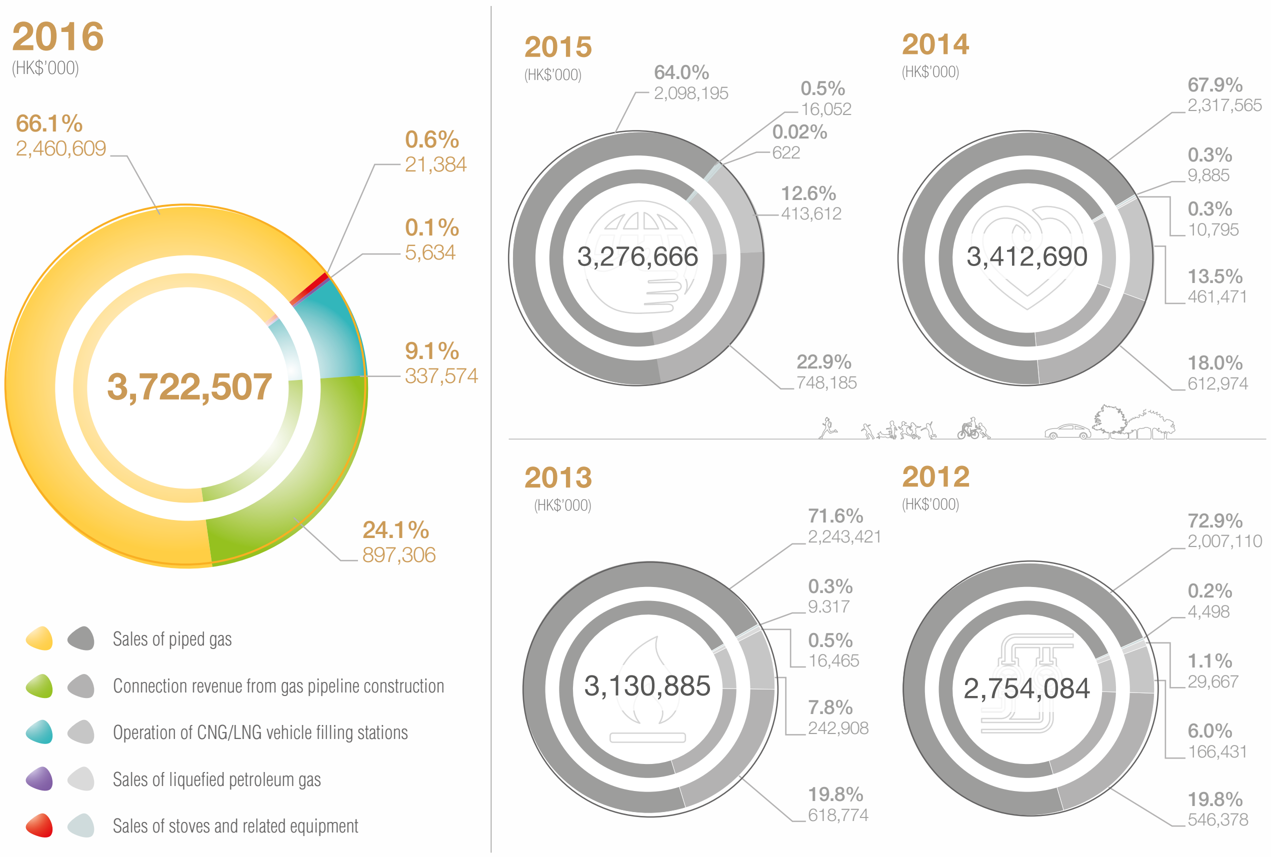
# 2016 年報
# Annual Report

中裕燃氣控股有限公司
**ZHONGYU GAS HOLDINGS LIMITED**

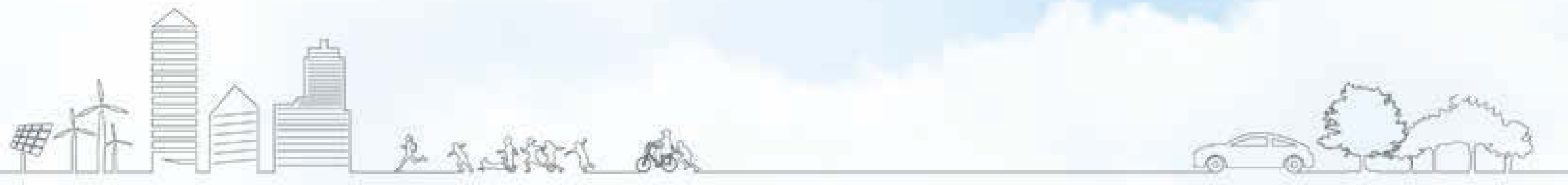
Stock Code 股份代號: 3633

# CONTENTS

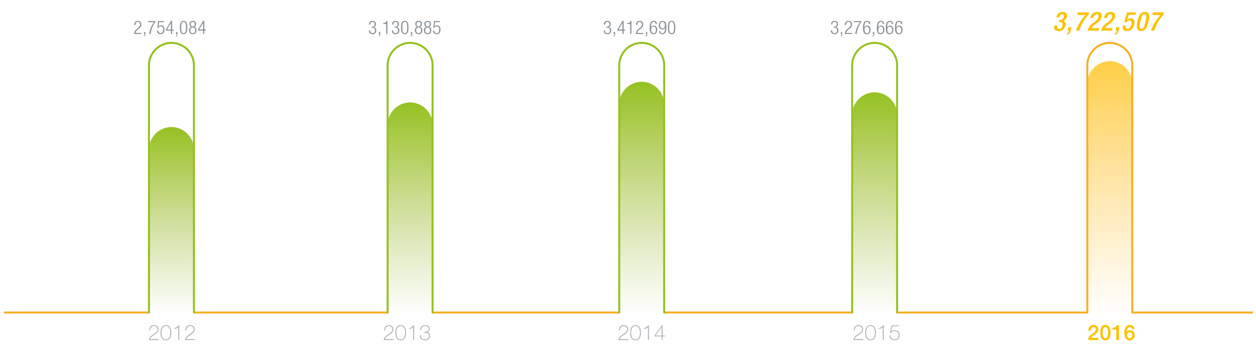
| | For the year ended 31st December, | | |
|---|---|---|---|
| | **2016** | 2015 | changes |
| | **HK$'000** | HK$'000 | % |
| Turnover | **3,722,507** | 3,276,666 | 13.6% |
| Gross profit | **1,008,009** | 784,833 | 28.4% |
| (Gross margin) | **(27.1%)** | (24.0%) | (+3.1%) |
| Profit attributable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



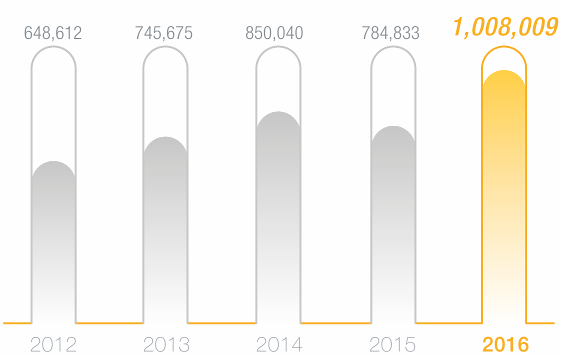
# Financial and Operational Highlights



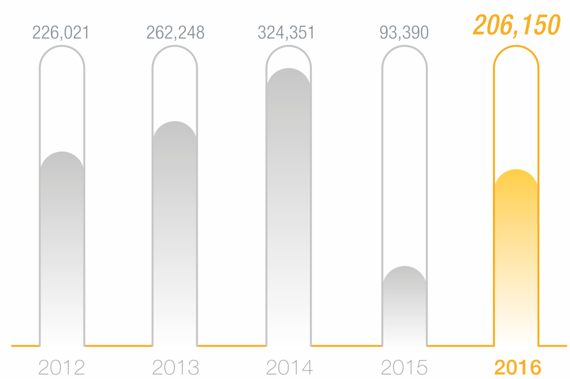
## Turnover
(HK$'000)



