overseas were RMB564 million (2015: RMB1,160 million).

8. Other Income

	2016 RMB million	2015 RMB million
Other income includes:		
Incentive subsidies (note)	**211**	174
Dividend income from an AFS investment	**180**	–
Bank interest income	**153**	137
Rental income from equipment, net	**22**	14
Financial guarantee income	**7**	19

Note: The amount mainly represents refunds of various taxes as incentives and other incentives related to the Group's operation by the government authorities in various cities of the PRC.

9. Other Gains and Losses

	2016 **RMB million**	2015 RMB million
Impairment loss on trade and other receivables, net (Note 25)	**(35)**	(25)
(Loss) gain on disposal of:		
– Property, plant and equipment	**(37)**	11
– Prepaid lease payments	**2**	6
Gain on disposal/derecognition of subsidiaries/a business (Note 49)	**46**	8
Increase in fair value of investment properties (Note 18)	**4**	26
Loss on repurchase of unsecured bonds (Note 44)	**–**	(38)
Loss on repurchase of senior notes (Note 41)	**(308)**	(23)
Fair value gain (loss) of convertible bonds at FVTPL (Note 43)	**41**	(200)
Fair value gain of financial assets at FVTPL (Note 24)	**170**	–
Impairment loss on goodwill (Note 19)	**(601)**	–
Loss on foreign exchange, net (note)	**(292)**	(465)
	(1,010)	(700)

Note: Included in the amount for the year ended 31 December 2016 is an amount of approximately RMB327 million (2015: RMB373 million) which is the exchange loss arising from the translation of senior notes and unsecured bonds denominated in United States Dollar ("USD") to RMB.

10. Finance Costs

	2016 **RMB million**	2015 RMB million
Interest on:		
Bank and other loans	**207**	181
Medium-term notes	**39**	39
Senior notes	**280**	276
Corporate bonds	**131**	35
Unsecured bonds	**15**	68
	672	599
Less: Amount capitalised under construction in progress (note)	**(63)**	(57)
	609	542

Note: Borrowing costs capitalised during both years arose from funds borrowed specifically for the purpose of expenditure on qualifying assets. In addition, during the year ended 31 December 2016, the borrowing cost capitalised arose from the pool of general borrowing calculated by applying a capitalisation rate of 3.79% (2015: 3.82%) per annum to expenditure on qualifying assets.

11. Profit Before Tax

	2016 RMB million	2015 RMB million
Profit before tax has been arrived at after (crediting) charging:		
Share-based payment expenses, including directors' emoluments (included in administrative expenses)	**51**	3
Other staff costs, including directors' emoluments	**2,236**	2,003
Less: Amount of other staff costs capitalised under construction in progress	**(63)**	(48)
	2,224	1,958
Depreciation and amortisation:		
Property, plant and equipment	**969**	956
Intangible assets	**95**	87
Total depreciation and amortisation (note)	**1,064**	1,043
Release of prepaid lease payments	**36**	40
Auditors' remuneration	**13**	13
Minimum lease payments paid under operating leases in respect of premises and equipment	**112**	110

Note: The amount of total staff costs and depreciation and amortisation included in cost of sales, distribution and selling expenses and administrative expenses are as follows:

	2016 RMB million	2015 RMB million
Staff costs included in:		
Cost of sales	**884**	726
Distribution and selling expenses	**400**	363
Administrative expenses	**940**	869
	2,224	1,958
Depreciation and amortisation included in:		
Cost of sales	**880**	860
Administrative expenses	**184**	183
	1,064	1,043

12. Directors', Chief Executive's and Employees' Emoluments

a. Directors' emoluments

Emoluments paid and payable to the Directors for the year were as follows:

	2016					
Name of director	**Fee RMB'000**	**Salaries and allowance RMB'000**	**Discretionary performance bonus RMB'000**	**Share-based payment RMB'000**	**Retirement benefit scheme contributions RMB'000**	**Total emoluments RMB'000**
Executive Directors: (note a)						
Wang Yusuo	–	2,662	–	2,539	–	5,201
Cheung Yip Sang	–	1,638	–	2,329	–	3,967
Yu Jianchao*	–	503	–	441	–	944
Han Jishen	–	1,800	2,229	1,843	89	5,961
Wang Dongzhi	–	1,200	1,019	1,672	89	3,980
Sub-total	–	7,803	3,248	8,824	178	20,053
Non-Executive Directors: (note b)						
Wang Zizheng	200	–	–	262	–	462
Jin Yongsheng****	200	–	–	622	–	822
Lim Haw Kuang**	54	–	–	70	–	124
Sub-total	454	–	–	954	–	1,408
Independent Non-executive Directors: (note c)						
Yien Yu Yu, Catherine***	83	–	–	–	–	83
Ma Zhixiang	200	–	–	262	–	462
Yuen Po Kwong	200	–	–	262	–	462
Law Yee Kwan, Quinn	200	–	–	262	–	462
Sub-total	683	–	–	786	–	1,469
Total	1,137	7,803	3,248	10,564	178	22,930

* Mr. Yu Jianchao retired from office as executive director of the Company on 31 May 2016.

** Mr. Lim Haw Kuang retired from office as non-executive director of the Company on 7 April 2016.

*** Ms. Yien Yu Yu, Catherine retired from office as independent non-executive director of the Company on 31 May 2016.

**** Mr. Jin Yongsheng resigned from office as non-executive director of the Company on 21 March 2017.

12. Directors', Chief Executive's and Employees' Emoluments *(continued)*

a. Directors' emoluments *(continued)*

	2015					
Name of director	Fee RMB'000	Salaries and allowance RMB'000	Discretionary performance bonus RMB'000	Share-based payment RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Executive Directors: (note a)						
Wang Yusuo	–	2,496	–	192	–	2,688
Cheung Yip Sang	–	1,537	–	176	–	1,713
Yu Jianchao	–	576	–	80	–	656
Han Jishen	–	1,438	1,504	139	80	3,161
Wang Dongzhi	–	960	–	126	81	1,167
Sub-total	–	7,007	1,504	713	161	9,385
Non-Executive Directors: (note b)						
Wang Zizheng	200	–	–	20	–	220
Jin Yongsheng	200	–	–	47	–	247
Lim Haw Kuang	207	–	–	20	–	227
Sub-total	607	–	–	87	–	694
Independent Non-executive Directors: (note c)						
Wang Guangtian*	93	–	–	–	–	93
Yien Yu Yu, Catherine	207	–	–	20	–	227
Ma Zhixiang	200	–	–	20	–	220
Yuen Po Kwong	200	–	–	20	–	220
Law Yee Kwan, Quinn	200	–	–	20	–	220
Sub-total	900	–	–	80	–	980
Total	1,507	7,007	1,504	880	161	11,059

* Mr. Wang Guangtian retired from office as independent non-executive director of the Company on 29 May 2015.

Notes:

a. The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

b. The non-executive director's emoluments shown above were mainly for their services as directors of the Company.

c. The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

The amounts disclosed above include directors' fees of RMB683,000 (2015: RMB900,000) paid or payable to independent non-executive directors. None of the Directors waived any emoluments during both years.

The discretionary performance bonus is determined by reference to the Group's performance during the year.

12. Directors', Chief Executive's and Employees' Emoluments *(continued)*

b. Five highest paid individuals

The five highest paid employees of the Group during the year included four (2015: five) directors, details of whose remuneration are set out in Note 12(a) above. Details of the remuneration for the year of the remaining one (2015: nil) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and allowance	**1,147**	–
Discretionary performance bonus	**1,665**	–
Share-based payment	**760**	–
Retirement benefit scheme	**93**	–
	3,665	–

The number of the highest paid employees included the directors of the Company whose remuneration fell within the following bands is as follows:

	2016 Number of employees	2015 Number of employees
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$4,000,000	**–**	2
HK$4,000,001 to HK$5,000,000	**3**	–
HK$5,000,001 to HK$6,000,000	**–**	–
HK$6,000,001 to HK$7,000,000	**2**	–
	5	5

13. Income Tax Expense

	2016 RMB million	2015 RMB million
PRC Enterprise Income Tax:		
Current tax	**1,370**	1,295
Underprovision in prior years	**19**	7
Withholding tax	**90**	169
	1,479	1,471
Deferred tax (Note 30):		
Current year	**(172)**	(165)
	1,307	1,306

The charge represents PRC Enterprise Income Tax for both years.

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

Certain subsidiaries of the Company are qualified as "High and New Tech Enterprises", which are subject to PRC enterprise income tax at the preferential rate of 15% of the estimated assessable profit as determined in accordance with relevant tax rules and regulations in the PRC. This preferential rate could be applied for three years and the subsidiaries are eligible to apply the tax concession again upon expiry of the three-year period.

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit for both years.

13. Income Tax Expense *(continued)*

Income tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2016 **RMB million**	2015 RMB million
Profit before tax	**4,195**	4,027
Tax at the PRC Enterprise Income Tax rate of 25% (2015: 25%)	**1,049**	1,007
Tax effects of share of results of associates	**(18)**	(29)
Tax effects of share of results of joint ventures	**(124)**	(145)
Tax effects of income not taxable for tax purpose	**(191)**	(140)
Tax effects of expenses not deductible for tax purpose	**577**	454
Tax effects of tax losses not recognised	**64**	103
Utilisation of tax losses previously not recognised	**(140)**	(93)
Tax effects of deductible temporary differences not recognised	**11**	11
Tax concession and exemption granted to certain PRC subsidiaries	**(37)**	(42)
Underprovision in respect of prior years	**19**	7
Withholding tax on undistributed profit of PRC entities	**97**	173
Income tax charge for the year	**1,307**	1,306

14. Dividend

	2016 **RMB million**	2015 RMB million
Final dividend paid in respect of previous financial year	**705**	709

Notes:

a. 2015 final dividend of HK$0.76 (equivalent to approximately RMB0.64) per ordinary share or approximately RMB705 million in aggregate was paid during the year ended 31 December 2016.

b. The final dividend in respect of 2016 of HK$0.83 (equivalent to approximately RMB0.74) per ordinary share with total amount of HK$898 million (2015: HK$823 million) has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

15. 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:

Basic earnings per share

Basic earnings per share for the years ended 31 December 2016 and 2015 are calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2016	2015
Profit attributable to the owners of the Company (RMB million)	**2,151**	2,036
Weighted average number of ordinary shares	**1,082,384,883**	1,082,704,602
Basic earnings per share (RMB)	**1.99**	1.88

Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2016 is calculated without assuming all the conversion of the share options granted under Scheme 2012 as set out in Note 45 since the exercise price of these share options was higher than the average market price of the Company's shares.

Diluted earnings per share for the year ended 31 December 2015 was calculated without assuming all the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share.

	2016	2015
Earnings		
Earnings for the purpose of basic earnings per share (RMB million)	**2,151**	2,036
Effect of dilutive potential ordinary shares:		
– fair value gain of convertible bonds (RMB million)	**(41)**	–
Earnings for the purpose of diluted earnings per share (RMB million)	**2,110**	2,036
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,082,384,883**	1,082,704,602
Effect of dilutive potential ordinary shares:		
– share options granted under Scheme 2002 (Note 45)	**188,083**	257,911
– convertible bonds	**79,778,897**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,162,351,863**	1,082,962,513
Diluted earnings per share (RMB)	**1.82**	1.88

16. Property, Plant and Equipment

	Leasehold land and buildings RMB million	Pipelines RMB million	Machinery and equipment RMB million	Motor vehicles RMB million	Office equipment RMB million	Properties under construction RMB million	Total RMB million
COST							
At 1 January 2015	2,899	14,780	1,428	542	1,041	2,315	23,005
Exchange adjustments	8	–	9	4	1	8	30
Acquisition of subsidiaries	47	41	7	1	1	14	111
Additions	108	11	141	30	98	2,316	2,704
Transfer from investment property	8	–	–	–	–	–	8
Reclassification	314	1,956	116	–	49	(2,435)	–
Transfer to investment property	(17)	–	–	–	–	–	(17)
Disposal of subsidiaries	–	(18)	–	(1)	(2)	(17)	(38)
Disposals	(24)	(161)	(19)	(107)	(11)	–	(322)
At 31 December 2015	3,343	16,609	1,682	469	1,177	2,201	25,481
Exchange adjustments	15	–	17	1	2	14	49
Acquisition of subsidiaries	–	15	3	–	–	81	99
Additions	354	280	165	38	164	2,099	3,100
Revaluation surplus before the transfer to investment property	14	–	–	–	–	–	14
Transfer from investment property	16	–	–	–	–	–	16
Reclassification	220	1,595	176	–	–	(1,991)	–
Transfer to investment property	(111)	–	–	–	–	–	(111)
Disposal of subsidiaries/a business	(98)	(119)	(70)	(2)	(1)	(26)	(316)
Disposals	(376)	(383)	(100)	(44)	(16)	–	(919)
At 31 December 2016	3,377	17,997	1,873	462	1,326	2,378	27,413
DEPRECIATION AND IMPAIRMENT							
At 1 January 2015	304	2,174	337	224	519	6	3,564
Exchange adjustments	1	–	1	1	–	–	3
Provided for the year	95	575	124	65	97	–	956
Transfer to investment property	(4)	–	–	–	–	–	(4)
Eliminated on disposal of subsidiaries	–	(1)	–	–	–	–	(1)
Eliminated on disposals	(6)	(71)	(21)	(51)	(9)	–	(158)
At 31 December 2015	390	2,677	441	239	607	6	4,360
Exchange adjustments	1	–	3	–	1	–	5
Provided for the year	110	556	143	54	112	(6)	969
Transfer to investment property	(5)	–	–	–	–	–	(5)
Eliminated on disposal of subsidiaries/ a business	(14)	(20)	(22)	(1)	(1)	–	(58)
Eliminated on disposals	(19)	(60)	(31)	(36)	(9)	–	(155)
At 31 December 2016	463	3,153	534	256	710	–	5,116
CARRYING VALUES							
At 31 December 2016	2,914	14,844	1,339	206	616	2,378	22,297
At 31 December 2015	2,953	13,932	1,241	230	570	2,195	21,121

16. Property, Plant and Equipment *(continued)*

The above items of property, plant and equipment, other than properties under construction, are depreciated on a straight-line basis as follows:

Leasehold land and buildings	Over the shorter of 30 years or the term of the leases
Pipelines	Over the shorter of 30 years or the term of the leases
Machinery and equipment	10 years
Motor vehicles	6 years
Office equipment	6 years

At the end of the reporting period, except for certain land and buildings with the carrying value of RMB40 million (2015: RMB41 million) which are located in Hong Kong under long-term lease, the remaining land and buildings are located in the PRC under medium-term lease.

At the end of the reporting period, the Group is in the process of applying for ownership certificates for its buildings in the PRC amounting to approximately RMB339 million (2015: RMB566 million).

17. Prepaid Lease Payments

	2016 RMB million	2015 RMB million
The Group's prepaid lease payments comprise land in the PRC under medium-term lease	**1,251**	1,218
Analysed for reporting purposes as:		
Current portion	**30**	28
Non-current portion	**1,221**	1,190

At the end of the reporting period, the Group is in the process of applying for the land use right certificates for the land in the PRC amounting to approximately RMB125 million (2015: RMB121 million). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the land use right certificates for the land in the PRC.

18. Investment Properties

	RMB million
FAIR VALUE	
At 1 January 2015	83
Net increase in fair value recognised in profit or loss	26
Transfers from property, plant and equipment	13
Transfers to property, plant and equipment	(8)
At 31 December 2015	114
Net increase in fair value recognised in profit or loss	4
Transfers from property, plant and equipment	106
Transfers to property, plant and equipment	(16)
At 31 December 2016	208
Unrealised gains on property revaluation included in profit or loss, as at 31 December 2016	36

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties. These investment properties include land and buildings which comprise operating leases in respect of properties situated in the PRC and Hong Kong under medium-term.

The fair value of the Group's investment properties at 31 December 2016 and 2015 has been arrived at on the basis of a valuation carried out on those dates by Knight Frank Petty, a firm of independent valuers. The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. A significant increase in the market rent used would result in a significant increase in fair value, and vice versa. The Group's investment properties were classified in the Level 3 of fair value hierarchy as at 31 December 2016 and 2015.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

19. Goodwill

	2016 RMB million	2015 RMB million
COST		
At 1 January	803	779
Eliminated on disposal of a subsidiary (Note 49)	(3)	–
Exchange adjustments	40	24
At 31 December	840	803
IMPAIRMENT		
At 1 January	(51)	(51)
Impairment loss recognised during the year	(601)	–
At 31 December	(652)	(51)
CARRYING VALUES		
At 31 December	188	752

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

For the purposes of impairment testing, goodwill has been allocated to the following CGUs. At the end of the reporting period, the carrying value of goodwill mainly represents goodwill arising from the acquisition of:

	2016 RMB million	2015 RMB million
Gas refuelling business located in the United States	–	517
Gas refuelling business located in Canada	–	44
Sale of piped gas business located in Lianyungang, the PRC	18	18
Sale of piped gas business located in Kaifeng, the PRC	16	16
Sale of piped gas business located in Hangzhou, the PRC	37	37
Sale of piped gas business located in Guangdong, the PRC	21	21
Other CGUs	96	99
	188	752

During the year ended 31 December 2016, the Group recognised an impairment loss of RMB552 million (2015: nil) in relation to goodwill arising on acquisition of gas refuelling business in the United States and an impairment loss of RMB49 million (2015: nil) in relation to goodwill arising on acquisition of gas refuelling business in Canada, respectively. Those impairment losses were mainly due to the revision of future market demand expectation in light of continuing low petroleum prices in North America, which resulted in significant downward revision of future cash inflows in respect of the relevant CGUs.

For the purpose of impairment testing, the recoverable amounts of the CGUs are determined from value in use calculations.

19. Goodwill *(continued)*

The United States CGU

The Group prepares cash flow projection for gas refuelling business in the United States covering a 10-year period and the cash flow beyond the 10-year period was extrapolated using a steady 2% (2015: 2%) growth rate. For the 10-year period, the first three years are based on financial budgets approved by management and based on the pattern consistent with the track record of the respective entity taking into account the stage of the development of the respective gas projects. The revenues beyond the 3-year period but within the tenth year was estimated using a growth rate of 12.51% (2015: 14.34%). The growth rates are based on the management's estimation on the respective entity's projected market share and do not exceed average long-term growth rate for the relevant industry. The gross profit margin will be assumed the same throughout the 10-year period.

The Directors estimate discount rate using pre-tax rate that reflect current market assessment of the time value of money and the risks specific to the CGU and determined the discount rate to be 11.31% (2015: 12.49%).

As of 31 December 2016, the recoverable amount of this CGU was equal to its carrying amount of approximately RMB470 million.

The Canada CGU

The Group prepares cash flow projection for gas refuelling business in Canada covering a 10-year period and the cash flow beyond the 10-year period was extrapolated using a steady 2% (2015: 2%) growth rate. For the 10-year period, the first three years are based on financial budgets approved by management and based on the pattern consistent with the track record of the respective entity taking into account the stage of the development of the respective gas projects. The revenues beyond the 3-year period but within the tenth year was estimated using a growth rate of 8.10% (2015: 9.95%). The growth rates are based on the management's estimation on the respective entity's projected market share and do not exceed average long-term growth rate for the relevant industry. The gross profit margin will be assumed the same throughout the 10-year period.

The Directors estimate discount rate using pre-tax rate that reflect current market assessment of the time value of money and the risks specific to the CGU and determined the discount rate to be 11.37% (2015: 12.53%).

As of 31 December 2016, the recoverable amount of this CGU was equal to its carrying amount of approximately RMB83 million.

Others

For other CGUs, the Group prepares cash flow projection covering a 10-year period which is shorter than the contractual operating period. The cash flow projections for the first three years are based on financial budgets approved by management. The 3-year period financial budgets are prepared based on the pattern consistent with the track record of the respective entities taking into account the stage of the development of the respective gas projects. The cash flow beyond the 3-year period are extrapolated using an estimated growth pattern at an annualised growth rates of revenue for each CGU ranging from 4.07% to 9.46% (2015: 4.07% to 9.09%) and assuming the gross profit margin will be at the same throughout the 10-year period.

The growth rates are based on the management's estimation on the respective entity's projected market share and will not exceed the growth rate of natural gas consumption projected by the relevant government authorities.

The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs and determined the discount rate to be from 10.95% to 11.76% (2015: 11.25% to 11.97%).

The Directors believe that any reasonably possible change in any of these assumptions would not cause the carrying amounts of goodwill to exceed the recoverable amount of respective CGUs.

20. Intangible Assets

	Right of operation RMB million	Customer base RMB million	Development cost RMB million	Total RMB million
Cost				
At 1 January 2015	1,578	50	–	1,628
Arising on acquisition of subsidiaries (Notes 47 and 48)	168	–	–	168
Additions	108	–	–	108
At 31 December 2015	1,854	50	–	1,904
Arising on acquisition of subsidiaries (Notes 47 and 48)	103	–	–	103
Additions	–	–	25	25
Disposal of subsidiaries	(2)	–	–	(2)
At 31 December 2016	1,955	50	25	2,030
AMORTISATION				
At 1 January 2015	349	14	–	363
Charge for the year	85	2	–	87
At 31 December 2015	434	16	–	450
Charge for the year	93	2	–	95
Eliminated on disposals of subsidiaries	(2)	–	–	(2)
At 31 December 2016	525	18	–	543
CARRYING VALUES				
At 31 December 2016	1,430	32	25	1,487
At 31 December 2015	1,420	34	–	1,454

Note: Rights of operation and customer base are amortised on a straight-line method over the operation periods ranging from 8 to 50 years and from 15 to 50 years, respectively.

21. Interests in Associates

	2016 RMB million	2015 RMB million
Cost of investments	**1,045**	759
Share of post-acquisition profits, net of dividend received	**279**	239
	1,324	998
Deemed capital contribution		
Financial guarantee	**26**	26
	1,350	1,024

Included in the interests in associates is goodwill of approximately RMB49 million (2015: RMB49 million) arising on acquisitions of associates. There are no change in goodwill during the years ended 31 December 2016 and 2015.

21. Interests in Associates *(continued)*

In the opinion of the Directors, none of associates principally affected the results or net assets of the Group. To give details of associates of the Group would, in the opinion of the Directors, result in particulars of excessive length.

The associates are accounted for using the equity method in these consolidated financial statements.

Aggregate information of associates:

	2016 **RMB million**	2015 RMB million
Profit and total comprehensive income for the year	**353**	552
Group's share of profit and total income from associates for the year	**73**	116
Aggregate carrying amount of the Group's interests in these associates	**1,350**	1,024

22. Interests in Joint Ventures

	2016 **RMB million**	2015 RMB million
Cost of investments	**2,304**	2,139
Shares of post-acquisition profits, net of dividends received	**1,343**	1,614
	3,647	3,753
Deemed capital contribution		
Financial guarantee	**53**	53
Fair value adjustments on interest-free advances	**4**	4
	57	57
	3,704	3,810

Included in the interests in joint ventures is goodwill of approximately RMB192 million (2015: RMB192 million) arising on acquisitions of joint ventures.

The fair value adjustments on the interest-free advances are calculated by using an effective interest rate at 4.75% (2015: 4.75%) per annum and average terms of two years.

The joint ventures are accounted for using the equity method in these consolidated financial statements.

Details of the Group's principal joint venture as at 31 December 2016 and 2015 are as follows:

Name of company	**Form of business structure**	**Place of establishment/ operation**	**Proportion of nominal value of registered capital held by the Group**		**Principal activities**
			2016	2015	
東莞新奧燃氣有限公司 ("Dongguan Xinao") (note)	Incorporated	The PRC	**55%**	55%	Investment in gas pipeline infrastructure and sales of piped gas and gas appliances

Note: The Group holds more than 50% of the registered capital of Dongguan Xinao but it does not has the power to appoint sufficient number of directors to control Dongguan Xinao and the joint venture partners in Dongguan Xinao controls jointly on the operational and financial policies. Accordingly, Dongguan Xinao is classified as joint venture of the Group.

In the opinion of the Directors, the above table lists the joint venture which principally affected the results or net assets of the Group. To give details of other joint ventures of the Group would, in the opinion of the Directors, result in particulars of excessive length.

22. Interests in Joint Ventures *(continued)*

Summarised financial information of material joint ventures

Summarised financial information in respect of the Group's material joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

Dongguan Xinao

	2016 **RMB million**	2015 RMB million
Current assets	**917**	869
Non-current assets	**2,556**	2,455
Current liabilities	**1,679**	1,389
Non-current liabilities	**2**	3
Non-controlling interests	**156**	142

The above amounts of assets and liabilities include the following:

	2016 **RMB million**	2015 RMB million
Cash and cash equivalents	**500**	408
Current financial liabilities (excluding trade and other payables and provisions)	**299**	384

	2016 **RMB million**	2015 RMB million
Revenue	**3,094**	3,104
Profit and total comprehensive income for the year	**488**	429
Dividends received from Dongguan Xinao during the year	**353**	111

The above profit for the year include the following:

	2016 **RMB million**	2015 RMB million
Depreciation and amortisation	**86**	80
Interest income	**16**	6
Interest expense	**26**	29
Income tax expense	**180**	149

Reconciliation of the above summarised financial information to the carrying amount of the interest in Dongguan Xinao recognised in the consolidated financial statements:

	2016 **RMB million**	2015 RMB million
Net assets of Dongguan Xinao	**1,636**	1,790
Proportion of the Group's ownership interest in Dongguan Xinao	**900**	985
Goodwill	**31**	31
Carrying amount of the Group's interest in Dongguan Xinao	**931**	1,016

22. Interests in Joint Ventures *(continued)*

Aggregate information of joint ventures that are not individually material:

	2016 **RMB million**	2015 RMB million
Profit and total comprehensive income for the year	**436**	664
Group's share of profit and total income from joint ventures for the year	**230**	343
Aggregate carrying amount of the Group's interests in these joint ventures	**2,773**	2,794

23. AFS Financial Assets

	2016 **RMB million**	2015 RMB million
Unlisted equity securities, at cost less impairment (note a)		
1.13% equity interest in Sinopec Marketing Co., Ltd	**4,003**	4,003
Other unlisted equity securities	**166**	166
	4,169	4,169
Listed equity securities, at fair value (note b)		
4.45% equity interest in Shanghai Dazhong Public Utilities (Group) Co., Ltd ("Shanghai Dazhong")	**413**	–
Unlisted wealth management product, at fair value (note c)	**300**	–
Total	**4,882**	4,169

Notes:

a. The above unlisted investment represents investment in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably.

b. During the year, the Group subscribed for 4.45% of the total issued share capital of Shanghai Dazhong (1635.HK) with an investment of USD60 million (approximately RMB411 million) and becomes one of its cornerstone investors through its initial public offering in Hong Kong, Shanghai Dazhong is one of the largest city-gas operators in Shanghai and engaged in taxi operation as well as passenger and logistics vehicle business. During the year, the gross gain in respect of the Group's AFS investment recognised in other comprehensive income before tax amounted to RMB2 million (2015: nil).

c. On 6 December 2016, the Group purchased a wealth management product from a financial institution, which invests in a portfolio of domestic debentures. The product has an investment period of 3 years with a maturity on 6 December 2019 and the principal amount is not guaranteed. The Group has the right to redeem the product every three months at the fair value of the product. As at 31 December 2016, the fair value of the product was approximately RMB300 million (2015: nil).

24. Financial Assets at FVTPL

	2016 **RMB million**	2015 RMB million
Foreign currency forward contracts (note)		
Current portion	**16**	–
Non-current portion	**154**	–
	170	–

Note: The Group is exposed to foreign currency risk mainly arising from various bonds and bank loans denominated in USD. To mitigate the foreign exchange exposure, the Group entered into various capped foreign currency forward contracts (the "Structured Forwards") with certain financial institutions during the year.

The Structured Forwards have a total notional amount of USD640 million and HK$392 million. The Structured Forwards will enable the Group to buy USD at the predetermined RMB/USD or HK$/USD exchange rates on the maturity date. The Structured Forwards are not designated as hedging instruments. Accordingly, the Structured Forwards are accounted for as financial instruments at FVTPL and classified as the current portion and non-current portion based on the terms of the contracts.

The fair value gain of the Structured Forwards amounting to approximately RMB170 million (2015: nil) are included in the other gains and losses during the year.

25. Trade and Other Receivables

	2016 RMB million	2015 RMB million
Trade receivables	**1,631**	1,182
Less: Impairment	**(121)**	(86)
	1,510	1,096
Other receivables		
Current	**1,030**	746
Non-current (note a)	**32**	27
	1,062	773
Less: Impairment	**(9)**	(9)
	1,053	764
Notes receivable (note b)	**388**	333
Investment in wealth management products (note c)	**580**	–
Advances to suppliers and prepayments	**924**	885
Total trade and other receivables	**4,455**	3,078
Analysed for reporting purpose as:		
Current portion	**4,423**	3,051
Non-current portion	**32**	27

Notes:

a) The non-current balances represent advances to non-controlling shareholders of certain subsidiaries of the Company. The balances amounting to RMB34 million (2015: RMB29 million) are unsecured, interest-free and will be settled through future distribution of dividend by the relevant subsidiaries to the non-controlling shareholders. The balance that the Directors expects to recover after one year from the end of the reporting period are initially recognised at fair value calculated by using an effective interest rate at 4.75% (2015: 4.75%) per annum.

b) The notes receivable were endorsed for guarantee payments by PRC banks and the default risk is considered to be minimal.

c) The amount represents the wealth management products subscribed from certain commercial financial institutions, which invested in money market instruments with expected annual returns at rate of 4%. The products have fixed terms less than one year and the principal amount is not guaranteed.