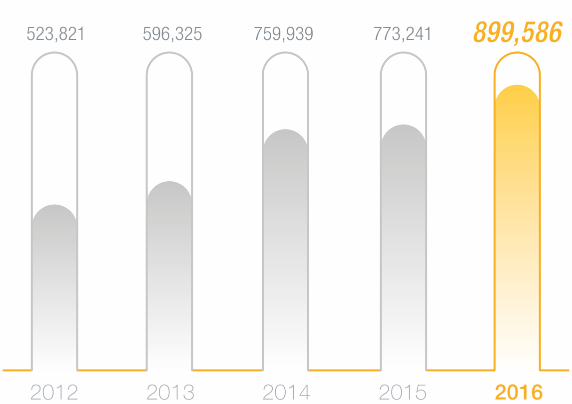

## Gross Profit
(HK$'000)



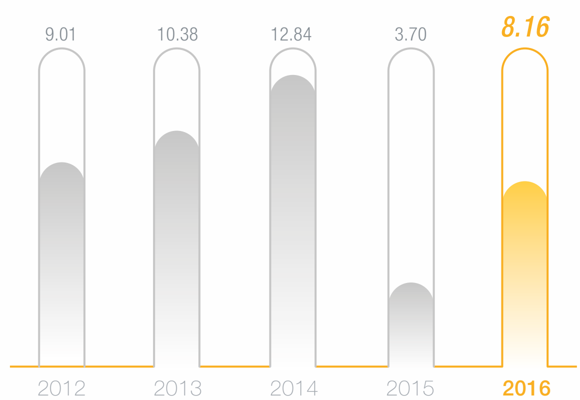

## Profit attributable to owners of the Company
(HK$'000)




## EBITDA
(HK$'000)




## Earning per share - Diluted
(HK cents)



## Executive Directors

Mr. Wang Wenliang *(Chairman)*
Mr. Lui Siu Keung *(Chief Executive Officer)*
Mr. Peng Wei *(Joint Managing Director)*
*(resigned with effect from 1st October, 2016)*
Mr. Lu Zhaoheng

## Non-executive Director

Mr. Xu Yongxuan *(Vice Chairman)*

## Independent Non-executive Directors

Mr. Li Chunyan
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

## Company Secretary

Mr. Lui Siu Keung

## Authorised Representatives

Mr. Wang Wenliang
Mr. Lui Siu Keung

## Audit Committee

Mr. Li Chunyan *(Chairman)*
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

## Remuneration Committee

Mr. Li Chunyan *(Chairman)*
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

## Nomination Committee

Mr. Li Chunyan *(Chairman)*
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

## Hong Kong Legal Advisors

Reed Smith Richards Butler

## Auditor

Deloitte Touche Tohmatsu

## Corporate Website

www.zhongyugas.com

## Stock Code

3633

## Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## Head Office and Principal Place of Business in Hong Kong

Units 04-06, 28th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

## Principal Share Registrar and Transfer Office

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

## Branch Share Registrar and Transfer Office in Hong Kong

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## Principal Bankers

The Hong Kong & Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
China Citic Bank International Limited
Standard Chartered Bank

# CHAIRMAN'S STATEMENT

Dear Shareholders,

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

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

## STRATEGIC LOAN RESTRUCTURING TO COMBAT RENMINBI DEPRECIATION

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

## RESULTS

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

## BUSINESS REVIEW

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

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

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

## PROSPECTS

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

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

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

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

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

## APPRECIATION

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

**Wang Wenliang**
*Chairman*
Hong Kong

22nd March, 2017

| As at 31 December 2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Province | Operational location | Connectable Urban Population | Connectable Residential Households | Accumulated Connected Residential Households | Accumulated Connected Industrial Customers | Accumulated Connected Commercial Customers | Length of Existing Intermediate and Main Pipelines (km) | Number of CNG/LNG Vehicle Filling Stations |
| Henan | Jiaozuo City | 1,100,000 | 314,286 | 251,969 | 87 | 814 | 1,410 | 6 |
| | Qinyang City | 130,000 | 37,143 | 24,771 | 44 | 108 | – | 1 |
| | Wuzhi County | 520,000 | 148,571 | 23,352 | 10 | 68 | 219 | 1 |
| | Xiuwu County | 90,000 | 25,714 | 9,806 | 38 | 66 | 296 | 4 |
| | Luohe City | 1,295,000 | 370,000 | 228,550 | 73 | 851 | 733 | 4 |
| | Light Food Industrial Park in Luohe Economic Development District | – | – | – | 10 | – | – | – |
| | Luohe Shaoling District | – | – | – | 18 | – | – | – |
| | Luohe Songjiang Industrial Zone | – | – | – | 15 | – | – | – |
| | Luohe Houxie Village Industrial Zone | – | – | – | – | – | – | – |
| | Luohe West Industrial Zone | – | – | – | – | – | – | – |
| | Venture Centre in Luohe Economic Development District | – | – | – | 15 | – | – | – |
| | Xiping County | 32,800 | 9,371 | – | – | – | – | – |
| | Jiyuan City | 585,000 | 167,143 | 127,316 | 168 | 853 | 828 | 4 |
| | Sanmenxia City | 390,000 | 111,429 | 81,622 | 31 | 367 | 387 | 3 |
| | Shanxian County | 53,000 | 15,143 | – | – | – | – | – |
| | Sanmenxia Industrial Park | – | – | – | 7 | – | – | – |
| | Lingbao City | 120,000 | 34,286 | 2,818 | 8 | 21 | 73 | – |
| | Yanshi City | 150,000 | 42,857 | 30,668 | 109 | 96 | 290 | 1 |
| | Yongcheng City | 400,000 | 114,286 | 71,219 | 7 | 139 | 391 | 4 |
| | Yongcheng Industrial Zone | 35,000 | 10,000 | – | 1 | – | – | – |
| | Xinmi City | 250,000 | 71,429 | 49,289 | 50 | 176 | 539 | 5 |
| | Huiguo Town, Gongyi City | 9,000 | 2,571 | 859 | 33 | 2 | 36 | – |
| Hebei | Yutian County | 219,481 | 62,709 | 52,043 | 8 | 94 | 190 | – |
| | Changli County | 215,378 | 61,537 | 36,082 | 3 | 41 | 215 | – |
| | Weixian County | 130,162 | 37,189 | 22,335 | – | 7 | 142 | – |
| | Xiahuayuan District | 72,849 | 20,814 | 16,030 | – | 16 | 104 | – |
| | Chengan County | 170,148 | 48,614 | 16,485 | 1 | 12 | 125 | – |
| | Wuqiao County | 86,951 | 24,843 | 13,138 | 12 | 34 | 177 | – |
| | Ningjin County | 131,380 | 37,537 | 25,721 | 6 | 119 | 229 | – |
| | Linzhang County | 136,930 | 39,123 | 17,784 | 7 | 24 | 176 | 1 |
| | Zaoqiang County | 86,151 | 24,615 | 13,884 | – | 23 | 119 | – |
| | Longyao County | 21,538 | 6,154 | 4,538 | – | 11 | 34 | – |
| | Xingtang County | 53,844 | 15,384 | 7,692 | – | 10 | 86 | – |
| | Gucheng County | 183,378 | 52,394 | 24,000 | 1 | 48 | 153 | – |
| | Nangong City | 197,724 | 56,493 | 32,702 | – | 32 | 114 | – |
| | Jize County | 55,173 | 15,764 | 7,620 | 5 | 18 | 72 | – |
| | Xinhe County | 31,879 | 9,108 | 10,099 | 7 | 22 | 99 | – |