The following is an aged analysis of trade receivables, net of impairment, presented based on invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	2016 RMB million	2015 RMB million
Within three months	**1,388**	925
4 to 6 months	**57**	79
7 to 9 months	**56**	69
10 to 12 months	**9**	23
	1,510	1,096

25. Trade and Other Receivables *(continued)*

The following is an aged analysis of notes receivable, presented based on the date of notes receivable received at the end of the reporting period:

	2016 **RMB million**	2015 RMB million
Within three months	**249**	264
4 to 6 months	**139**	69
	388	333

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. The Directors are of the opinion that the credit quality of the trade receivable balances that are neither past due nor impaired as at the end of the reporting period is good as the repayment history of the debtors is satisfactory.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of approximately RMB122 million (2015: RMB171 million) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 220 days (2015: 181 days).

Aged analysis of trade receivables which are past due but not impaired

The Group's trade receivables are assessed not to be impaired individually. Except for certain trade receivables past due beyond one year, which the Group has fully provided impairment, no impairment has been made to the remaining receivables past due as the Group is satisfied with the subsequent settlements from the debtors and the credit quality of these customers.

	2016 **RMB million**	2015 RMB million
Past due within one year	**122**	171

Movements in the impairment on trade receivables

	2016 **RMB million**	2015 RMB million
Balance at beginning of the year	**86**	60
Impairment losses recognised	**79**	48
Amounts recovered during the year	**(44)**	(22)
Balance at end of the year	**121**	86

The Group does not hold any collateral over these balances.

Movements in the impairment on other receivables

	2016 **RMB million**	2015 RMB million
Balance at beginning of the year	**9**	10
Amounts recovered during the year	**–**	(1)
Balance at end of the year	**9**	9

The Directors are of the opinion that except for those other receivables that are impaired, the remaining other receivables are not impaired as the counterparties are either companies controlled by non-controlling interests or with satisfactory repayment history.

26. Transfer of Financial Assets

The following were the Group's financial assets as at 31 December 2016 and 2015 that were transferred to banks or suppliers by discounting, pledging to banks or endorsement those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and the corresponding liabilities included in secured borrowings or trade payables respectively. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

At 31 December 2016

	Bills receivable discounted or pledged to banks RMB million	Bills receivable endorsed to suppliers RMB million	Total RMB million
Carrying amount of transferred assets	**463**	**245**	**708**
Carrying amount of associated liabilities	**(463)**	**(245)**	**(708)**
	–	**–**	**–**

At 31 December 2015

	Bills receivable discounted or pledged to banks RMB million	Bills receivable endorsed to suppliers RMB million	Total RMB million
Carrying amount of transferred assets	594	238	832
Carrying amount of associated liabilities	(594)	(238)	(832)
	–	–	–

27. Amounts Due from/to Associates

	2016 RMB million	2015 RMB million
Amounts due from associates:		
Current portion	**185**	156
Non-current portion	**89**	74
	274	230
Amounts due to associates:		
Current portion	**218**	66

Included in the amounts due from/to associates are trade receivables amounting to approximately RMB125 million (2015: RMB74 million) and trade payables amounting to approximately RMB38 million (2015: RMB10 million) and the aged analysis presented based on the invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follows:

	2016 RMB million	2015 RMB million
Trade receivables due from associates		
Within three months	**57**	18
4 to 6 months	**8**	10
7 to 9 months	**9**	4
10 to 12 months	**4**	2
More than one year	**47**	40
	125	74

27. Amounts Due from/to Associates *(continued)*

	2016 RMB million	2015 RMB million
Trade payables due to associates		
Within three months	**36**	8
7 to 9 months	**–**	2
10 to 12 months	**–**	–
Over one year	**2**	–
	38	10

Owing the strategic relationship with the associates, there is no formal credit period applied to above balances by the Group and in the opinion of the Directors, the above balances are not overdue.

The amounts due from/to associates are unsecured, interest-free and repayable on demand except for the amounts due from/to associates detailed in the following table.

At 31 December 2016

	Maturity date	Effective interest rate per annum	2016 RMB million
Loan receivables from associates			
Secured	29/06/2017-28/07/2017	4.79%	**27**
Unsecured	18/01/2017-22/05/2019	4.35%-5.47%	**90**
			117
Loan payables to associates			
Savings (note)		0.35%	**94**
Unsecured loan	07/06/2017	3.92%	**61**
			155

At 31 December 2015

	Maturity date	Effective interest rate per annum	2015 RMB million
Loan receivables from associates			
Secured	30/06/2016-14/12/2016	4.35%-5.34%	36
Unsecured	26/02/2016-29/11/2016	4.35%-5.61%	86
			122
Loan payables to associates			
Savings (note)		0.35%-1.55%	42

Note: The balances represent the current saving in ENN Finance, a subsidiary of the Company.

The interest-free amounts due from associates amounting to RMB81 million (2015: RMB72 million) that the Group expects to recover after one year from the end of the reporting period are initially recognised at fair value calculated by using an effective interest rate at 4.75% (2015: 4.75%) per annum. For the remaining amounts due from associates, the Directors expect the amounts will be recoverable within one year from the end of the reporting period.

The Directors are of the opinion that the amounts due from associates are not impaired as the counterparties are associates that are financially sound.

28. Amounts Due from/to Joint Ventures

	2016 RMB million	2015 RMB million
Amounts due from joint ventures:		
Current portion	**790**	455
Non-current portion	**407**	190
	1,197	645
Amounts due to joint ventures:		
Current portion	**1,645**	1,988

Included in the amounts due from joint ventures was approximately RMB74 million (2015: RMB100 million) arising from the deposits placed for purchases of gas by the Group to the joint ventures which the Directors consider is not impaired. The balance approximates its fair value and is repayable on demand.

Included in the amounts due from/to joint ventures are trade receivables amounting to approximately RMB202 million (2015: RMB210 million) and trade payables amounting to approximately RMB134 million (2015: RMB98 million) and the aged analysis presented based on invoice date, which approximated the respective revenue recognition date, is as follows:

	2016 RMB million	2015 RMB million
Trade receivables due from joint ventures		
Within three months	**131**	129
4 to 6 months	**12**	10
7 to 9 months	**28**	7
10 to 12 months	**10**	1
More than one year	**21**	63
	202	210
Trade payables due to joint ventures		
Within three months	**115**	59
4 to 6 months	**–**	12
7 to 9 months	**–**	2
10 to 12 months	**1**	–
More than one year	**18**	25
	134	98

28. Amounts Due from/to Joint Ventures *(continued)*

Owing the strategic relationship with the joint ventures, there is no formal credit period applied to above balances by the Group and the joint ventures and in the opinion of the Directors, the above balances are not overdue.

The amounts due from/to joint ventures are unsecured, interest-free and repayable on demand except for the amounts due from/to joint ventures detailed in the following table.

At 31 December 2016

	Maturity date	Effective interest rate per annum	2016 RMB million
Loan receivables from joint ventures			
Unsecured	12/01/2017-28/01/2022	2.61%-7%	**713**
Secured	21/04/2019	6.24%	**180**
			893
Loan payables to joint ventures			
Unsecured	26/05/2017-15/07/2018	3.92%-6.15%	**1,029**
Savings (note)		0.35%	**432**
			1,461

At 31 December 2015

	Maturity date	Effective interest rate per annum	2015 RMB million
Loan receivables from joint ventures			
Unsecured	13/01/2016-28/12/2018	4.35%-8%	385
Loan payables to joint ventures			
Unsecured	28/5/2016-14/7/2017	0.35%-6.15%	958
Savings (note)		0.35%-1.55%	618
			1,576

Note: The balances represent the current saving in ENN Finance, a subsidiary of the Company.

The interest-free amounts due from joint ventures amounting to RMB10 million (2015: RMB44 million) that the Group expects to recover after one year from the end of the reporting period are initially recognised at fair value calculated by using an effective interest rate at 4.75% (2015: 4.75%) per annum. For the remaining amounts due from joint ventures, the Directors expect the amounts will be recoverable within one year from the end of the reporting period.

The Directors are of the opinion that the amounts due from joint ventures are not impaired as the counterparties are financially sound.

29. Amounts Due from/to Related Companies

	2016 RMB million	2015 RMB million
Amounts due from companies controlled by a director and shareholder with significant influence	**63**	46
Amounts due to companies controlled by a director and shareholder with significant influence	**416**	400

The related companies are controlled by Mr. Wang Yusuo ("Mr. Wang") who is a director and shareholder of the Company with significant influence. The maximum amount outstanding during the year in respect of the amounts due from companies controlled by Mr. Wang is RMB148 million (2015: RMB220 million).

The amounts due to related companies of approximately RMB388 million (2015: RMB387 million) are unsecured, interest-free and repayable on demand, and the amounts due to related companies of approximately RMB28 million (2015: RMB13 million) are unsecured and carried a floating interest rate of 0.35% (2015: 0.35%) per annum as at 31 December 2016.

Included in the amounts due from related companies are trade receivables amounting to RMB51 million (2015: RMB39 million) and the aged analysis presented based on invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follow:

	2016 RMB million	2015 RMB million
Within three months	**33**	10
4 to 6 months	**6**	10
7 to 9 months	**4**	10
10 to 12 months	**1**	3
More than one year	**7**	6
	51	39

Owing the strategic relationship with the related companies, there is no formal credit period applied to above balances by the Group and in the opinion of the Directors, the above balances are not overdue.

For the amounts due from companies controlled by a director and shareholder of the Company with significant influence, the counterparties are related companies that are financially sound. Therefore, the Directors are of the opinion that the amounts due from related companies are not impaired.

Included in the amounts due to related companies are trade payables amounting to approximately RMB379 million (2015: RMB340 million) and the aged analysis presented based on invoice date at the end of the reporting period is as follows:

	2016 RMB million	2015 RMB million
Within three months	**220**	236
4 to 6 months	**66**	23
7 to 9 months	**47**	20
10 to 12 months	**9**	37
More than one year	**37**	24
	379	340

30. Deferred Taxation

	2016 RMB million	2015 RMB million
Deferred tax assets	**745**	582
Deferred tax liabilities	**(397)**	(393)
	348	189

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior years:

	Intangible assets RMB million	**Capitalisation of interest in property, plant and equipment** RMB million	**Undistributed retained profit of PRC entities from 1 January 2008** RMB million (note)	**Deferred income** RMB million	**Unrealised profit** RMB million	**Others** RMB million	**Total** RMB million
At 1 January 2015	224	125	97	(421)	(75)	7	(43)
Acquisition of a subsidiary (Note 47)	19	–	–	–	–	–	19
Charge to profit or loss	–	14	66	31	3	7	121
Credit charge to profit or loss	(13)	(4)	(62)	(174)	(32)	(1)	(286)
At 31 December 2015	230	135	101	(564)	(104)	13	(189)
Acquisition of a subsidiary (Note 47)	13	–	–	–	–	–	13
Charge to profit or loss	–	16	67	42	3	5	133
Credit charge to profit or loss	(15)	(6)	(60)	(188)	(31)	(5)	(305)
At 31 December 2016	228	145	108	(710)	(132)	13	(348)

Note: The amount represents deferred taxation in respect of the temporary differences attributable to the undistributed retained profits earned after 1 January 2008 by the group entities registered in the PRC. The amount has been provided based on the amount of undistributed retained profit of certain PRC entities from 1 January 2008 attributable to non-PRC shareholders at a withholding tax rate of 10% or 5% as the Directors consider the amount will be probably reversed in the foreseeable future upon distribution of profit by the respective group entities.

Deferred taxation of approximately RMB975 million (2015: RMB723 million) has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of certain PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

As at 31 December 2016, the Group has unused tax losses of approximately RMB1,356 million (2015: RMB1,667 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the uncertainty of future profit streams. The unrecognised tax losses will be expired in the following year ending 31 December:

	2016 RMB million	2015 RMB million
2016	**–**	256
2017	**195**	461
2018	**358**	359
2019	**177**	177
2020	**364**	414
2021	**262**	–
	1,356	1,667

As at 31 December 2016, the Group has other deductible temporary differences of approximately RMB569 million (2015: RMB542 million), which are mainly arising from impairment of trade and other receivables and unrealised profits within the Group. No deferred tax asset has been recognised in relation to such other deductible temporary differences as it is not probable that taxable profit will be available for offset against which the deductible temporary differences can be utilised.

31. Deposits Paid for Investments

The balance as at 31 December 2016 of RMB61 million (2015: RMB26 million) represented the deposits paid for the equity investments in the PRC which have not been completed at the end of the reporting period.

32. Inventories

	2016 RMB million	2015 RMB million
Construction materials	**321**	225
Gas appliances	**90**	84
Natural gas	**89**	88
Other energy inventories	**2**	3
Spare parts and consumables	**13**	4
	515	404

The cost of inventories recognised as an expense during the year was approximately RMB21,221 million (2015: RMB19,460 million).

33. Amounts Due from/to Customers for Contract Work

	2016 RMB million	2015 RMB million
Contract costs incurred plus recognised profits	**739**	709
Less: Progress billings	**(2,585)**	(2,760)
	(1,846)	(2,051)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**303**	197
Amounts due to customers for contract work	**(2,149)**	(2,248)
	(1,846)	(2,051)

34. Cash and Cash Equivalents/Restricted Bank Deposits

	2016 RMB million	2015 RMB million
Cash and cash equivalents	**7,163**	7,355
Restricted bank deposits		
Current portion	**352**	99
Non-current portion	**489**	506
	841	605
Bank deposits secured for:		
Letter of credit	**–**	67
Rights of operation	**17**	18
Gas supplies	**32**	43
Secured bank loans denominated in USD	**325**	–
Mandatory reserves in the People's Bank of China ("PBOC")	**467**	477
	841	605

34. Cash and Cash Equivalents/Restricted Bank Deposits *(continued)*

Cash and cash equivalents include bank balances with original maturities less than three months carrying interest at market rates which range from 0.3% to 5% (2015: 0.35% to 5%) per annum as at 31 December 2016. The bank balances denominated in RMB are deposited with banks in the PRC.

At the end of the reporting period, the cash and cash equivalents denominated in foreign currencies other than the functional currency of respective group entities is RMB335 million (2015: RMB283 million), of which approximately RMB300 million (2015: RMB279 million), approximately RMB17 million (2015: RMB3 million) and approximately RMB17 million (2015: RMB1 million) are denominated in USD, Hong Kong dollar ("HK$") and Great British Pound ("GBP") respectively.