| As at 31 December 2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Province | Operational location | Connectable Urban Population | Connectable Residential Households | Accumulated Connected Residential Households | Accumulated Connected Industrial Customers | Accumulated Connected Commercial Customers | Length of Existing Intermediate and Main Pipelines (km) | Number of CNG/LNG Vehicle Filling Stations |
| Jiangsu | Jingqiao Town, Nanjing City | 48,000 | 13,714 | – | 6 | – | 7 | – |
| | Donghai County | 53,000 | 15,143 | – | 1 | 1 | – | – |
| | Pei County | 247,464 | 70,704 | 50,522 | 4 | 58 | 433 | – |
| | Sihong County | 265,992 | 75,998 | 67,002 | 11 | 146 | 452 | – |
| | Guannan County | 177,197 | 50,628 | 25,644 | – | 54 | 179 | – |
| | Nanjing City | – | – | – | – | – | – | 1 |
| Shandong | Linyi City (Note) | 1,370,000 | 391,429 | 309,965 | 187 | 1,182 | 836 | 14 |
| | Lingyi Economic Development District | 275,000 | 78,571 | 61,209 | 111 | 148 | 535 | 4 |
| | Linshu County | 9,000 | 2,571 | 853 | 64 | 4 | 155 | 2 |
| | Tianqu Industrial Park in Dezhou City | – | – | – | 11 | 6 | 61 | 1 |
| Jilin | Baishan City | 342,065 | 97,733 | 59,811 | – | 201 | 261 | 2 |
| | Changbaishan International Tourist Resort Zone in Fusong County | 158,936 | 45,410 | 5,090 | – | 55 | 93 | – |
| Fujian | Shaowu City | 165,000 | 47,143 | 8,973 | 1 | 21 | 63 | 2 |
| Heilongjiang | Chengguan Town, Tieli City | 198,000 | 56,571 | 5,595 | – | 7 | 28 | – |
| Zhejiang | Daishan Economic Development District | – | – | – | – | – | – | – |
| | Yueqing City | 35,000 | 10,000 | – | – | – | – | – |
| Anhui | Wuhe County | 177,686 | 50,767 | 29,234 | 1 | 66 | 119 | – |
| | Sixian County | 176,610 | 50,460 | 18,580 | – | 35 | 79 | – |
| | | **10,651,716** | **3,043,349** | **1,844,870** | **1,171** | **6,056** | **10,538** | **60** |

*Note: The operational location covers the administrative jurisdiction of Linyi City, which is from Binhe Road on the west bank of Yihe River in the east to Beijing–Shanghai Expressway in the west, bordering Binhe Road on the south bank of Fanghe River in the north and reaching Yihe Road, Luozhuang District in the south (excluding western part beyond Mengshan Avenue and southern part beyond Huawu Road).*

## Management Discussion & Analysis

# Business Review

## BUSINESS REVIEW

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

### Downstream Piped Gas Distribution

#### *Yueqing Project*

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

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

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

### *Sihong Wojin Project*

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

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

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

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

### *Henan Yicheng Dayou Project*

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

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

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

### *New CNG/LNG Vehicle Filling Stations Expansion*

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

### *Major Operational Data*

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

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

| | **2016** | 2015 | Increase/ (Decrease) |
|---|---|---|---|
| Number of operational locations *(Note a)* | **55** | 52 | 3 |
| – Henan Province | **22** | 21 | 1 |
| – Hebei Province | **15** | 15 | – |
| – Jiangsu Province | **6** | 5 | 1 |
| – Shandong Province | **4** | 4 | – |
| – Jilin Province | **2** | 2 | – |
| – Fujian Province | **1** | 1 | – |
| – Heilongjiang Province | **1** | 1 | – |
| – Zhejiang Province | **2** | 1 | 1 |
| – Anhui Province | **2** | 2 | – |
| Connectable urban population ('000) *(Note b)* | **10,652** | 10,073 | 5.7% |
| Connectable residential households ('000) | **3,043** | 2,878 | 5.7% |
| New piped gas connections by the Group made during the year | | | |
| – Residential households | **260,187** | 160,794 | 61.8% |
| – Industrial customers | **368** | 166 | 121.7% |
| – Commercial customers | **1,197** | 656 | 82.5% |
| Accumulated number of connected piped gas customers | | | |
| – Residential households | **1,844,870** | 1,584,683 | 16.4% |
| – Industrial customers | **1,171** | 803 | 45.8% |
| – Commercial customers | **6,056** | 4,859 | 24.6% |
| Penetration rate of residential pipeline connection *(Note c)* | **60.6%** | 55.1% | 5.5% |

| | 2016 | 2015 | Increase/ (Decrease) |
|---|---|---|---|
| Unit of piped natural gas sold ('000 m$^3$) | **886,809** | 626,392 | 41.6% |
| – Residential households | **212,753** | 149,042 | 42.7% |
| – Industrial customers | **551,619** | 376,109 | 46.7% |
| – Commercial customers | **99,167** | 74,219 | 33.6% |
| – Wholesale customers | **23,270** | 27,022 | (13.9)% |
| Number of CNG/LNG Vehicle Filling Stations | | | |
| – Accumulated | **60** | 54 | 6 |
| – Under construction | **19** | 24 | (5) |
| Unit of natural gas sold to vehicles ('000 m$^3$) | **99,125** | 95,949 | 3.3% |
| Total length of existing intermediate and main pipelines (km) | **10,538** | 9,067 | 16.2% |
| Average selling price of natural gas (pre-tax) (RMB per m$^3$) | | | |
| – Residential households | **2.17** | 1.99 | 9.0% |
| – Industrial customers | **2.35** | 2.79 | (15.8)% |
| – Commercial customers | **2.68** | 3.04 | (11.8)% |
| – Wholesale customers | **1.67** | 2.16 | (22.7)% |
| – CNG/LNG vehicle filling stations | **2.92** | 3.46 | (15.6)% |
| Average cost of natural gas (RMB per m$^3$) | **1.99** | 2.29 | (13.1)% |
| Average connection fee for residential households (RMB) | **2,543** | 2,819 | (9.8)% |

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

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

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

## Management Discussion & Analysis

# Financial Review

## Overall

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

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

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

## Turnover

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

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

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

### *Sales of Piped Gas*

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

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

**Sales of piped gas by customers**

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

**Industrial customers**

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

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

**Residential households**

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

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

**Commercial customers**

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

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

### *Gas Pipeline Construction*

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

**Connection revenue from gas pipeline construction by customers**

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

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

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

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

### *Operation of CNG/LNG Vehicle Filling Stations*

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

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

### Gross profit margin

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

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

### Other gains and losses

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

## Other income

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

## Selling and distribution costs and administrative expenses

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

## Finance costs

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

## Income tax expenses

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

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

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

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

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

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

## Profit attributable to owners of the Company

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

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

### Net Profit Margin

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

### Earnings per share

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

### Net assets value per share

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

The net assets value represents total assets minus total liabilities.

## LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

### Liquidity

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

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

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

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

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

### Financial resources

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

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

### Capital structure

Please refer to notes 29, 32, 33 and 45 of the consolidated financial statements for details of the capital structure of the Group.

### Working capital

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

## RELATED PARTY TRANSACTIONS

Details on the related party transactions are set out in note 42 to the consolidated financial statements. The related party transactions conducted by the Group during the year do not constitute "connected transactions" within the definition of Chapter 14A of the Listing Rules. As such, the Company is not required to comply with the disclosure requirements in accordance with Chapter 14A.

## EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

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

## EMPLOYEE INFORMATION

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

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

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

### Share option scheme

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

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

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

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

On 11th April, 2011, share options to subscribe for an aggregate of 159,000,000 ordinary shares at par value HK$0.01 each of the Company were granted to the eligible participants by the Company pursuant to the Old Share Option Scheme. The exercise price of share options granted was HK$0.49 per share. The share options granted shall be valid for a period of ten years from the date of grant. No share options granted under the Old Share Option Scheme were exercised during the year. No option have yet been granted under the New Share Option Scheme. The movements of the Company's share options granted under the Old Share Option Scheme and movements in such holdings during the year are disclosed in the title of share option in Directors' Report.

## CHARGE ON THE GROUP'S ASSETS

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

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

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

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

## DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

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

## CAPITAL COMMITMENTS

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

## CONTINGENT LIABILITIES

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

# BIOGRAPHICAL INFORMATION OF DIRECTORS

## Executive Directors

**Mr. Wang Wenliang**, aged 46, is the Chairman of the Company. He was appointed as an executive Director on 10 July 2003 and is responsible for the overall strategic development of the Company and its subsidiaries (collectively the "Group"). Mr. Wang has held investments in various industries in the PRC including aluminium, property, and information technology. Mr. Wang was a deputy general manager of a company in Zhengzhou, People's Republic of China (the "PRC") (whose principal business is the manufacture and sale of aluminium products) between 1996 and 1999 and was a deputy general manager of a company in Henan Province, the PRC (whose principal business is property management and rental) between 1997 and 2000. Mr. Wang was also a president of a company in Henan Province, the PRC between 2000 and 2005, the principal business of which is the provision of software development, networking engineering services, sale of computer and peripheral products, and provision of Internet services. Mr. Wang was an executive director of China Gas between 17 January 2003 and 10 June 2003. Mr. Wang completed his postgraduate course in Finance in the Graduate School of Chinese Academy of Social Sciences in the PRC in June 2001. Mr. Wang is the sole shareholder, a chairman and director of Hezhong Investment Holding Company Limited ("Hezhong"), which is a substantial shareholder (as defined in the Listing Rules) of the Company.

**Mr. Lui Siu Keung**, aged 45, is the Chief Executive Officer and Company Secretary of the Company. He was appointed as an executive Director of the Company on 22 October 2007. Mr. Lui joined the Company in 2003 and is responsible for the general business operations and management. Mr. Lui has approximately twenty years of experience in corporate finance, accounting and auditing fields. He graduated from The Hong Kong Polytechnic University with a bachelor of arts degree in accountancy in November 1996. Mr. Lui is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lui was an independent non-executive director of Co-Prosperity Holdings Limited (Stock Code: 707) up to 10th March, 2015.

**Mr. Lu Zhaoheng**, aged 52, is the executive Director of the Company and is mainly responsible for the management of the Group's business in PRC. He was appointed as an executive Director on 24 June 2004. Mr. Lu is the National Registered Public Facilities Engineer and the member of China City Gas Council. Mr. Lu graduated from 重慶建築工程學院 (The Architecture and Engineering Institute of Chongqing) in July 1984, specialising in City Natural Gas Heat Energy Engineering. Mr. Lu has accumulated about thirty-two years of experience in the development and commercialisation of natural gas in the PRC. Mr. Lu held various positions in 河南省城鄉規劃設計研究院 (The City Planning Design Institute of Henan Province) and was mainly responsible for the planning, design and consultation regarding natural gas projects.

## Non-executive Director

**Mr. Xu Yongxuan**, aged 71, is the Vice Chairman of the Company. Mr. Xu was appointed as a non-executive Director and Vice Chairman of the Company on 12 March 2004. Mr. Xu had been an executive director of Greater China Holdings Limited, the issued shares of which are listed on the main board of the Stock Exchange for the period from October 2001 to January 2004.

## Independent Non-executive Directors

**Mr. Li Chunyan**, aged 53, is an independent non-executive Director, Chairman of Audit Committee, Remuneration Committee and Nomination Committee of the Company. He was appointed as an independent non-executive Director on 5 October 2010. He is currently a registered lawyer at Henan Shi Ji Tong Law Office (河南世紀通律師事務所) and is also a registered accountant, registered assets valuer and registered tax adviser in the PRC. Mr. Li acted as legal adviser or independent non-executive director to the Henan Provincial People's Hospital, the Henan Province Television Station and other listed companies listed in the PRC and overseas. He was the independent non-executive director of Zhengzhou Yutong Bus Co. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600066) from April 2014 to the present. He is a non-executive director of Rosan Resources Holdings Limited (stock code: 578).

**Dr. Luo Yongtai**, aged 70, is an independent non-executive Director, a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He was appointed as an independent non-executive Director on 31 July 2003. He is a professor in management of Tianjin University of Finance and Economics, the vice president of Tianjin Enterprise Culture Research Association and an expert of Thinking Tank in Tianjin Science and Technology Commission, as well as a beneficiary of the Expert Special Subsidy granted by the State Council of the PRC. In recent years, he has led and completed various national, provincial and municipal projects. He is an independent director of Tianjin Tianbao Infrastructure Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000965), an independent director of Tianjin Guifaxiang 18th Street Mahua Food Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002820) and an external director of Tianjin Ringpu Bio-Technology Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300119).

**Mr. Hung, Randy King Kuen**, aged 51, is an independent non-executive Director and a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He was appointed as an independent non-executive Director on 30 September 2004. Mr. Hung is a fellow certified public accountant in Hong Kong and a certified public accountant in the United States. Currently, he is an executive director and Chief Financial Officer of China Fiber Optic Network System Group Limited (Stock Code: 3777) and an independent non-executive director of China Shineway Pharmaceutical Group Limited (Stock Code: 2877). Mr. Hung is also serving as a council member of the Hong Kong Institute of Directors, and Vice Chairman of the Hong Kong Investor Relations Association. Mr. Hung obtained an MBA degree in international management from the University of London and a bachelor's degree of accounting and a certificate in programming and data processing from the University of Southern California, a certificate in China Accounting, Finance, Taxation and Law from the Chinese University of Hong Kong and a Hong Kong Securities Institute Specialist Certificate in corporate finance.

# Corporate Governance Report

The board of directors (the "Directors") and the management of Zhongyu Gas Holdings Limited (the "Company") are committed to high standards of corporate governance. Corporate governance system is set up to achieve a balance of the interests of different participants in the corporation, to direct and manage corporate affairs and to monitor corporate performance. The Company is dedicated to continue improving its corporate governance practices to ensure accountable, transparent and efficient management.

Save as disclosed herein, the Company has fully complied with all code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") (the "CG Code") for the year ended 31st December, 2016. The following summarises the corporate governance practices of the Company and the reasons for deviations, if any, from the CG Code.

## A. Board of Directors

The board of Directors (the "Board"), holds responsibility for leadership and control of the corporation. By directing and supervising corporate affairs, the Board plays an important role in protecting and enhancing long-term shareholder value.

### A.1 Board composition

As at 31st December, 2016, the Board included seven Directors, of which three were executive Directors, one was non-executive Director and the remaining three were independent non-executive Directors. The composition of the Board and its changes during the year ended 31st December, 2016 and up to the date of this report are as follows:

| | |
|---|---|
| ***Executive Directors:*** | Mr. Wang Wenliang ("Mr. Wang") *(Chairman)*<br>Mr. Peng Wei *(resigned with effect from 1st October, 2016)*<br>Mr. Lui Siu Keung *(Chief Executive Officer)*<br>Mr. Lu Zhaoheng |
| ***Non-executive Director:*** | Mr. Xu Yongxuan *(Vice-Chairman)* |
| ***Independent Non-executive Directors:*** | Mr. Li Chunyan<br>Dr. Luo Yongtai<br>Mr. Hung, Randy King Kuen |

The Company received a written annual confirmation of independence from each of the independent non-executive Directors pursuant to the Rule 3.13 of the Listing Rules. The Company considered each independent non-executive Director to be independent.

With a balanced Board consisting of three-seven members of independent non-executive Directors, the Board considered that the Company can effectively exercise independent judgment.

Given the business nature, the Board members have distinct skills and experience in a variety of business range, which includes city gas network design and operation, organisational management, financial and securities trading market, etc. The relevant biographies and the respective roles of all Directors on the Board are set out on pages 26 and 27 in this report.

The primary roles of the Board are to set the corporate strategy by determining business objectives, development plan and strategic policies; to delegate day-to-day operations to the management and to monitor their operating and financial performance; to avoid risks and oversee corporate affairs.

## A.2 Board meetings and information supply

The Board meets regularly and board meetings were held quarterly and additional meetings would be arranged, if and when required. All Directors can attend meetings in person or through other electronic means of communication.

The Company Secretary assists the Chairman in establishing the meeting agenda and each Director may request inclusion of matters in the agenda.