As at 31 December 2016, the restricted bank deposits carry fixed interest rate range from 0.35% to 5.25% (2015: 0.35% to 5.25%) per annum. Except for the amount of mandatory reserves in the PBOC, other restricted bank deposits will be released upon the settlement of bank loans, the expiry of purchase contracts or operation rights. The mandatory reserves in the PBOC classified as non-current assets are deposits placed by ENN Finance and the reserves amount is subject to change with respect to the savings accepted by ENN Finance and the PBOC reserve rate adjusted from time to time.

35. Trade and Other Payables

	2016 **RMB million**	2015 RMB million
Trade payables	**2,237**	1,651
Advances received from customers	**4,980**	4,382
Accrued charges and other payables	**1,106**	1,100
	8,323	7,133

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

	2016 **RMB million**	2015 RMB million
Within three months	**1,822**	1,260
4 to 6 months	**161**	189
7 to 9 months	**82**	56
10 to 12 months	**26**	37
More than one year	**146**	109
	2,237	1,651

The average credit period on purchases of goods is 30 to 90 days.

36. Deferred Income

	Government grants RMB million	Subsidies received from customers RMB million (note a)	Connection fee received from customers RMB million (note b)	Total RMB million
GROSS				
At 1 January 2015	78	58	1,825	1,961
Additions	91	13	590	694
At 31 December 2015	169	71	2,415	2,655
Additions	86	4	698	788
Disposal of subsidiaries	(34)	–	–	(34)
At 31 December 2016	221	75	3,113	3,409
RECOGNITION				
At 1 January 2015	2	19	263	284
Release to profit or loss	4	1	119	124
At 31 December 2015	6	20	382	408
Release to profit or loss	8	2	157	167
At 31 December 2016	14	22	539	575
CARRYING VALUES				
At 31 December 2016	207	53	2,574	2,834
At 31 December 2015	163	51	2,033	2,247

	2016 RMB million	2015 RMB million
Analysed for reporting purposes as:		
Current liabilities	**192**	150
Non-current liabilities	**2,642**	2,097
	2,834	2,247

Notes:

a. The balance represented the subsidies received from the customers to subsidise the construction cost of the main gas pipelines to the gas provision site and the gas storage. These customers do not restrict the Group to use the assets constructed for the use of other customers but the Group are committed to provide the gas to these customers for a period from 7 to 45 years. Accordingly, the Group has deferred the subsidies received and released to the profit or loss upon the completion of the assets over the shorter of the committed gas supply period and the useful lives of the related assets.

b. Since 2009, the PRC local governments in certain provinces in the PRC has issued relevant notice to the Group's subsidiaries governing the subsidiaries that an amount of the connection fee received by the Group's subsidiaries from its customers are for the construction cost of their main gas pipelines. The Directors consider that the arrangement indicates that the subsidiaries are required to provide the customer with ongoing access to a supply of gas. As the agreement under such arrangement does not specify a period for provision of the ongoing access to a supply of gas, fees received are deferred and release to the profit or loss over the estimated useful lives of the assets used to provide the ongoing service.

37. Share Capital

	2016 Number of shares	2015 Number of shares	2016 HK$ million	2015 HK$ million
Shares of HK$0.10 each				
Authorised:				
At beginning and end of the year	**3,000,000,000**	3,000,000,000	**300**	300
Issued and fully paid:				
At beginning of the year	**1,082,559,397**	1,083,059,397	**108**	108
Issue of shares upon exercise of share options (note a)	**200,000**	–	**–**	–
Share repurchase (notes b & c)	**(1,032,000)**	(500,000)	**–**	–
At end of the year	**1,081,727,397**	1,082,559,397	**108**	108

	2016 RMB million	2015 RMB million
Presented in consolidated financial statements as:		
At beginning of the year	**113**	113
Share repurchase (note c)	**(1)**	–
At end of the year	**112**	113

Notes:

a. During the year ended 31 December 2016, 200,000 shares were issued at exercise price of HK$16.26 per ordinary share in relation to the exercise of outstanding share options. These shares rank pari passu with the then existing shares in all respects.

b. On 20 August 2015, the Company repurchased 500,000 of its own ordinary shares through the Stock Exchange. The highest price was HK$40.00 and the lowest price was HK$38.35. The aggregate consideration paid was HK$19 million (approximately RMB16 million). The above ordinary shares were cancelled on 17 September 2015.

c. On 11 January 2016, 21 January 2016, 22 December 2016 and 23 December 2016, the Company repurchased 200,000, 32,000, 400,000 and 400,000 of its own ordinary shares through the Stock Exchange respectively. The highest price was HK$34.00 and the lowest price was HK$30.60. The aggregate consideration paid was approximately HK$33 million (approximately RMB29 million). 232,000 and 800,000 ordinary shares repurchased during the year were cancelled on 28 April 2016 and 14 March 2017 respectively. None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities up to the report date.

38. Financial Guarantee Liability

As at 31 December 2016, the Group had outstanding guarantees issued to banks to secure loan facilities granted to joint ventures and an associate to the extent of approximately RMB230 million (2015: RMB320 million) for loans with maturity from two to five years, of which the amounts have been utilised at the end of the reporting period. The carrying amount of financial guarantee contracts as at 31 December 2016 is approximately RMB22 million (2015: RMB29 million).

39. Bank and Other Loans

	2016 RMB million	2015 RMB million
Bank loans		
Secured	**609**	413
Unsecured	**3,433**	2,922
	4,042	3,335
Other loans		
Secured	**3**	5
Unsecured	**96**	96
	99	101
	4,141	3,436
The bank and other loans are repayable:		
Within one year	**3,944**	2,600
More than one year, but not exceeding two years	**89**	358
More than two years, but not exceeding five years	**108**	478
	4,141	3,436
Less: Amounts due within one year shown under current liabilities	**(3,944)**	(2,600)
Amounts shown under non-current liabilities	**197**	836

All the bank and other loans are denominated in the functional currency of respective group entities except for approximately RMB1,276 million (2015: RMB737 million) which are denominated in USD and RMB347 million (2015: nil) which are denominated in HK$.

The secured bank and other loans are secured by property, plant and equipment and rights to receive fee income of certain subsidiaries and joint ventures as set out in Note 52.

Details of the terms of the Group's borrowings are set out below:

At 31 December 2016

	Maturity date	Effective interest rate per annum	Carrying amount RMB million
Fixed-rate borrowings			
Unsecured RMB bank loans	05/01/2017-01/12/2017	2.93%-5.67%	**1,863**
Unsecured RMB other loan	12/06/2017	3.25%	**96**
Unsecured USD bank loan	13/01/2017	1.18%	**971**
Secured USD bank loan	09/06/2017	1.55%	**305**
Total fixed-rate borrowings			**3,235**
Floating-rate borrowings			
Secured RMB bank loans at PBOC base rate	07/02/2017-20/12/2020	4.90%-6.77%	**304**
Unsecured RMB bank loan at PBOC base rate	01/04/2020	6.33%	**2**
Unsecured RMB bank loans at Loan Prime Rate ("LPR")	17/03/2017-23/11/2017	4.13%-4.35%	**250**
Unsecured HK$ bank loan at Hong Kong Inter Bank Offer Rate ("HIBOR") plus 1.2%	13/03/2017	2.02%	**347**
Secured RMB other loan at PRC government bond rate	12/06/2017	2.55%	**3**
Total floating-rate borrowings			**906**
Total borrowings			**4,141**

39. Bank and Other Loans *(continued)*

At 31 December 2015

	Maturity date	Effective interest rate per annum	Carrying amount RMB million
Fixed-rate borrowings			
Unsecured RMB bank loan	08/01/2016-13/10/2016	1.80%-4.6%	1,295
Unsecured RMB other loans	17/06/2016	3.38%-5%	96
Total fixed-rate borrowings			1,391
Floating-rate borrowings			
Unsecured RMB bank loan at PBOC base rate	07/02/2016-01/04/2020	4.13%-6.6%	890
Secured RMB bank loan at PBOC base rate	20/02/2016-20/12/2020	6.03%	413
Unsecured USD bank loan at London Inter Bank Offer Rate ("LIBOR") plus 2.75%	15/05/2016-15/05/2020	3.17%	394
Unsecured USD bank loan at LIBOR plus 2.5%	15/05/2016-15/05/2018	2.92%	343
Secured RMB other loan at PRC government bond rate	15/12/2016-12/06/2017	3.25%	5
Total floating-rate borrowings			2,045
Total borrowings			3,436

40. Corporate Bonds

a. Corporate bonds issued in 2011 (the "2011 Corporate Bonds")

On 16 February 2011, a subsidiary of the Group, Xinao (China) Gas Investment Company Limited ("Xinao (China)"), issued the 2011 Corporate Bonds of RMB500 million. The amount is unsecured and carries a fixed interest rate of 6.45% per annum and is repayable on 16 February 2018. The interest is payable to the holders of the bond on yearly basis. The net proceeds, after deducting the issuance costs, amounted to RMB496 million. The 2011 Corporate Bonds was listed on the Shanghai Stock Exchange on 25 March 2011.

According to the terms and conditions of the 2011 Corporate Bonds, Xinao (China) may at its option to increase the coupon rate by 0% to 1% at the end of year five, which is the 10th trading day before 16 February 2016 by giving a notice to the bondholders. And the bondholders may accordingly at their option to require Xinao (China) to redeem the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bonds will be subject to the increased interest rate until the maturity date. Before 16 February 2016 the effective interest rate of the 2011 Corporate Bonds is approximately 6.616% per annum after the adjustment for transaction costs.

Xinao (China) decided not to adjust the coupon rate and no bondholder required Xinao (China) to redeem the 2011 Corporate Bonds in February 2016. As at 31 December 2015, the 2011 Corporate Bonds were classified as current liabilities in the Group's consolidated financial statements as it is at the discretion of the holders to exercise the put option. Since 16 February 2016, the 2011 Corporate Bonds were reclassified as non-current liabilities as no holder exercises their put option.

40. Corporate Bonds *(continued)*

a. Corporate bonds issued in 2011 (the "2011 Corporate Bonds") *(continued)*

The 2011 Corporate Bonds recognised in the consolidated statement of financial position are calculated cumulatively as follows:

	2016 **RMB million**	2015 RMB million
Principal amount	**500**	500
Issue costs	**(4)**	(4)
	496	496
Effective interest recognised	**193**	159
Interest paid/payable	**(190)**	(157)
Carrying amount as at end of the year	**499**	498
Analysed for reporting purposes as:		
Current liabilities	**–**	498
Non-current liabilities	**499**	–

b. Corporate bonds issued in 2015 (the "2015 Corporate Bonds")

On 18 December 2015, Xinao (China) issued the 2015 Corporate Bonds of RMB2,500 million. The amount is unsecured and carries a fixed interest rate of 3.68% per annum and is repayable on 17 December 2020. The interest is payable to the holders of the bond on yearly basis. The net proceeds after deducting the issuance costs, amounted to RMB2,489 million. The 2015 Corporate Bonds was listed on the Shanghai Stock Exchange on 2 February 2016.

According to the terms and conditions of the 2015 Corporate Bonds, Xinao (China) has the right to unadjust or adjust the coupon rate for the fourth and fifth year at the end of the third year, which is the 30th trading day before 18 December 2018 by giving a notice to the bondholder. The bondholders may accordingly at their option to require Xinao (China) to redeem the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bonds will be subject to the interest rate offered by Xinao (China) at the end of the third year until the maturity date. The effective interest rate of the 2015 Corporate Bonds is approximately 3.8316% per annum after the adjustment for transaction costs.

The 2015 Corporate Bonds recognised in the consolidated statement of financial position are calculated cumulatively as follows:

	2016 **RMB million**	2015 RMB million
Principal amount	**2,500**	2,500
Issue costs	**(11)**	(11)
	2,489	2,489
Effective interest recognised	**99**	3
Interest paid/payable	**(95)**	(3)
Carrying amount as at end of the year	**2,493**	2,489

c. Corporate bonds issued in 2016 (the "2016 Corporate Bonds")

On 30 November 2016, Xinao (China) issued the 2016 Corporate Bonds of RMB2,500 million. The amount is unsecured and carries a fixed interest rate of 3.55% per annum and is repayable on 2 December 2019. The interest is payable to the holders of the bond on yearly basis. The net proceeds after deducting the issuance costs, amounted to RMB2,490 million. The 2016 Corporate Bonds was listed on the Shanghai Stock Exchange on 13 December 2016. The effective interest rate of the 2016 Corporate Bonds is approximately 3.70% per annum after the adjustment for transaction costs.

40. Corporate Bonds *(continued)*

c. Corporate bonds issued in 2016 (the "2016 Corporate Bonds") *(continued)*

The 2016 Corporate Bonds recognised in the consolidated statement of financial position were as follows:

	2016 RMB million
Principal amount	**2,500**
Issue costs	**(10)**
	2,490
Effective interest recognised	**8**
Interest paid/payable	**(8)**
Carrying amount as at end of the year	**2,490**

41. Senior Notes

On 13 May 2011, the Company issued 6% senior notes with an aggregated nominal value of USD750 million (equivalent to approximately RMB4,863 million) (the "2021 Senior Notes") at face value. The net proceeds, after deducting the issuance costs, amounted to USD735 million (equivalent to approximately RMB4,765 million). The 2021 Senior Notes will be matured on 13 May 2021. The 2021 Senior Notes are listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST") and dealt in over-the-counter market through a financial institution as the principal agent.

According to the terms and conditions of the 2021 Senior Notes, at any time or from time to time prior to the maturity date, the Company may at its option to redeem the notes at a redemption price equal to 100% of the principal amount thereof plus applicable premium and accrued and unpaid interest to such redemption date. The applicable premiums is the greater of (1) 1.0% of the principal amount and (2) the excess of (A) the present value at such redemption date of 100% of the principal amount, plus all required remaining scheduled interest payments due on the 2021 Senior Notes through the maturity date (but excluding accrued and unpaid interest to redemption date), computed using a discount rate equal to the United States treasury rate plus 25 basis points, over (B) the principal amount on redemption date.

The fair value of the early redemption right is insignificant at initial recognition and at the end of the reporting periods. The effective interest rate is approximately 6.2756% per annum after the adjustment for transaction costs.

The 2021 Senior Notes recognised in the consolidated statement of financial position are calculated cumulatively as follows:

	2016 RMB million	2015 RMB million
Nominal value of 2021 Senior Notes	**4,863**	4,863
Issue costs	**(98)**	(98)
Fair value at date of issuance	**4,765**	4,765
Repurchased (note)	**(2,603)**	(219)
Effective interest recognised	**1,622**	1,334
Interest paid/payable	**(1,579)**	(1,299)
Exchange loss	**302**	3
Carrying amount at 31 December	**2,507**	4,584

Notes:

In September 2015, the Company has repurchased in aggregate of principal amount of USD35,000,000 (equivalent to approximately RMB222 million) in the open market and the aggregate amount of consideration paid by the Company was RMB247 million (included the applicable premium and accrued interests). As a result, a loss on repurchase of RMB23 million was recognised and included in other gains or losses as set out in Note 9.