Notice of at least 14 days in advance is given of a regular board meeting to give all Directors an opportunity to attend.

The management of the Company has provided the Board with adequate information in a timely manner to enable it to make informed decisions. In addition, the management may be invited, if and when requested, to attend board meetings to make presentation and answer the queries raised by the Board.

All Directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.

Minutes of board meetings are kept by the Company Secretary and such minutes are open for inspection at any reasonable time on reasonable notice by any Director.

Minutes of board meetings are recorded in sufficient detail and draft and final versions of minutes of board meetings are sent to all Directors for their comment and records respectively, in both cases within a reasonable time after the board meeting is held.

If and when a substantial shareholder of the Company or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter would not be dealt with by way of circulation but a board meeting would be held. Independent non-executive Directors who and whose associates, have no material interest in the transaction would be present at such board meeting.

For the year ended 31st December, 2016, the Board held twelve board meetings and the Company held one general meeting. The attendance records of all board meetings and the general meeting are set out below:

| | **General meeting** | | **Board meetings** | |
|---|---|---|---|---|
| ***Executive Directors*** | | | | |
| Mr. Wang Wenliang *(Chairman)* | 1 | 100% | 12 | 100% |
| Mr. Peng Wei *(Joint Managing Director)** | 1 | 100% | 9 | 75% |
| Mr. Lui Siu Keung *(Chief Executive Officer)* | 1 | 100% | 12 | 100% |
| Mr. Lu Zhaoheng | 1 | 100% | 10 | 83% |
| ***Non-executive Director*** | | | | |
| Mr. Xu Yongxuan *(Vice Chairman)* | 1 | 100% | 10 | 83% |
| ***Independent Non-executive Directors*** | | | | |
| Mr. Li Chunyan | 1 | 100% | 10 | 83% |
| Dr. Luo Yongtai | 1 | 100% | 10 | 83% |
| Mr. Hung, Randy King Kuen | 1 | 100% | 10 | 83% |

* *Mr. Peng Wei was resigned as an executive Director with effect from 1st October, 2016. Accordingly, the attendance record only shows the board meetings and general meeting that were held before his resignation.*

### A.3 Chairman and chief executive

The Chairman is responsible for offering leadership and effectiveness for the Board, arranging all key and appropriate issues to be discussed by the Board in a timely manner, and ensuring the Board acts in the best interests of the Company and its subsidiaries (collectively the "Group") by establishing constructive relations between executive and non-executive Directors and providing effective communication with shareholders; whereas the chief executive is responsible for running the Group's business, supervising the implementation of the Group's strategy in achieving the overall commercial objectives and managing the day-to-day operation of the Group.

The CG Code Provision A.2.1 provides that the roles of Chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and chief executive should be clearly established and set out in writing.

### A.4 Appointments and re-election

According to the Company's articles of association ("Articles of Association"), the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board and the Directors shall have the power from time to time and at any time to appoint any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following annual general meeting of the company and shall then be eligible for re-election.

The Company renewed the service contracts with each non-executive Director on 11 July 2015. The renewed term of appointment for the non-executive Directors is three years and they are subject to retirement by rotation and re-election in accordance with the Articles of Association. The details of procedure for retirement of Directors are as follows:

According to the Articles of Association and the CG Code Provisions A4.1-A4.3, one-third of the Directors shall retire from office by rotation at the annual general meeting. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election. Any further Director so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall be determined by lot. Any Director appointed pursuant to the Company's articles of association as stated in the paragraph one under the heading "A4. Appointment and re-election" shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

### A.5 Responsibilities of directors

Directors are provided sufficient and appropriate information by management periodically to ensure they have a proper understanding of the operations and business of the Group, and to enable them to be fully aware of their responsibilities. When a new Director is appointed, he will receive a formal induction and other materials to familiarize with the Group promptly. Besides every Director is required to disclose his interests, potential conflict of interests, and changes in a timely manner according to the written responsibilities guideline, the independent non-executive Directors participate in board meetings and serve on relevant committees, to make an independent judgment on corporate affairs and to develop a balanced understanding of the view of shareholders. Individual Directors may also seek external independent professional advice, at the Company's expense, on any specific matter. The Company also encourages all Directors to participate in programs of continuous professional development to develop and refresh their knowledge and skills, in order to discharge their responsibilities positively and constructively.

### A.6 Directors' securities transaction

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

### A.7 Directors and Officers' Liabilities Insurance

The Company maintains appropriate insurance cover in respect of legal action against the Company's directors and officers when they discharge their duties. The insurance coverage is reviewed on an annual basis.

### A.8 Corporate Governance Functions

The Board also assumes the corporate governance functions and is responsible for: developing and reviewing the Company's policies on corporate governance; reviewing and monitoring training and continuous professional development of Directors and senior management; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the Company's code of conduct; and reviewing the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

### A.9 Continuous Professional Development

Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company. All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged in-house trainings for Directors and provision of training materials. A summary of training received by Directors during the year ended 31st December, 2016 according to the records provided by the Directors is as follows:

| Name of Directors | Training on corporate governance, Directors' responsibilities and other relevant topics |
|---|---|
| ***Executive Directors*** | |
| Mr. Wang Wenliang | ✓ |
| Mr. Peng Wei *(resigned with effect from 1st October, 2016)* | ✓ |
| Mr. Lui Siu Keung | ✓ |
| Mr. Lu Zhaoheng | ✓ |
| ***Non-executive Director*** | |
| Mr. Xu Yongxuan | ✓ |
| ***Independent non-executive Directors*** | |
| Mr. Li Chunyan | ✓ |
| Dr. Luo Yongtai | ✓ |
| Mr. Hung, Randy King Kuen | ✓ |

## B. Remuneration Matters

The Board has established a Remuneration Committee comprising three independent non-executive Directors. The Remuneration Committee meets at least once a year. It will consult the Chairman about their remuneration proposals for other executive directors and the primary responsibilities of the Remuneration Committee are: to make recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; to determine specific remuneration packages of individual executive directors and senior management including benefits in kind, pension rights and compensation policy (i.e. the model as described in Code Provision B.1.2(c)(i) was adopted); to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and to ensure that no Director or any of this associates is involved in deciding his own remuneration.

One remuneration meeting was held on 31st March, 2016 to review the remuneration packages of Directors with reference to their duties and responsibilities within the Group, the Company's remuneration policy and the prevailing market condition. The attendance record of the Remuneration Committee meeting is set out below:

| | | |
|---|---|---|
| ***Independent Non-executive Directors*** | | |
| Mr. Li Chunyan *(Chairman)* | 1 | 100% |
| Dr. Luo Yongtai | 1 | 100% |
| Mr. Hung, Randy King Kuen | 1 | 100% |

## C. Accountability and Audit

### C.1 Financial reporting

The Directors acknowledge their responsibilities for preparing the accounts of the Group and ensuring that the preparation of the accounts of the Group is in accordance with statutory requirements and applicable accounting standards. The Directors shall ensure the publication of the Group's accounts in a timely manner.

The statement of the Auditor of the Company about their reporting responsibilities on the accounts of the Group is set out in the Independent Auditor's Report of this Annual Report.

### C.2 Risk Management and Internal controls

The risk management and internal control systems have a key role in the management of risks that are significant to the fulfillment of corporation business objectives. Internal control is designed to facilitate the effectiveness and efficiency of operations, to help ensure the reliability of internal and external reporting, to assist compliance with laws and regulations.

Risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board is responsible for the Group's risk management and internal control systems and reviewing their effectiveness. The effectiveness of the risk management and internal control systems is reviewed annually by the Board through the Audit Committee. Management is accountable to the Board for ongoing monitoring of the systems of risk management and internal control. By covering financial, operational, compliance controls and risk management, the Board takes the following procedures to achieve business objectives: A distinct organizational structure exists with defined lines of authority and control responsibilities.

- As the Board sets up corporate strategy and delegates daily operation power to senior management, both senior managers in administration headquarter and heads in divisions or projects are involved in the strategic plan and resource allocation to achieve their annual operational and financial targets.