In December 2016, the Company has repurchased in aggregate of principal amount of USD349,457,000 (equivalent to approximately RMB2,410 million) in the open market and the aggregate amount of consideration paid by the Company was RMB2,706 million (included the applicable premium and accrued interests). As a result, a loss on repurchase of RMB308 million was recognised and included in other gains or losses as set out in Note 9. The senior notes repurchased in 2015 and 2016 were cancelled on 16 December 2016.

42. Medium-Term Notes

On 15 October 2012, Xinao (China) issued medium-term notes in the aggregate principal amount of RMB700 million which are unsecured. The medium-term notes carry a fixed interest rate of 5.55% per annum and are repayable on 17 October 2017. The interest is payable to the holders of the notes on yearly basis.

43. Convertible Bonds at FVTPL

On 26 February 2013, the Company issued zero-coupon USD-denominated convertible bonds with the aggregate principal amount of USD500 million (approximately RMB3,141 million) (the "Convertible Bonds"). Each bond will, at the option of the holder, be convertible into fully paid ordinary shares with a par value of HK$0.10 each in the issued and paid up capital of the Company at an initial conversion price of HK$48.62 per share. The conversion price is subject to adjustments in the manner set out in the Convertible Bonds agreement. Conversion may occur at any time on or after 8 April 2013 and up to 16 February 2018. If the Convertible Bonds have not been converted, they will be redeemed on 26 February 2018 at 102.53 per cent of their principal amount.

In accordance with the terms and conditions of the Convertible Bonds, the holder of each Convertible Bond will have the right, at such holder's option, to require the Company to redeem all or some only of the Convertible Bonds of such holder on 26 February 2016 (the "Put Option Date") at 101.51 per cent of their principal amount. And the Company (i) may at any time after Put Option Date and prior to the maturity date redeem in whole, but not in part, the Convertible Bonds for the time being outstanding at the early redemption amount, provided that (a) the closing price of the shares (translated into USD at the prevailing rate defined in the terms and conditions of the Convertible Bonds) for each of any 20 trading days within a period of 30 consecutive trading days, the last of which occurs not more than five trading days prior to the date upon which notice of such redemption is published was at least 130 per cent of the early redemption amount divided by the then prevailing conversion ratio (as defined in the terms and conditions of the Convertible Bonds agreement) and (b) the applicable redemption date does not fall within a closed period; or (ii) may at any time prior to the maturity date of the Convertible Bonds redeem in whole, but not in part, the Convertible Bonds for the time being outstanding at the early redemption amount provided that prior to the date of such notice at least 90 per cent in principal amount of the Convertible Bonds originally issued has already been converted, redeemed or purchased and cancelled.

As at 31 December 2015, the Convertible Bonds were classified as current liabilities in the Group's consolidated financial statements as it is at the discretion of the holders to exercise the option on the Put Option Date. Since 26 February 2016, the Convertible Bonds were reclassified as non-current liabilities as no holder exercises the option on Put Option Date.

The Convertible Bonds, which are listed on SGX-ST and dealt in over-the-counter market through a financial institution as the principal agent were designated as financial instrument at FVTPL and the over-the-counter market price represents the fair value of the Convertible Bonds.

As at 31 December 2016, the over-the-counter market price of the Convertible Bonds was USD507 million (2015: USD548 million) (approximately RMB3,515 million (2015: RMB3,556 million)). There was fair value gain of approximately RMB41 million (2015: fair value loss of approximately RMB200 million) during the year ended 31 December 2016.

No conversion or redemption of the Convertible Bonds has occurred up to 31 December 2016.

44. Unsecured Bonds

On 23 October 2014, the Company issued 3.25% bonds with an aggregate nominal value of USD400 million (equivalent to approximately RMB2,460 million) (the "2019 Unsecured Bonds"). The net proceeds after discounting and deducting the issuance costs amounted to USD395 million (equivalent to RMB2,429 million). The 2019 Unsecured Bonds is unsecured and matures on 23 October 2019. The 2019 Unsecured Bonds are listed on the Stock Exchange and dealt in over-the-counter market through a financial institution as the principal agent.

According to the terms and conditions of the 2019 Unsecured Bonds, the Company may at any time and from time to time, on giving not less than 30 nor more than 60 days' notice to the holders of the 2019 Unsecured Bonds, redeem the Bonds, in whole but not in part, at a make whole price as of, and accrued and unpaid interest, if any, to (but excluding), the redemption date. The make whole price means, with respect to a bond at the option redemption date, the amount calculated by the quotation agent that is the greater of (1) the present value of the principal amount of the 2019 Unsecured Bonds, assuming a scheduled repayment thereof on the maturity date plus all required remaining scheduled interest repayments due on such bond through the maturity date (but excluding accrued and unpaid interest to the option redemption date), computed using a discount rate equal to the adjusted treasury rate plus 50 basis points, and (2) the principal amount of such bonds.

44. Unsecured Bonds *(continued)*

The estimated fair value of the early redemption right is insignificant at initial recognition and at the end of the reporting periods. The effective interest rate is approximately 3.555% per annum after deducting the adjustment for transaction costs.

The 2019 Unsecured Bonds recognised in the consolidated statement of financial position are calculated cumulatively as follows:

	2016 **RMB million**	2015 RMB million
Nominal value of 2019 Unsecured Bonds	**2,460**	2,460
Discount cost	**(12)**	(12)
Issue costs	**(19)**	(19)
Fair value at date of issuance	**2,429**	2,429
Repurchased and cancelled (note)	**(2,107)**	(2,107)
Effective interest recognised	**104**	89
Interest paid/payable	**(97)**	(83)
Exchange loss	**117**	89
Carrying amount at 31 December	**446**	417

Note: The Company has repurchased in aggregate principal amount of USD335,174,000 (the "Accepted Bonds", equivalent to RMB2,129 million) bonds pursuant to the tender offer on 24 September 2015. The consideration paid by the Company in relation to the repurchase of the Accepted Bonds was approximately USD343 million (equivalent to RMB2,179 million, including the premium and accrued interests) as of the settlement date on 20 October 2015. As a result, a loss on repurchase of RMB38 million was recognised and included in other gains or losses as set out in Note 9. The Accepted Bonds were cancelled by the Company on 20 October 2015, thus the principal amount of bonds remaining outstanding was USD64.8 million.

45. Share Options

The Company has adopted share option schemes pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 21 May 2002 (the "Scheme 2002") and an annual general meeting of the Company held on 26 June 2012 (the "Scheme 2012").

The purpose of the share option schemes are to provide incentives for participants to perform their best in achieving the goals of the Group and allow them to enjoy the results of the Company attained through their efforts and contribution. Pursuant to the share option schemes, the Directors may, at its absolute discretion, invite any employee or executive director or any member of the Group, or any employee, partner or director of any business consultant, joint venture partner, financial adviser and legal adviser of and to any member of the Group, to take up options at HK$1 on each grant to subscribe for shares at an exercise price equal to at least the highest of (a) the closing price of the shares on the Stock Exchange on the date of grant; (b) the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant; and (c) the nominal value of a share.

The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 30% of the issued share capital of the Company from time to time. Unless approved by shareholders of the Company, the total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue. Where any further grant of options to a participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

45. Share Options *(continued)*

a. Scheme 2012

On 9 December 2015, the Company granted share options to the Directors and certain employees ("Grantees") to subscribe for a total of 12,000,000 ordinary shares of HK$0.1 each in the share capital of the Company under the share option scheme adopted by the Company on 26 June 2012, subject to acceptance by the Grantees.

Among the share options granted above, 2,659,000 share options were granted to the Directors to subscribe for a total of 2,659,000 shares in the Company and 9,341,000 share options were granted to certain employees of the Group to subscribe for 9,341,000 shares in the Company. Vesting of the share options is conditional upon the fulfilment of certain vesting conditions as set out in the respective offer letters of the Grantees, which may involve fulfilment of performance rating.

The following tables disclose details of the Company's share options held by the employees (including the Directors) and movements in such holdings under the share option schemes during the year:

					Number of options			
	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1.2016	Granted during the year	Forfeited during the year	Outstanding at 31.12.2016
Tranche 1	09.12.2015	09.12.2015 to 01.04.2017	01.04.2017 to 08.12.2025	HK$40.34	**3,000,000**	–	**(171,750)**	**2,828,250**
Tranche 2	09.12.2015	09.12.2015 to 01.04.2018	01.04.2018 to 08.12.2025	HK$40.34	**3,000,000**	–	**(171,750)**	**2,828,250**
Tranche 3	09.12.2015	09.12.2015 to 01.04.2019	01.04.2019 to 08.12.2025	HK$40.34	**3,000,000**	–	**(171,750)**	**2,828,250**
Tranche 4	09.12.2015	09.12.2015 to 01.04.2020	01.04.2020 to 08.12.2025	HK$40.34	**3,000,000**	–	**(171,750)**	**2,828,250**
					12,000,000	–	**(687,000)**	**11,313,000**
Exercisable at the end of the year								–
Weighted average exercise price					**HK$40.34**	–	–	**HK$40.34**

					Number of options		
	Date of grant	Exercise period	Exercise price	Outstanding at 1.1.2016	Reclassified during the year (note)	Forfeited during the year	Outstanding at 31.12.2016
Directors	09.12.2015	01.04.2017 to 08.12.2025	HK$40.34	**664,750**	**(75,500)**	**(15,000)**	**574,250**
	09.12.2015	01.04.2018 to 08.12.2025	HK$40.34	**664,750**	**(75,500)**	**(15,000)**	**574,250**
	09.12.2015	01.04.2019 to 08.12.2025	HK$40.34	**664,750**	**(75,500)**	**(15,000)**	**574,250**
	09.12.2015	01.04.2020 to 08.12.2025	HK$40.34	**664,750**	**(75,500)**	**(15,000)**	**574,250**
Employees	09.12.2015	01.04.2017 to 08.12.2025	HK$40.34	**2,335,250**	**75,500**	**(156,750)**	**2,254,000**
	09.12.2015	01.04.2018 to 08.12.2025	HK$40.34	**2,335,250**	**75,500**	**(156,750)**	**2,254,000**
	09.12.2015	01.04.2019 to 08.12.2025	HK$40.34	**2,335,250**	**75,500**	**(156,750)**	**2,254,000**
	09.12.2015	01.04.2020 to 08.12.2025	HK$40.34	**2,335,250**	**75,500**	**(156,750)**	**2,254,000**
				12,000,000	–	**(687,000)**	**11,313,000**
Exercisable at the end of the year							–
Weighted average exercise price				**HK$40.34**	–	–	**HK$40.34**

Note: Mr. Yu Jianchao and Mr. Lim Haw Kuang retired from office as executive director of the Company during this year. The outstanding 75,500 share options granted to them were reclassified to employees.

45. Share Options *(continued)*

a. Scheme 2012 *(continued)*

The following tables disclose details of the Company's share options held by the employees (including the Directors) and movements in such holdings under the share options scheme during the prior year:

	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1.2015	Number of options Granted during the year	Number of options Forfeited during the year	Outstanding at 31.12.2015
Tranche 1	09.12.2015	09.12.2015 to 01.04.2017	01.04.2017 to 08.12.2025	HK$40.34	–	3,000,000	–	3,000,000
Tranche 2	09.12.2015	09.12.2015 to 01.04.2018	01.04.2018 to 08.12.2025	HK$40.34	–	3,000,000	–	3,000,000
Tranche 3	09.12.2015	09.12.2015 to 01.04.2019	01.04.2019 to 08.12.2025	HK$40.34	–	3,000,000	–	3,000,000
Tranche 4	09.12.2015	09.12.2015 to 01.04.2020	01.04.2020 to 08.12.2025	HK$40.34	–	3,000,000	–	3,000,000
					–	12,000,000	–	12,000,000
Exercisable at the end of the year								–
Weighted average exercise price					HK$40.34	–	–	HK$40.34

	Date of grant	Exercise period	Exercise price	Outstanding at 1.1.2015	Number of options Granted during the year	Number of options Forfeited during the year	Outstanding at 31.12.2015
Directors	09.12.2015	01.04.2017 to 08.12.2025	HK$40.34	–	664,750	–	664,750
	09.12.2015	01.04.2018 to 08.12.2025	HK$40.34	–	664,750	–	664,750
	09.12.2015	01.04.2019 to 08.12.2025	HK$40.34	–	664,750	–	664,750
	09.12.2015	01.04.2020 to 08.12.2025	HK$40.34	–	664,750	–	664,750
Employees	09.12.2015	01.04.2017 to 08.12.2025	HK$40.34	–	2,335,250	–	2,335,250
	09.12.2015	01.04.2018 to 08.12.2025	HK$40.34	–	2,335,250	–	2,335,250
	09.12.2015	01.04.2019 to 08.12.2025	HK$40.34	–	2,335,250	–	2,335,250
	09.12.2015	01.04.2020 to 08.12.2025	HK$40.34	–	2,335,250	–	2,335,250
				–	12,000,000	–	12,000,000
Exercisable at the end of the year							–
Weighted average exercise price				HK$40.34	–	–	HK$40.34

45. Share Options *(continued)*

a. Scheme 2012 *(continued)*

Exercise price of the share options granted is HK$40.34 per share, which represents the highest of (i) the closing price of HK$39.00 per share as stated in the daily quotations sheet of the Stock Exchange on 9 December 2015, being the date of grant; (ii) the average closing price of HK$40.34 per share as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the share.

During the year, 687,000 (2015: nil) share options were forfeited. As at 31 December 2016, the number of outstanding share options is 11,313,000 (31 December 2015: 12,000,000), all of which have not yet vested and hence not exercisable until fulfilment of vesting condition. During the year, the Group recognised share-based payment expenses of RMB51 million (2015: RMB3 million).

The total fair value of the options calculated by using the binomial model was HK$194 million. The following assumptions were used to calculate the fair value of share options:

	Directors	Employees
Spot price	HK$39.00	HK$39.00
Exercise price	HK$40.34	HK$40.34
Risk free rate	1.555%	1.555%
Expected volatility	43.12%	43.12%
Expected dividend yield	1.08%	1.08%
Early exercise behaviour	280% of the exercise price	220% of the exercise price

The Binomial model has been used to estimate the fair value of the options. The expected volatility was determined by referencing to the historical volatility of the Company's share price over the previous 10 years. The other variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

At the end of each reporting date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit and loss, with a corresponding adjustment to the share options reserve.

b. Scheme 2002

On 14 June 2010, the Company granted share options to the Directors and certain employees ("Grantees") to subscribe for a total of 33,490,000 ordinary shares of HK$0.1 each in the share capital of the Company under the share option scheme adopted by the Company on 21 May 2002, subject to acceptance by the Grantees.

Among the share options granted above, 14,810,000 share options were granted to the Directors to subscribe for a total of 14,810,000 shares in the Company and 18,680,000 share options were granted to certain employees of the Group to subscribe for 18,680,000 shares in the Company.

As at the end of the reporting period, the number of outstanding share options granted to the Directors is nil (2015: 400,000) and the number of outstanding share option granted to certain employees of the Group is 200,000 (2015: nil).

45. Share Options *(continued)*

b. Scheme 2002 *(continued)*

The following tables disclose details of the Company's share options held by the employees (including the Directors) and movements in such holdings under the share option schemes during the year:

	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1.2016	Number of options Granted during the year	Exercised during the year	Outstanding at 31.12.2016
Tranche 1	14.06.2010	14.06.2010 to 13.12.2010	14.12.2010 to 13.06.2020	HK$16.26	–	–	–	–
Tranche 2	14.06.2010	14.06.2010 to 13.06.2012	14.06.2012 to 13.06.2020	HK$16.26	**400,000**	–	**(200,000)**	**200,000**
					400,000	–	**(200,000)**	**200,000**
Exercisable at the end of the year								**200,000**
Weighted average exercise price					**HK$16.26**	–	–	**HK$16.26**

The following tables disclose details of the Company's share options held by the employees (including the Directors) and movements in such holdings under the share option scheme during the prior year:

	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1.2015	Number of options Granted during the year	Exercised during the year	Outstanding at 31.12.2015
Tranche 1	14.06.2010	14.06.2010 to 13.12.2010	14.12.2010 to 13.06.2020	HK$16.26	–	–	–	–
Tranche 2	14.06.2010	14.06.2010 to 13.06.2012	14.06.2012 to 13.06.2020	HK$16.26	400,000	–	–	400,000
					400,000	–	–	400,000
Exercisable at the end of the year								400,000
Weighted average exercise price					HK$16.26	–	–	HK$16.26

Exercise price of the share options granted is HK$16.26 per share, which represents the highest of (i) the closing price of HK$16.26 per share as stated in the daily quotations sheet of the Stock Exchange on 14 June 2010, being the date of grant; (ii) the average closing price of HK$15.04 per share as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the Date of Grant; and (iii) the nominal value of the share.

During the current and prior year, the Group recognised no share-based payment expenses.

46. Retirement Benefits Scheme

	2016 **RMB million**	2015 RMB million
Retirement benefit contribution made during the year	**155**	150

According to the relevant laws and regulations in the PRC, the PRC subsidiaries of the Group are required to contribute a certain percentage of the payroll of their employees to the retirement benefits scheme to fund the retirement benefits of their employees. The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees. The maximum monthly amount of contribution is limited to HK$1,500 per employee.

47. Acquisition of Businesses

a. Acquisition of businesses during the year ended 31 December 2016

On 12 May 2016, the Group acquired 70% of the registered capital of 昌樂新奧燃氣有限公司 ("Changle") at a cash consideration of RMB43 million. Changle is engaged in sales of piped gas. Changle was acquired with the objective of expansion in market coverage of business of the Group.

The provisional amounts of fair value of the assets and liabilities of Changle at the date of acquisition are as follows:

	RMB million
Non-current assets	
Property, plant and equipment	29
Intangible assets – right of operation	51
Current liabilities	
Trade and other payables	(6)
Non-current liabilities	
Deferred tax liabilities	(13)
Net assets acquired	61
Goodwill arising on acquisition (determined on a provisional basis)	
Total consideration	43
Add: Non-controlling interests (30% in Changle)	18
Less: Fair value of identified net assets acquired	(61)
Goodwill arising on acquisition	–
Total consideration satisfied by:	
Deposits paid in the prior year	4
Cash	35
Consideration payables (included in other payables)	4
	43
Net cash outflow arising on acquisition:	
Cash consideration paid	(35)
Less: Cash and cash equivalents acquired	–
	(35)

Impact of acquisition on the results of the Group

The fair value of property, plant and equipment and intangible assets at the date of acquisition is provisional and pending for the valuation by an independent professional valuer.

Included in the profit for the year ended 31 December 2016 is RMB3 million of loss attributable to the additional business generated by Changle. Revenue for the year ended 31 December 2016 includes RMB18 million generated from Changle.

Had the acquisition of Changle been effected on 1 January 2016, the revenue of the Group for the year ended 31 December 2016 would have been approximately RMB34,121 million, and the profit for the year would have been approximately RMB3,205 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group, had Changle been acquired on 1 January 2016, the Directors have calculated depreciation and amortisation of property, plant and equipment and intangible asset acquired on the basis of the fair values rather than the carrying amounts recognised in the pre-acquisition financial statements.

47. Acquisition of Businesses *(continued)*

b. Acquisition of businesses during the year ended 31 December 2015

On 23 July 2015, the Group acquired 90% of the registered capital of 上饒經濟開發區仁恒天然氣有限公司 ("Shangrao") at a cash consideration of RMB31 million. Shangrao is engaged in sales of piped gas. Shangrao was acquired with the objective of expansion in market coverage of business of the Group.

The amounts of fair value of the assets and liabilities of Shangrao at the date of acquisition were as follows:

	RMB million
Non-current assets	
Property, plant and equipment	74
Prepaid lease payments	10
Intangible assets – right of operation	75
Current assets	
Inventories	1
Trade and other receivables (note)	12
Current liabilities	
Trade and other payables	(69)
Short-term loan	(50)
Non-current liabilities	
Deferred tax liabilities	(19)
Net assets acquired	34

	RMB million
Goodwill arising on acquisition	
Total consideration	31
Add: Non-controlling interests (10% in Shangrao)	3
Less: Fair value of identified net assets acquired	(34)
Goodwill arising on acquisition	–
Total consideration satisfied by:	
Cash	19
Consideration payables (included in other payables)	12
	31
Net cash outflow arising on acquisition:	
Cash consideration paid	(19)
Less: Cash and cash equivalents acquired	–
	(19)

Note: The fair value of trade and other receivables at the date of acquisition amounted to RMB12 million. The gross contractual amounts of those trade and other receivables acquired amounted to RMB35 million at the date of acquisition. At acquisition date, the best estimate of the contractual cash flows expected not to be collected amounted to RMB23 million.

47. Acquisition of Businesses *(continued)*

b. Acquisition of businesses during the year ended 31 December 2015 *(continued)*

Impact of acquisition on the results of the Group

Included in the profit for the year is RMB4 million of loss attributable to the additional business generated by Shangrao. Revenue for the year includes RMB4 million generated from Shangrao.

Had the acquisition of Shangrao has been effected on 1 January 2015, the revenue of the Group for the year ended 31 December 2015 would have been approximately RMB32,068 million, and the profit for the year ended 31 December 2015 would have been approximately RMB2,718 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group, had Shangrao been acquired on 1 January 2015, the Directors have calculated depreciation and amortisation of property, plant and equipment, prepaid lease payment and intangible asset acquired on the basis of the fair values rather than the carrying amounts recognised in the pre-acquisition financial statements.

48. Acquisition of Assets Through Acquisitions of Subsidiaries

a. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2016

To facilitate with the Group's overall business strategy, the Group will from time to time liaise with the local PRC governments and potential vendors to acquire the gas connection and related assets. During the year ended 31 December 2016, the Group has acquired assets through the acquisitions of the following subsidiaries.

On 5 May 2016, the Group acquired 100% of the equity interest of 好買氣電子商務有限公司 ("Haomaiqi") at a consideration of RMB20 million from a company controlled by Mr. Wang.

On 18 July 2016, the Group acquired 60% of the registered capital of 日照新奥中泰能源有限公司 ("Rizhao Zhongtai") at a cash consideration of RMB14 million.

On 16 December 2016, the Group acquired 51% of the registered capital of 株洲新奥雲龍燃氣有限公司 ("Yunlong") at a cash consideration of RMB10 million.

48. Acquisition of Assets Through Acquisitions of Subsidiaries *(continued)*

a. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2016 *(continued)*

The transaction was accounted for acquisition of assets through acquisition of subsidiaries and the fair value of the considerations allocated to the assets and liabilities acquired are as follows:

	RMB million
Non-current assets	
Property, plant and equipment	70
Intangible assets – rights of operation	52
Current assets	
Inventories	9
Trade and other receivables	1
Cash and cash equivalents	7
Current liabilities	
Trade and other payables	(75)
Net assets acquired	64
Less: Non-controlling interests	(20)
Total consideration	44
Total consideration satisfied by:	
Cash	21
Consideration payables (included in other payables and amount due to related parties)	23
	44
Net cash outflow arising on acquisition:	
Cash consideration paid	(21)
Less: Cash and cash equivalents acquired	7
	(14)

b. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2015

During the year ended 31 December 2015, the Group has acquired assets through the acquisitions of the following subsidiaries.

On 23 January 2015, the Group acquired 60% of the registered capital of 寧波大榭開發區燃氣有限公司 (“Ningbo Daxie”) at a cash consideration of RMB60 million.

On 18 March 2015, the Group further acquired 40% of the registered capital of a joint venture, 北京新奧華氏能源投資有限公司 (“Xinao Yeshi”), at a cash consideration of RMB4 million. After the acquisition, Xinao Yeshi become a wholly owned subsidiary of the Group. Xinao Yeshi has not yet commenced operation as at the date of acquisition.

On 11 August 2015, the Group acquired 100% of the registered capital of 安徽鑫能燃氣有限公司 (“Anhui Xinneng”) at a cash consideration of RMB27 million. The main assets owned by Anhui Xinneng is an equity investment in an associate.

On 23 December 2015, the Group acquired 80% of the registered capital of 新安新奧中潤燃氣有限公司 (“Xinan Xinao”) at a cash consideration of RMB18 million.

48. Acquisition of Assets Through Acquisitions of Subsidiaries *(continued)*

b. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2015 *(continued)*

The transaction was accounted for acquisition of assets through acquisition of subsidiaries and the fair value of the considerations allocated to the assets and liabilities acquired are as follows:

	RMB million
Non-current assets	
Property, plant and equipment	37
Intangible assets – rights of operation	93
Prepaid lease payments	1
Interest in an associate	28
Current assets	
Inventories	1
Trade and other receivables	5
Deposit	1
Cash and cash equivalents	3
Current liabilities	
Trade and other payables	(9)
Net assets acquired	160
Less: Non-controlling interests	(45)
Less: Interests previously held	(6)
Total consideration	109
Total consideration satisfied by:	
Cash	79
Consideration payables (included in other payables)	30
	109
Net cash outflow arising on acquisition:	
Cash consideration paid	(79)
Less: Cash and cash equivalents acquired	3
	(76)

49. Disposal/Derecognition of Subsidiaries and a Business

a. Disposal of subsidiaries during the year ended 31 December 2016

On 13 December 2016, the Group disposed of 100% equity interest in ENN Clean Energy UK Limited ("ENNUK") at cash consideration of GBP2 million (approximately RMB16 million) to an independent third party. As a result, the Group lost control on ENNUK.

On 16 December 2016, the Group disposed of 90% equity interest in 長沙新奧熱力有限公司 ("Changsha Xinao") at cash consideration of RMB31 million to a joint venture. As a result, the Group lost control on Changsha Xinao.

The net consideration received from the transactions are summarised as follow:

Consideration:

	ENNUK RMB million	Changsha Xinao RMB million
Cash consideration received	16	25
Deferred cash consideration	–	6
Total consideration	16	31

The net assets of ENNUK and Changsha Xinao at the date of disposal were as follow:

	ENNUK RMB million	Changsha Xinao RMB million
Non-current assets		
Property, plant and equipment	10	143
Prepaid lease payment	–	22
Current assets		
Inventories	–	2
Trade and other receivables	3	23
Cash and cash equivalents	3	20
Current liabilities		
Trade and other payables	(1)	(163)
Taxation payables	(1)	–
Deferred income	(4)	(30)
Net assets	10	17
Less: Non-controlling interests	–	(3)
Net assets attributable to owners of the Company disposed of	10	14

49. Disposal/Derecognition of Subsidiaries and a Business *(continued)*

a. Disposal of subsidiaries during the year ended 31 December 2016 *(continued)*

The gain on disposal of ENNUK and Changsha Xinao recognised in profit or loss were calculated as below:

	ENNUK RMB million	**Changsha Xinao** RMB million
Consideration received and receivable	16	31
Less: Goodwill disposed of	–	(3)
Less: Net assets disposed of	(10)	(14)
Gain on disposal of subsidiaries	6	14

Net cash inflow arising on disposal:

	ENNUK RMB million	**Changsha Xinao** RMB million
Cash consideration received	16	25
Less: Cash and cash equivalents disposed of	(3)	(20)
	13	5

b. Disposal of a business during the year ended 31 December 2016

To create strategic alliance with another major competitor in Shantou to further develop gas distribution business in Shantou city, the Group disposed of the business in 汕頭新奧燃氣有限公司 ("Shantou Xinao") as capital injection to 汕頭市潤新燃氣有限公司, an associate of the Group controlled by the competitor, on 30 June 2016. As a result, the Group lost control on the business through this non-cash transaction.

The net consideration received from this transaction is summarised as follow:

Consideration:

	Shantou Xinao RMB million
Cash receivable	23
Interests in associates	118
Total consideration	141

49. Disposal/Derecognition of Subsidiaries and a Business *(continued)*

b. Disposal of a business during the year ended 31 December 2016 *(continued)*

The net assets of Shantou Xinao at the date of disposal were as follow:

	RMB million
Non-current assets	
Property, plant and equipment	105
Prepaid lease payments	13
Current assets	
Inventories	2
Trade and other receivables	16
Current liabilities	
Trade and other payables	(21)
Net assets disposed of	115

The gain on disposal of Shantou Xinao recognised in profit or loss was calculated as below:

	RMB million
Consideration received and receivable	141
Less: Net assets disposed of	(115)
Gain on disposal of business	26

Net cash inflow arising on disposal:

	RMB million
Cash consideration received	–
Less: Cash and cash equivalents disposed of	–
	–

49. Disposal/Derecognition of Subsidiaries and a Business *(continued)*

c. Disposal of subsidiaries during the year ended 31 December 2015

On 30 April 2015, the Group disposed of 70% equity interest in 本溪新奧鑫和清潔能源有限公司 ("Benxi Xinao") at cash consideration of RMB14 million to an independent third party. As a result, the Group lost control on Benxi Xinao.

On 4 August 2015, the Group disposed of 95% equity interest in 韶關市新奧交通能源有限公司 ("Shaoguan Xinao") at cash consideration of RMB10 million to a joint venture. As a result, the Group lost control on Shaoguan Xinao.