- A comprehensive performance assessment system is implemented to provide financial and operational performance evaluation for both the management and employees once a year. When there are variances against targets or quality requirements, to find the reasons and take appropriate actions to eliminate gaps.

According to business nature and management structure, the Company has established different departments in two levels. The administration headquarter has major responsibilities to prepare and accomplish the Group's business development plan, to conduct day-to-day operation and report to senior management directly, to appoint and direct administrative officers in gas project divisions then to assess their business performances, to implement internal control and avoid operational and financial risks. Compared with headquarter offices, the gas project divisions hold very similar duties except that all their daily jobs are done in a lower level and they have to report to the accordance administration departments respectively on different operational matters.

In order to realize effective financial controls, through maintenance of proper accounting records, the upper and lower financial departments both ensure the Group is not unnecessarily exposed to avoidable financial risks and the financial information can be used only within the business and for reliable publication. They also contribute to pre-setting annual financial budgets, saving expenses and safeguarding of assets, including the prevention and detection of fraud.

The operational control is the other important part of the whole risk management and internal control system. To achieve effective result and avoid operational risks, human resource department employs motivation plan to attract employees with necessary knowledge, skills and information, while administrative and engineering departments in two levels pay more attention to ensure efficient operational management and construct high quality gas projects. In addition, all employees have some responsibility for internal control as part of their accountability for achieving Group's objectives. With delegated authority, they are allowed to establish, operate and monitor the system of internal control, and are required to have an understanding of the Group, its objectives, the energy industries and gas markets, and the risks it faces.

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company:

- is aware of its obligations under the Securities and Futures Ordinance and the Listing Rules and the overriding principle that inside information should be announced immediately after such information comes to our attention and/or it is the subject of a decision unless it falls within the "Safe Harbours" as defined under the Securities and Futures Ordinance;

- conducts its affairs in strict compliance with the "Guidelines on Disclosure of Inside Information" and "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the Securities and Futures Commission in June 2012 and the Stock Exchange in 2008, respectively;

- has implemented procedures for responding to external enquiries about the Group's affairs; and

- has implemented policy regarding prohibition on the unauthorised use of confidential or inside information.

The Group's internal auditor department checks for compliance with statutory requirement, internal policies and procedures. It assesses the operating effectiveness and efficiency of the risk management and internal control systems in the course of its audit. The audit scope and frequency are determined by the level of assessed risks and have to be reviewed and approved by the Audit Committee.

During the year ended 31st December, 2016, the Board, through the Audit Committee, conducted an annual review of the effectiveness of the risk management and internal control systems of the Group. The annual review covered all material controls, including financial, operational and compliance controls. The annual review also covered the resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions, which the Board considered to be adequate.

As part of the key processes that have been established in reviewing the adequacy and integrity of the systems of risk management and internal control, the Audit Committee of the Company reviewed risk management and internal control issues (if any) identified by internal auditor, external auditor, regulatory authorities and management, and evaluates the adequacy and effectiveness of the Group's risk management and internal control systems.

The Board is of the view that the risk management and internal control systems of the Group are effective and adequate. The Board is also satisfied that the Group has fully complied with the code provisions on risk management and internal controls as set forth in the CG Code.

### C.3 Audit committee

The Company has established the Audit Committee in compliance with Rules 3.21 and 3.23 of the Listing Rules. The primary duties of the Audit Committee are: to independently review and supervise the financial reporting process and risk management and internal control systems, to ensure good communication among Directors and the Company's auditors, to recommend the appointment of external auditors on an annual basis and approval of the audit fees, to assist the Board in oversight of the independence, qualifications, performance and compensation of the independent accountant, to review interim and annual results announcements as well as the financial statements prior to their approval by the Board, to provide audit report, advice, accounting policies and comments to all Directors.

The Audit Committee comprises three independent non-executive Directors who have extensive experience in financial matters, including Mr. Li Chunyan, Dr. Luo Yongtai and Mr. Hung, Randy King Kuen. Mr. Li Chunyan is the chairman of the Audit Committee. In 2016, the Audit Committee held three meetings to check the effectiveness of the risk management and internal control systems; to review the effectiveness of the Company's internal audit function; to review all draft interim and annual financial reports, circulars and announcements; and understand the external auditors' statutory audit plan and the Letters of Representation, and to consider and approve the audit fees. The attendance records of the Audit Committee meetings are set out below:

| ***Independent Non-executive Directors*** | | |
|---|---|---|
| Mr. Li Chunyan *(Chairman)* | 3 | 100% |
| Dr. Luo Yongtai | 3 | 100% |
| Mr. Hung, Randy King Kuen | 3 | 100% |

### C.4 Auditor's remuneration

The remuneration in respect of audit service provided by Deloitte Touche Tohmatsu, being the Company's auditor during the year 2016 amounted to HK$3,600,000.

## D. Nomination Committee

The Board has established a Nomination Committee with written terms of reference in compliance with the CG Code. The principal duties of the Nomination Committee include reviewing the structure, size and composition of the Board, making recommendation to the Board on selection of candidates for directorships, the appointment and reappointment of Directors, Board succession planning and assessing the independence of independent non-executive Directors.

On selection of candidates for directorship of the Company, the Nomination Committee makes reference to criteria such as the skills, experience, professional qualifications, personal integrity and time commitments of such individuals.

For the year ended 31st December, 2016, Mr. Li Chunyan, an Independent Non-executive Director, acted as the Chairman of the Nomination Committee and Dr. Luo Yongtai and Mr. Hung, Randy King Kuen were members, both of whom were also Independent Non-executive Directors.

The Nomination Committee held one meeting during the year ended 31st December, 2016 to determine the policy for the nomination of directors, review the nomination, re-appointment and re-election of Directors, discuss the resignation of Mr. Peng Wei as a Joint Managing Director and an executive Director of the Company, and to determine the nomination procedures and consider the process and criteria to be adopted by the Nomination Committee for selecting and proposing a person for election as a Director including the benefits of board diversity in terms of skill, experience, knowledge and gender. The Company believes diversity is important to enhance board effectiveness by encouraging a diversity of perspectives and to maintain high standards of corporate governance. The range of diversity perspectives may include a consideration of various factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, and other factors based on the specific needs of the Company. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and has not set any measurable objective implementing the Board diversity policy. The Nomination Committee considered the current size and composition of the Board to be sufficient to meet the Company's business needs. The attendance record of the Nomination Committee meeting is set out below:

| | | |
|---|---|---|
| ***Independent Non-executive Directors*** | | |
| Mr. Li Chunyan *(Chairman)* | 1 | 100% |
| Dr. Luo Yongtai | 1 | 100% |
| Mr. Hung, Randy King Kuen | 1 | 100% |

## E. Shareholders' Rights

### Procedures for Shareholders to convene an extraordinary general meeting and putting forward proposals at Shareholders' meetings

Pursuant to the Article 58 of the articles of association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company by mail at Unit 04-06, 28th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the secretary of the Company by mail at Unit 04-06, 28th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the Directors of the Company.

## F. Constitutional Documents

There was no change in the Company's constitutional documents during the year ended 31st December, 2016.

# Environmental, Social and Governance Report

This Environmental, Social and Governance Report ("ESG Report") was prepared pursuant to the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This ESG Report covers the operations of the Group in the PRC for the year ended 31st December, 2016.

The Group focuses on city gas businesses with the mission of "Develop green energy and achieve a good life". It is committed to conserving natural resources and promoting social environmental protection. Since its incorporation, the Group has been recognized by various sectors of the community for its fulfillment of environmental and social responsibilities and has been awarded "Foreign-funded Enterprises with Excellent Performance of Corporate Social Responsibility" and other awards by the PRC provincial and municipal government departments.

## (I) Environmental protection

The Group has complied with the relevant environmental laws and regulations in the PRC in all material respects during the year under review.

### Reducing emissions

As a supplier of clean energy, the Group has not established any relevant emission reduction policy since our operation does not result in any exhaust fumes, wastewater or solid wastes, and does not emit any greenhouse gases. However, we strictly comply with the relevant laws and regulations, and strive to promote environmental sustainable development.