The net consideration received from the transactions are summarised as follow:

Consideration:

	Benxi Xinao RMB million	**Shaoguan Xinao** RMB million
Cash consideration received	14	10

The net assets of Benxi Xinao and Shaoguan Xinao at the date of disposal were as follow:

	Benxi Xinao RMB million	**Shaoguan Xinao** RMB million
Non-current asset		
Property, plant and equipment	–	7
Current assets		
Cash and cash equivalents	19	1
Net assets	19	8
Less: Non-controlling interests	(6)	–
Net assets disposed of	13	8

The gain on disposal of Benxi Xinao and Shaoguan Xinao recognised in profit or loss were calculated as below:

	Benxi Xinao RMB million	**Shaoguan Xinao** RMB million
Consideration received	14	10
Less: Net assets disposed of	(13)	(8)
Gain on disposal of subsidiaries	1	2

Net cash (outflow) inflow arising on disposal:

	Benxi Xinao RMB million	**Shaoguan Xinao** RMB million
Cash consideration received	14	10
Less: Cash and cash equivalents disposed of	(19)	(1)
	(5)	9

49. Disposal/Derecognition of Subsidiaries and a Business *(continued)*

d. Derecognition of a subsidiary during the year ended 31 December 2015

On 27 August 2015, a 100% wholly-owned subsidiary of the Group, 肇慶新奧清潔能源有限公司 ("Zhaoqing Xinao"), increased its registered capital by the capital injection from the Group and 肇慶新區投資發展有限公司 ("Zhaoqing Investment") amounting to RMB11 million and RMB9 million respectively. As a result the Group's equity interest in Zhaoqing Xinao diluted to 70%. Pursuant to the revised articles of joint venture of Zhaoqing Xinao, the Group was unable to control Zhaoqing Xinao because a resolution for the financial and operating activities of Zhaoqing Xinao can only be passed with a three-fourths majority.

The net assets of Zhaoqing Xinao at the date of the Group lost control over Zhaoqing Xinao:

	RMB million
Non-current assets	
Property, plant and equipment	30
Prepaid lease payments	4
Current assets	
Other receivables	2
Cash and cash equivalents	5
Current liabilities	
Trade and other payables	(36)
Net amount derecognised attributable to the equity owners of the Company before capital injection	5
Capital injection by the Group and Zhaoqing Investment	20
Net amount derecognised including capital injection by the Group and Zhaoqing Investment	25

The gain recognised in profit or loss on loss of control of Zhaoqing Xinao was calculated as below:

	RMB million
Fair value of the residual interests in Zhaoqing Xinao recognised as investment cost of a joint venture	21
Capital injection by Zhaoqing Investment	9
	30
Less: Net assets derecognised	(25)
Gain on derecognition of a subsidiary	5

49. Disposal/Derecognition of Subsidiaries and a Business *(continued)*

d. Derecognition of a subsidiary during the year ended 31 December 2015 *(continued)*

Net cash outflow arising on derecognition:

	RMB million
Cash outflow arising on capital injection to Zhaoqing Xinao	(11)
Cash and cash equivalent derecognised	(5)
	(16)

50. Commitments

a. Capital commitments

	2016 RMB million	2015 RMB million
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**251**	281
Capital commitments in respect of		
– investments in joint ventures	**177**	48
– investments in associates	**17**	17
– other equity investments	**68**	112

b. Other commitments

As at 31 December 2016, the Group has commitments to acquire liquefied natural gas ("LNG") from certain suppliers. The delivery of LNG under such arrangements will start from 2018 or 2019 and last for 5 to 10 years. The Group will be obliged to make "take-or-pay" payment to suppliers for the quantity contracted but not delivered.

In the opinion of the Directors, these LNG will be utilised to satisfy the demand of domestic natural gas consumption from both the Group's piped gas customers and wholesale customers. The Directors determined that such LNG purchase arrangements are entered into and continued to be held for the purpose of the receipt of a non-financial item in accordance with the Group's expected purchase, sale and usage. Accordingly, the LNG purchase arrangements are not considered as derivatives financial instruments within the scope of HKAS 39.

The relevant purchase prices of these arrangements will be determined by reference to certain various variables, such as petroleum price indexes prevailing at the market, and are denominated in USD. The Directors assessed the economic characteristics and risks of the embedded derivatives and concluded that they are closely related to the economic risks and characteristics of the relevant host contracts. Accordingly, the embedded derivatives are not separated from the LNG purchase arrangements as derivative financial instruments recognised in the consolidated financial statements.

51. Lease Commitments

The Group as lessee

	2016 RMB million	2015 RMB million
Minimum lease payments paid under operating leases during the year:		
Premises	104	97
Other assets	7	5
	111	102

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2016 RMB million	2015 RMB million
Within one year	75	63
In the second to fifth year inclusive	183	154
Over five years	203	197
	461	414

Leases are negotiated for an average term of four years and rentals are fixed for an average of one year.

The Group as lessor

The Group's investment properties are held for rental purposes. Property rental income earned during the year was RMB12 million (2015: RMB6 million). All of the properties held have committed tenants for terms ranging from one to twenty-two years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2016 RMB million	2015 RMB million
Within one year	7	9
In the second to fifth year inclusive	15	17
Over five years	20	16
	42	42

52. Pledge of Assets

At the end of the reporting period, the Group pledged certain assets as securities for bank and other loans, bill facilities and contracts granted to the Group, associates and joint ventures as follows:

	2016 RMB million	2015 RMB million
Carrying amount of:		
Property, plant and equipment	11	11
Restricted bank deposits	374	128
Bills receivable	463	594

In addition to the above, the Group has also pledged its rights to receive gas connection and gas supply fee income of certain subsidiaries in favour of banks to secure banking facilities amounting to RMB1,020 million (2015: RMB1,020 million) granted to the Group, of which RMB609 million (2015: RMB413 million) has been utilised up to 31 December 2016.

53. Capital Management and Financial Instruments

a. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern; to maintain the confidence of creditors; to sustain future development of the entities and to maximise the return to the equity holders of the entities. The capital structure of the Group consists of net debt (borrowings disclosed in Notes 39, 40, 41, 42, 43 and 44, net of cash and cash equivalents) and total equity of the Group.

The Group manages its capital base through net gearing ratio. The Directors review the capital structure on a semi-annual basis. The Group has a target of net gearing ratio below 100% and will maintain the ratio within target by issue of new debts, repayment of debts, issue of new shares, repurchase of shares or payment of dividends. The Group's overall strategy remains unchanged from prior year. During the years ended 31 December 2016 and 2015, the Group repurchased certain senior notes or unsecured bonds in order to better manage its risk exposure in foreign currencies. The net gearing ratio at the end of the reporting period was as follows:

	2016 **RMB million**	2015 RMB million
Bank and other loans	**4,141**	3,436
Corporate bonds	**5,482**	2,987
Senior notes	**2,507**	4,584
Medium-term notes	**700**	700
Convertible bonds at FVTPL	**3,515**	3,556
Unsecured bonds	**446**	417
	16,791	15,680
Less: Cash and cash equivalents	**(7,163)**	(7,355)
Net debt	**9,628**	8,325
Total equity	**17,854**	16,095

	2016 **%**	2015 %
Net debt to total equity ratio	**53.9**	51.7

The entities comprising the Group are not subject to externally imposed capital requirements.

b. Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of the reporting period are set out as follows:

	2016 **RMB million**	2015 RMB million
Financial assets		
AFS financial assets	**4,882**	4,169
Financial assets at FVTPL	**170**	–
Loans and receivables (including cash and cash equivalents)	**12,333**	10,503
Financial liabilities		
Financial liabilities at FVTPL	**3,515**	3,556
Financial liabilities at amortised cost	**18,478**	17,322
Financial guarantee liability	**22**	29

53. Capital Management and Financial Instruments *(continued)*

c. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, AFS financial assets, financial assets at FVTPL, amounts due from/to associates, joint ventures and related companies, cash and cash equivalents, restricted bank deposits, trade and other payables, bank and other loans, corporate bonds, senior notes, medium-term notes, convertible bonds at FVTPL, unsecured bonds and financial guarantee liability. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

Foreign currency risk management

Except that the functional currency of the Group's entities established in the Europe, United States and Canada is the European Dollar, United States Dollar and Canadian Dollar, respectively, the functional currency of the Group's entities is RMB in which most of the transactions are denominated. However, certain loans, senior notes, unsecured bonds and convertible bonds issued by the Group and certain bank balances kept by the Group are denominated in foreign currencies.

To mitigate the foreign exchange exposure, the Group entered into various Structured Forwards with certain financial institutions during the year as set out in Note 24.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2016	2015	**2016**	2015
	RMB million	RMB million	**RMB million**	RMB million
Foreign currency:				
USD	**300**	279	**7,745**	9,293
HK$	**17**	3	**347**	–

The following table details the Group's sensitivity to a reasonably possible change in exchange rate of each foreign currency against RMB, while all other variables are held constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items without considering the impact of the Structured Forwards and adjusts their translation at the end of the reporting period for a change in foreign currency rates as set out below:

	USD		**HK$**	
	2016	2015	**2016**	2015
	%	%	**%**	%
Possible change in exchange rate	**5**	5	**5**	5

	2016	2015	**2016**	2015
	RMB million	RMB million	**RMB million**	RMB million
(Decrease) increase in profit after taxation for the year:				
– if RMB weakens against foreign currencies	**(372)**	(454)	**(17)**	–
– if RMB strengthens against foreign currencies	**372**	454	**17**	–

In the Directors' opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year, and some of the Group's foreign currency exposure has been reduced due to the offset effect of the Structured Forwards.

53. Capital Management and Financial Instruments *(continued)*

c. Financial risk management objectives and policies *(continued)*

Interest rate risk management

The Group does not have any specific interest rate policy except that the Group would regularly review the market interest rates to capture potential opportunities to reduce the cost of borrowings. Accordingly, the Group will enter into interest rate swap arrangement to mitigate the interest rate risks if appropriate.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to non-current amounts due from associates and joint ventures, and fixed-rate bank and other loans, corporate bonds, senior notes, medium-term notes and unsecured bonds (see Notes 27, 28, 39, 40, 41, 42 and 44 for details of these amounts, loans, bonds and notes respectively).

The fair value interest rate risk on bank balance and deposits is insignificant as the terms of the fixed deposits are relatively short.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to floating-rate bank loans (see Note 39 for details of these amounts). The Directors consider that the Group is not exposed to significant cash flow interest rate risk relating to bank deposits which are primarily short term in nature and carry basically stable market interest rates.

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure to interest rates for the floating-rate bank loans. The analysis is prepared assuming the amount of liabilities outstanding at the end of the reporting period was outstanding for the whole year and excluding the interest expected to be capitalised.

	2016 **%**	2015 %
Reasonably possible change in interest rate	**25 basis points**	25 basis points

	2016 **RMB million**	2015 RMB million
(Decrease) increase in profit after taxation for the year		
– as a result of increase in interest rate	**(2)**	(4)
– as a result of decrease in interest rate	**2**	4

The possible change in the interest rate does not affect the equity of the Group in both years.

Other price risk

The Group is mainly exposed to price risk through the convertible bonds designated as financial liabilities at FVTPL and investments classified as AFS financial assets. The Directors do not implement specific measurements to mitigate the price risk.

The convertible bonds will be ultimately redeemed at 102.53 per cent. of their principal amount or converted into the shares of the Company. If the market price of the convertible bonds increased or decreased by 5%, the Group would recognise additional losses or gains of RMB176 million (2015: RMB178 million) respectively in profit or loss.

If the market price of the equity securities excluding those measured at cost less impairment increased or decreased by 5%, the Group would recognise additional gains or losses of RMB21 million (2015: nil) respectively in other comprehensive income or expense.

53. Capital Management and Financial Instruments *(continued)*

c. Financial risk management objectives and policies *(continued)*

Credit risk management

As at 31 December 2016, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of contingent liabilities in relation to financial guarantees provided by the Group is disclosed in Note 38.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other debt, advances to associate, joint venture and related party at each half-year end date and at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In respect of the risk arising from the provision of financial guarantee, the management of the Group continuously monitors the credit quality and financial conditions of the guaranteed parties that the Group issued financial guarantee contracts in favour of to ensure that the Group will not suffer significant credit losses as a result of the failure of the guaranteed parties on the repayment of the relevant loans. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are reputational international and PRC banks and other financial institutions with high credit-ratings assigned by international credit-rating agencies or regulated by PRC government.

The Group has no significant concentration of credit risk to certain counterparties as, the exposure are spread over a number of counterparties and customers.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for over 90% of the trade receivables at 31 December 2016 and 2015.

Liquidity risk management

To manage the liquidity risk, the Group reviews the level of cash and cash equivalents to ensure their adequacy to finance the Group's operations, capital expansion plans and mitigate the effects of fluctuation in cash flows. The Group also reviews the utilisation of borrowings and ensures the compliance of loan covenants.

53. Capital Management and Financial Instruments *(continued)*

c. Financial risk management objectives and policies *(continued)*

Liquidity risk management (continued)

The Group relies on bank and other loans as a significant source of liquidity. The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived from interest rate existed at the end of the reporting period.

	Weighted average interest rate %	Repayable on demand or within one year RMB million	Within the second year RMB million	Within the third year RMB million	Within the fourth year RMB million	Within the fifth year RMB million	Over five years RMB million	Total undiscounted cash flow RMB million	Carrying amount at end of the reporting period RMB million
At 31 December 2016									
Non-derivative financial liabilities									
Trade and other payables		2,969	–	–	–	–	–	2,969	2,969
Amounts due to associates	0.35	217	–	–	–	–	–	217	216
Amounts due to joint ventures	3.92-6.15	1,613	–	–	–	–	–	1,614	1,601
Amounts due to related companies		416	–	–	–	–	–	416	416
Bank and other loans									
– fixed rate	3.22	3,268	–	–	–	–	–	3,268	3,235
– variable rate	5.45	726	95	60	54	–	–	935	906
Medium-term notes	5.55	739	–	–	–	–	–	739	700
Corporate bonds	3.55-6.45	213	3,213	2,656	–	–	–	6,082	5,482
Senior notes	6.00	152	152	152	152	2,612	–	3,220	2,507
Unsecured bonds	3.25	15	15	464	–	–	–	494	446
Convertible bonds		–	3,556	–	–	–	–	3,556	3,515
Financial guarantee contracts		230	–	–	–	–	–	230	22
		10,558	7,031	3,332	206	2,612	–	23,740	22,015
Derivative									
– inflows		1,322	3,469	–	–	–	–	4,791	
– outflows		1,349	3,297	–	–	–	–	4,646	
Net settlement		27	172	–	–	–	–	145	170

53. Capital Management and Financial Instruments *(continued)*

c. Financial risk management objectives and policies *(continued)*

Liquidity risk management (continued)

The above amounts for the 2015 Corporate Bonds are the payment made by the Group assuming these bonds to be redeemed when the bondholders' put options exercised in 2018.

	Weighted average interest rate %	Repayable on demand or within one year RMB million	Within the second year RMB million	Within the third year RMB million	Within the fourth year RMB million	Within the fifth year RMB million	Over five years RMB million	Total undiscounted cash flow RMB million	Carrying amount at end of the reporting period RMB million
At 31 December 2015									
Non-derivative financial liabilities									
Trade and other payables		2,751	–	–	–	–	–	2,751	2,751
Amounts due to associates	0.35	64	–	–	–	–	–	64	64
Amounts due to joint ventures	0.35-6.15	1,967	22	–	–	–	–	1,989	1,982
Amounts due to related companies		400	–	–	–	–	–	400	400
Bank and other loans									
– fixed rate	4.47	1,419	–	–	–	–	–	1,419	1,391
– variable rate	4.69	1,277	384	261	151	92	–	2,165	2,045
Medium-term notes	5.55	39	739	–	–	–	–	778	700
Corporate bonds	3.68/6.45	624	124	2,592	–	–	–	3,340	2,987
Senior notes	6.00	279	279	279	279	279	5,016	6,411	4,584
Unsecured bonds	3.25	14	14	14	435	–	–	477	417
Convertible bonds		3,296	–	–	–	–	–	3,296	3,556
Financial guarantee contracts		320	–	–	–	–	–	320	29
		12,450	1,562	3,146	865	371	5,016	23,410	20,906

The above amounts for convertible bonds and the 2011 Corporate Bonds are the payment made by the Group assuming these bonds to be redeemed when the bondholders' put options exercised in 2016. The bondholders' put options embedded in the convertible bonds and the 2011 Corporate Bonds have been lapsed in February 2016 (Notes 40 and 43).

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on the expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, these estimates are subject to change depending on the probability of the counterparties claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guarantee suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

53. Capital Management and Financial Instruments *(continued)*

c. Financial risk management objectives and policies *(continued)*

Liquidity risk management (continued)

The contractual expiry periods of financial guarantee contracts at the end of the reporting period are as follows:

	2016		2015	
	RMB million	Expiry period	RMB million	Expiry period
Guarantees issued to banks to secure loan facilities granted to an associate and joint ventures	**230**	**2020**	320	2020

d. Fair value measurement of financial instruments

The Group measures its following financial instruments at fair value at the end of the reporting period on a recurring basis:

	Fair value as at 31 December		Fair value hierarchy	Valuation technique and key input
	2016 RMB million	2015 RMB million		
Financial assets				
Financial assets at FVTPL	**170**	–	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates at settlement date, contracted strike rate, cap rate and premium payment, discounted at the swap curves expected by various counterparties
Listed equity securities, 4.45% equity interest in Shanghai Dazhong	**413**	–	Level 1	Fair values are derived from quoted bid prices in an active market
Unlisted wealth management product	**300**	–	Level 2	Discounted cash flow. Future cash flows are estimated based on the recoverable amount expected, discounted at a rate that reflects the credit risk of the counterparty
Financial liabilities				
Convertible bonds	**3,515**	3,556	Level 2	Fair values are derived from quoted prices in an over-the-counter market

The credit risk of the Company did not result in significant change of the fair value of convertible bonds designated as financial liabilities at FVTPL since the Company manage the own credit risk by maintaining a sound financial position and steady credit rating.

53. Capital Management and Financial Instruments *(continued)*

d. Fair value measurement of financial instruments *(continued)*

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values:

	2016		2015	
	Carrying amount RMB million	**Fair value RMB million**	Carrying amount RMB million	Fair value RMB million
Fixed-rate bank loans	**3,235**	**3,191**	1,391	1,390
Senior notes	**2,507**	**2,803**	4,584	5,071
Unsecured bonds	**446**	**453**	417	418
Medium-term notes	**700**	**713**	700	710
Corporate bonds	**5,482**	**5,507**	2,987	3,023

In the above table, other than the fair values of bank loan disclosed which are under the fair value hierarchy of Level 3, the rest of the fair values disclosed are under the fair value hierarchy of Level 2. The fair values of the senior notes and unsecured bonds are derived from the inactive quoted prices in an over-the-counter market, and the fair values of the medium-term notes and corporate bonds are derived from the quoted prices in the Shanghai Stock Exchange. The fair values of the rest of the financial liabilities at amortised cost are derived from discount cash flow technique by reference to the market interest rate of the loans with comparable maturity and credit risk of the respective group entities at the end of the reporting period.

54. Related Party Transactions

Apart from the related party balances as stated in Notes 27, 28 and 29, the financial guarantee as stated in Note 38 and the equity transactions as stated in Notes 48 and 49, the Group had the following transactions with certain related parties:

	2016 RMB million	2015 RMB million
Nature of transaction		
Associates:		
– Sales of gas to	**274**	248
– Sales of materials to	**49**	24
– Purchase of gas from	**183**	228
– Loan interest received from	**6**	6
– Provision of gas transportation services to	**3**	3
– Provision of gas transportation services from	**7**	5
– Provision of gas connection services to	**17**	2
– Deposit interest paid to	**1**	1
– Provision of supporting services by	**5**	1
– Provision of supporting services to	**1**	–

54. Related Party Transactions *(continued)*

	2016 **RMB million**	2015 RMB million
Nature of transaction		
Joint ventures:		
– Sales of gas to	**778**	782
– Sales of materials to	**83**	91
– Sales of property to	**174**	–
– Purchase of gas from	**1,716**	1,912
– Provision of gas transportation services to	**204**	193
– Loan interest received from	**23**	24
– Loan interest paid to	**13**	44
– Provision of gas connection services to	**68**	63
– Provision of supporting services to	**14**	21
– Purchase of equipment from	**2**	–
– Deposit interest paid to	**5**	4
– Lease of land from	**–**	1
– Provision of construction services by	**34**	19
– Provision of gas transportation services by	**2**	1
– Provision of supporting services by	**1**	–
– Lease of premises from	**1**	–
Companies controlled by Mr. Wang:		
– Provision of energy efficiency technology services by	**61**	129
– Sales of gas to	**9**	8
– Purchase of equipment from	**2**	1
– Sales of materials to	**29**	19
– Provision of gas connection service to	**6**	1
– Provision of construction service by	**597**	814
– Provision of property management services by	**15**	15
– Provision of property management services to	**1**	1
– Lease of premises to	**1**	1
– Lease of premises from	**4**	3
– Provision of supporting services by	**52**	72
– Provision of supporting services to	**1**	–
– Provision of electronic business services by	**–**	5
– Provision of information technology services by	**60**	–
– Purchase of outsourcing services from	**31**	–
– Purchase of LNG from	**107**	283
– Loan interest received from	**–**	1
– Deposit interest paid to	**–**	3

Compensation of key management personnel

The remuneration of the Directors who are also the members of key management personnel during the year was disclosed in Note 12.

55. Particular of Principal Subsidiaries

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by Company 2016	2015	Principal activities
ENN Gas Investment Group Limited ("ENN Gas")	British Virgin Island	USD1,000	**100.00%**	100.00%	Investment holding
北京新奥華鼎貿易有限公司 Beijing Xinao Huading Trading Company Limited#	PRC	USD23,800,000	**100.00%**	100.00%	Retail of gas pipelines, related materials and equipment
長沙新奥燃氣有限公司 Changsha Xinao Gas Company Limited*	PRC	RMB120,000,000	**55.00%**	55.00%	Investment in gas pipeline infrastructure and sales of piped gas
常州新奥燃氣發展有限公司 Changzhou Xinao Gas Development Company Limited*	PRC	USD600,000	**55.00%**	55.00%	Sales of piped gas
常州新奥燃氣工程有限公司 Changzhou Xinao Gas Engineering Company Limited*	PRC	USD5,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
滁州新奥燃氣有限公司 Chuzhou Xinao Gas Company Limited*	PRC	USD7,100,000	**90.00%**	90.00%	Sales of piped gas
泉州市燃氣有限公司 Quanzhou City Gas Company Limited ("Quanzhou City Gas")	PRC	RMB450,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
晉江新奥燃氣有限公司 Jinjiang Xinao Gas Company Limited	PRC	RMB60,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
洛陽新奥華油燃氣有限公司 Luoyang Xinao Huayou Gas Company Limited*	PRC	RMB160,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
石家莊新奥燃氣有限公司 Shijiazhuang Xinao Gas Company Limited* ("Shijiazhuang Xinao")	PRC	RMB300,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
肇慶新奥燃氣有限公司 Zhaoqing Xinao Gas Company Limited#	PRC	RMB52,700,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
株洲新奥燃氣有限公司 Zhuzhou Xinao Gas Company Limited*	PRC	RMB135,000,000	**55.00%**	55.00%	Investment in gas pipeline infrastructure
湘潭新奥燃氣有限公司 Xiangtan Xinao Gas Company Limited*	PRC	RMB70,000,000	**85.00%**	85.00%	Investment in gas pipeline infrastructure

55. Particular of Principal Subsidiaries *(continued)*

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by Company 2016	2015	Principal activities
蚌埠新奥燃氣有限公司 Bangbu Xinao Gas Company Limited*	PRC	RMB110,000,000	**85.00%**	85.00%	Investment in gas pipeline infrastructure
葫蘆島新奥燃氣發展有限公司 Huludao Xinao Gas Development Gas Company Limited*	PRC	USD1,200,000	**90.00%**	90.00%	Investment in gas pipeline infrastructure
新奥能源物流有限公司 Xinao Energy Logistics Company Limited#	PRC	USD12,400,000	**100.00%**	100.00%	Transportation of oil products and gas
新奥能源貿易有限公司 Xinao Energy Sales Company Limited#	PRC	USD28,200,000	**100.00%**	100.00%	Wholesale and retail of LNG and CNG, piped gas facilities, gas equipment, appliances and others
新奥財務有限責任公司 ENN Finance	PRC	RMB1,000,000,000	**91.00%**	89.50%	Provision of financial services
新奥燃氣發展有限公司 Xinao Gas Development Company Limited#	PRC	USD23,000,000	**100.00%**	100.00%	Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and sales of piped gas
新奥燃氣工程有限公司 Xinao Gas Engineering Company Limited#	PRC	USD7,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
新奥(中國)燃氣投資有限公司 Xinao (China)#	PRC	USD231,778,124	**100.00%**	100.00%	Investment holding

* Sino-foreign equity joint venture

\# Wholly-owned foreign enterprise

All of the above subsidiaries, except for ENN Gas and Xinao (China), are indirectly held by the Company.

All of the above subsidiaries operate principally in their respective place of incorporation/establishment, except for ENN Gas, whose place of operation is Hong Kong. The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities as at 31 December 2016 or at any time during the year except for Xinao (China) which has issued the following debt securities.

	2016 RMB million	2015 RMB million
Corporate bonds	**5,482**	2,987
Medium-term notes	**700**	700
	6,182	3,687

55. Particular of Principal Subsidiaries *(continued)*

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Incorporation/ establishment/ registration and operation	Proportion ownership interest held by non–controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	**2016**	2015	**2016**	2015
		%	%	**RMB million**	RMB million	**RMB million**	RMB million
Quanzhou City Gas	PRC	**40**	40	**83**	76	**245**	230
Shijiazhuang Xinao	PRC	**40**	40	**101**	81	**217**	190

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Quanzhou City Gas	**2016 RMB million**	2015 RMB million
Non-current assets	**982**	930
Current assets	**496**	327
Current liabilities	**866**	682
Revenue	**2,435**	3,137
Profit and total comprehensive income for the year (note)	**207**	189
Dividends paid to non-controlling interests	**68**	60
Net cash inflow from operating activities	**448**	247
Net cash outflow from investing activities	**(80)**	(36)
Net cash outflow from financing activities	**(188)**	(192)
Net cash inflow	**180**	19

Note: Included in the amount for the year ended 31 December 2016 is a dividend income of RMB122 million (2015: RMB135 million).

Shijiazhuang Xinao	**2016 RMB million**	2015 RMB million
Non-current assets	**1,146**	1,069
Current assets	**550**	351
Current liabilities	**1,155**	945
Revenue	**1,670**	1,520
Profit and total comprehensive income for the year	**252**	203
Dividends paid to non-controlling interests	**74**	75
Net cash inflow from operating activities	**352**	283
Net cash outflow from investing activities	**(123)**	(96)
Net cash outflow from financing activities	**(206)**	(206)
Net cash inflow (outflow)	**23**	(19)

56. Statement of Financial Position of the Company

	2016 RMB million	2015 RMB million
Non-current Assets		
Property, plant and equipment	**1**	–
Investment in subsidiaries	**4,801**	4,109
Investment in an associate	**44**	44
Financial assets at FVTPL	**154**	–
Amounts due from subsidiaries	**5,269**	6,602
	10,269	10,755
Current Assets		
Financial assets at FVTPL	**16**	–
Other receivables	**3**	–
Amounts due from subsidiaries	**3,325**	2,241
Cash and cash equivalents	**63**	48
	3,407	2,289
Current Liabilities		
Other payables and accrued expenses	**35**	40
Taxation payables	**86**	127
Amounts due to subsidiaries	**871**	27
Bank loans – due within one year	**2,628**	200
Convertible bonds at FVTPL	**–**	3,556
	3,620	3,950
Net Current Liabilities	**(213)**	(1,661)
Total Assets less Current Liabilities	**10,056**	9,094
Capital and Reserves		
Share capital	**112**	113
Reserves	**3,475**	3,243
Total Equity	**3,587**	3,356
Non-current Liabilities		
Bank loans – due after one year	**–**	737
Unsecured bonds	**447**	417
Senior notes	**2,507**	4,584
Convertible bonds at FVTPL	**3,515**	–
	6,469	5,738
	10,056	9,094

56. Statement of Financial Position of the Company *(continued)*

The statement of changes in equity as follow:

	Share capital RMB million (Note 37)	Share premium RMB million	Share option reserve RMB million	Retained earnings RMB million	Total RMB million
At 1 January 2015	113	769	1	327	1,210
Profit and total comprehensive income for the year	–	–	–	2,868	2,868
Recognition of equity-settled share-based payment (Note 45)	–	–	3	–	3
Share repurchase (Note 37)	–	(16)	–	–	(16)
Dividend appropriation (Note 14)	–	(709)	–	–	(709)
At 31 December 2015	113	44	4	3,195	3,356
Profit and total comprehensive income for the year	–	–	–	911	911
Recognition of equity-settled share-based payment (Note 45)	–	–	51	–	51
Issue of ordinary shares upon exercise of share options (Note 45)	–	4	(1)	–	3
Share repurchase (Note 37)	(1)	(28)	–	–	(29)
Dividend appropriation (Note 14)	–	–	–	(705)	(705)
At 31 December 2016	112	20	54	3,401	3,587

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Rooms 3101-04, 31/F., Tower 1, Lippo Centre,
No.89 Queensway, Hong Kong
Tel (852) 2528 5666
Fax (852) 2865 7204
Website www.ennenergy.com
E-mail enn@ennenergy.com

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