The only product of the Group is natural gas, and only a negligible amount of natural gas is discharged to atmosphere during replacement and connection of pipelines. As it is a reasonable loss and the amount of discharge is insignificant, relevant data are not recorded. However, we have adopted relevant measures to strictly monitor the concentration of natural gas passed through the pipelines. We conduct continuous testing to ensure compliance with national regulatory standards, and ensure that the emission volume during replacement and connection is in line with the industry specifications and does not cause any air pollution.

### Utilization of resources

Due to the special nature of the businesses of the Group, our daily operation basically does not involve the use of water resources or packaging materials. However, the Group strictly complies with the relevant national laws and regulations in relation to utilization of resources. The Group has drawn up the Administrative Measures on Water Conservation at Zhongyu with reference to the Law of the People's Republic of China on Energy Conservation and Water Law of the People's Republic of China and based on the actual situation of its own businesses, so as to formulate annual standards of energy consumption for every department, which have also been split into monthly standards and added to appraisal indicators for each development. Regular appraisals are conducted and appropriate incentives are given to employees to improve their motivation for water conservation. These measures greatly improve water-use efficiency. We also carry out regular inspections of water supply facilities and promptly replace any leaky faucets or pipes to avoid wasting water resources.

In addition, we have arranged lighting facilities in various areas. The lighting would be enabled when the staff enter the area, and electricity would be shut down after work. We also remind our employees to shut down their computers after work to ensure "shut down the computer when you leave and power is off when the computer is shut down". We strictly enforce the standard of setting temperature at 26 ℃ when we use air conditioning, and turning off air conditioning if idling for more than half an hour, so as to reduce energy consumption. With the efforts of the Group, the annual electricity consumption was approximately 23,480,000 kWh.

On the other hand, we are committed to promoting efficient use of resources and waste minimization. Staff members are encouraged to use both sides of papers, while one-side used papers would be reused for printing, as draft papers or cutting into note papers. At the same time, we encourage recycling and reusing envelopes. We also actively implement electronic office environment and communicate via internal office platform or email to replace the use of papers.

We pay effort to save resources in every sector. For instance, we reduce the use of single-use cups while serving customers, promote the use of refillable pens and fountain pens and reuse materials such as pen holders. We also encourage the use of paper clips and staples, etc. and reduce the use of glue, correction fluids and other solvents containing harmful substances. In addition, the Group's internal canteens and company vehicles use clean energy in order to minimize resource consumption.

### Environment and natural resources

The Group has established Environmental Protection Management Systems in accordance with certain national regulations and standards, including Environmental Protection Law of the PRC, Atmospheric Pollution Prevention Law of the PRC, Standard of Environmental Noise of Urban Area, Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste, the Energy Saving Law and Administrative Measures governing Electricity Conservation. The Group conducts environmental impact assessment on its long-distance pipelines, filling stations and other construction, and adopts appropriate environmental protection measures.

We have formulated Zhongyu Gas Emergency Rescue Plan Systems, including comprehensive emergency plans, special emergency plans and on-site handling plans such as Zhongyu Gas Emergency Plan, Special Emergency Plan for Filling Stations, Special Emergency Plan for Gas Pipelines Leakage and Gas Accident Emergency Handling Essentials for Residential Users of Zhongyu Gas, in accordance with relevant requirements of AQ/T9002 in Guidelines for enterprises to assess emergency plan on work place accidents, to make appropriate and comprehensive preventive preparation.

## (II) Employment and labour

### Employees' rights

The Group has formulated relevant policies to protect employees' rights and strictly complied with relevant laws and regulations. We implement Law on Protection of the Rights and Interests of Women to safeguard the statutory rights of female employees, such as setting out details of special protection of women in the employment contracts so that the terms of the contracts are more detailed and special rights of female employees could be effectively protected. The Group has strengthened the promotion of the laws in relation to the rights of female employees through various channels including seminars, legal knowledge contest, typical case analysis, sharing of experience and surveys, to help our female employees understand their legal rights and enhance their self-protection awareness, so that they will be more conscious, positive and proactive to protect themselves.

The Group's recruitment system clearly stipulates the principle of "openness, fairness and justice". We recruit talents extensively through three ways including campus recruitment, internal recruitment and open recruitment. In all categories of recruitment, there shall be at least 4 assessors, while the assessors must include senior management members, mid-level management members and general staff with no more than two of whom shall belong to the same department. Under this system, we are able to ensure fairness throughout the recruitment process. The final recruitment results shall be determined strictly by scores so as to ensure that the new hires meet the requirements of the respective positions.

We have formulated Performance Management System, Administrative Measures for Backup Cadres and Administrative Measures for Recruitment for Senior Executives, pursuant to which we provide fair and reasonable promotion opportunities to our employees. Our employee promotion can be broadly classified into two categories: managerial roles and technical roles. General employees can become mid-level management members or key positions in technical jobs through superior performance. They can be selected to serve as backup cadres when certain requirements are reached. Backup cadres are selected once a year. Senior management of the Group are generally selected from our backup cadres. Internal recruitment shall be the first choice for recruiting mid-level or above positions, and we conduct open recruitment only when none of the internal candidates meets the requirements, in order to protect the promotion opportunities of our employees.

The remuneration system set by the Group is also based on the principle of fairness. There are four ranks in the Company: senior managers, managers, officers and clerks. There are also three categories of clerks: operational management, functional support and business operation. Employees in each category can be promoted in the four ranks according to their performance and ability. The ranks and remuneration in each category can be divided and determined according to their skills, contributions and scope of influence. Rewards and affirmations to employees are determined on the basis of positions, performance and competencies with reference to their values, contributions and potentials.

Caring for left-behind children and spread the love of Zhongyu.
Before the International Children's Day (1st June), we organized voluntary activity to care for left-behind children, bringing them love and blessing.

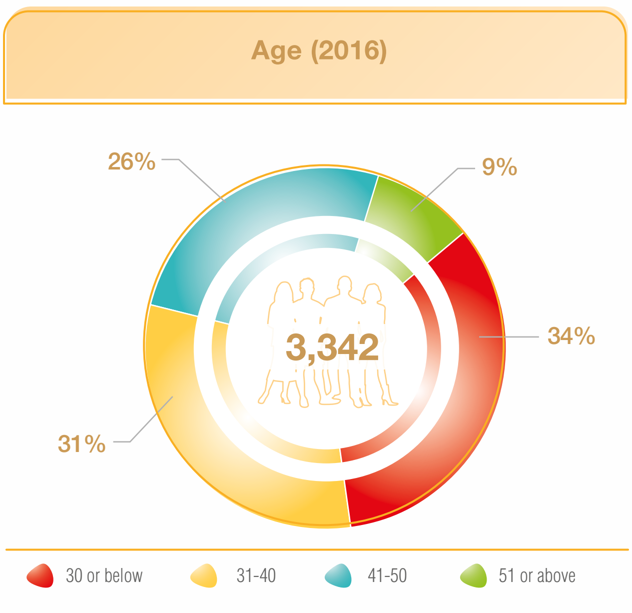
We also develop a comprehensive employment policy in accordance with the relevant regulations to protect the welfare of employees. It also clearly states that if employees are dismissed for serious dereliction of duty or illegal acts, they will not be compensated. In addition, we have clear requirements for working hours and holidays. The Group works five days per week and develops different working hours according to local circumstances. The daily working hours are roughly eight and a half hours per day, including one and a half hour of lunch time. As to the holidays, other than statutory holidays, employees also enjoy annual leaves, marriage leaves, maternity leaves, paternity leaves, funeral leave, work injury leaves, examination/study leaves, sick leaves, "March 8 International Women's Day" leave and other holidays. We are committed to ensuring that employees work in order, with a balanced life.

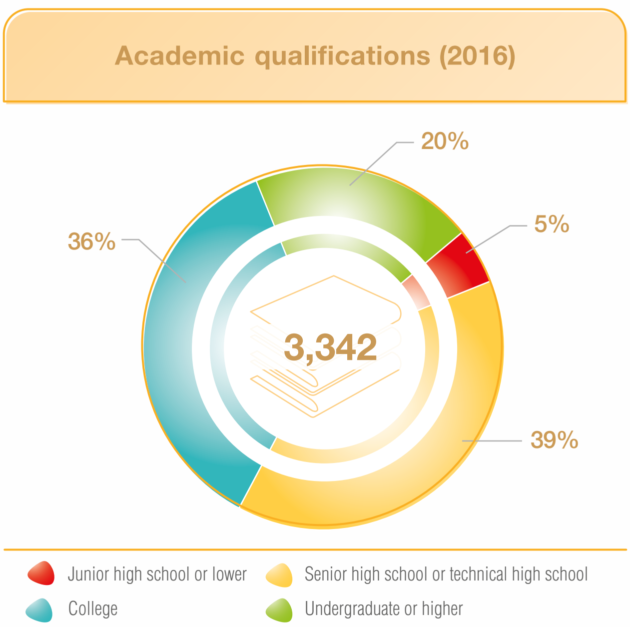
As at 31st December, 2016, the Group had a total of 3,342 staff members and the ratio of male to female was about 2:1, with a turnover rate of 4.75%. The graph below shows the staff size based on age:

To enhance the democratic management of enterprises, the Group has set up an employee's congress and encouraged employee's participation in the decision-making, management and supervision of the Group through the employee's congress or otherwise in accordance with legal requirements. The employee's congress is committed to safeguarding the legal rights of the employees. In addition to expressing opinions through the employee's congress, employees can also directly communicate with the senior management through various ways including interviews, phone calls or other web-based office systems or chat tools. We value our employees' opinions and the management is amenable to good advice. The management has an obligation to keep the opinions confidential if sensitive subjects are involved.

The Group has complied with the relevant laws and regulations in relation to employment in all material respects during the year ended 31st December, 2016.

The graph below shows the staff size based on level of education:



The picture was taken during 2015 Golden Autumn Education Promotion Programme, which provides subsidies for college-bound students to fulfill their dreams to attend universities.

## Work safety

The Group has formulated various rules in relation to occupational health and work safety in accordance with the Law of the People's Republic of China on Work Safety to specify work safety responsibilities of staff at all levels, and ensure that these rules and measures are strictly followed. Furthermore, we actively prevent accidents from various aspects. Firstly, we strengthen education and training. In addition to the safety training at recruitment, we provide all kinds of work safety training, both at knowledge level and technology level, for employees at various positions. We organize annual training for all staff in respect of management, environment to safety systems, and departments organize their own relevant training as well, with the aim of raising employees' awareness of prevention.

We have also equipped our employees with appropriate safety gear to ensure their work safety. New hires are instructed by senior employees when they first join the Group, so as to make sure they are familiar with the workflow and potential dangers in daily operations. For frontline positions, all employees are strictly required to obtain certificates of labour skills from the government, ensuring that the related personnel are equipped with the professional qualifications and safety knowledge about dangerous working conditions.

In the meantime, we proactively prevent gas leakage. Apart from thorough and rigorous control systems including the Rules on Management of Daily Patrol and Rules on Gas Pipeline Network Safety Inspection, we have also equipped the pipeline network management department with adequate manpower and equipment, ensuring that any leakage can be noticed timely. We also greatly publicize the Group's hotline to encourage the public to report any gas leakage.

The Company continues to ensure employees' occupational health and work safety, and has obtained the certification in respect of its occupational health and safety management systems in October 2015.

The Group has complied with the relevant laws and regulations in relation to occupational health and work safety in all material respects during the year ended 31st December, 2016.

## Development and training

The Group has formulated certain systems and policies in relation to training, such as Zhongyu Gas Training Management System and Training Management Evaluation Standards. The training department evaluates the needs and then approves and arranges training with relevant departments. According to the strategic plan of the Board of Directors, the training department constructs the group training system, regularly evaluates the training outcomes and actively promotes the Group's training.

2016 Golden Autumn Education Promotion Programme was organized for donation for college-bound students to attend universities and start a new chapter in life.

The picture shows the donation ceremony of Golden Autumn Education Promotion Programme, which provides subsidies for college-bound students to fulfill their dreams to attend universities.

Since 2006, we have already formulated and implemented Zhongyu Gas Performance Management System, which is revised annually and covers on-going and regular evaluation mechanism for the management and all employees. In addition, the training department or each different departments organize external training or education programmes and arrange employees to participate in public or professional training held by government departments or other organizations.

Throughout 2016, various subsidiaries of the Group organized 643 training, of which 537 were internal training and 106 were external training, with total 2,573 hours of training and 13,404 participants.

In general, combining its own training needs and staff competencies, each subsidiary provides thorough and comprehensive training for staff at all levels and departments through diversified means including lectures, practical training, sharing and learning, on-site observation and outreach training. The target participants include senior, mid-level and general employees, building a solid foundation for overall business development and enhancement of staff quality.

### Labour standards

Although the Group has not formulated any relevant specific policies, it strictly complies with Labour Contract Law and relevant national laws and regulations and prohibits employment of child labour or forced labour and other illegal acts. Any person who violates the law will be dismissed and will be given reasonable financial compensation under the law. The persons concerned will be pursued.

## (III) Operation model

### Supply chain management

Our suppliers are mainly gas suppliers and construction materials suppliers. The Group has formulated and implemented relevant supplier engagement criteria, which are the Administrative Measures on Bidding and Material Procurement System. Suppliers are selected based on the budgeted cost, project specifications and qualification requirements during the tender process. We have formulated relevant assessment methods and inspection mechanisms and we monitor our suppliers by such ways as filing reports and on-site inspections, in order that facilities such as gas pipelines and gas-filling stations can meet the national architectural standards while mitigating the operational risk of any suspension in the supply of gas. If risk is noticed, the procurement department will communicate with the suppliers to address the problem. If the risk cannot be resolved, we may terminate or may not renew the procurement contracts with the suppliers.

All of our suppliers have received the above charters and are strictly monitored by our audit and inspection department, ensuring suppliers are complying with our requirements.

### Responsibility for products

The core values of the Group are "Safety, Integrity, Talent and Innovation". Safety is our top priority and also the strict standard of our work. Maintaining product safety is a sustained effort. To ensure the safety of users and stability in gas supply, we actively establish a comprehensive and safe management system. Apart from formulating more than 110 items including relevant safety systems, statutes and guidelines for work, we have set up in 2015 standards on "safety, the environment, and quality", continually improving and enhancing the safety management level of the Group.

In spite of the fact that there is no large-scale advertising due to the nature of the Group's business, we are also strictly abiding by the laws and regulations governing advertising and labeling. All publicity publications and labels must be reviewed by special personnel to ensure that no irregularities have occurred. If we find that the publicity and the label are false or misleading, we will fix and completely replace it as soon as possible to protect the interests of consumers.

We have made great effort to further improve the gas quality and have made stringent regulations in various aspects. We have also formulated Gas Pipeline Inspection and Management Regulations to ensure the safety and stability of gas pipelines and carry out timely correction to any safety risks. Under our vigorous monitoring, no products (such as gas pipelines) had to be fully replaced due to safety or other reasons in the past. To ensure safe operation of gas supply facilities, the Group invests considerable funds in each year to replace aged gas pipeline network and equipment.

The Group highly values the privacy of customer information and has established a comprehensive records management system and set up advanced records rooms. For instance, Linyi Zhongyu Gas Company Limited, a subsidiary of the Group, had set up an advanced records room in Shandong province, ensuring the customer information is protected at a high security level. For electronic files, we also ensure the safety of customer information through our independent customer service system, multiple security technologies and enhancement of training in relation to awareness of customer information security.

### Anti-corruption

The Group spares no effect in anti-corruption. Apart from implementing separate management on income and expense, the Group deploys financial controller to each subsidiary for capital monitoring and enhances the work of financial review and internal audit. There is no interest declaration mechanism, nonetheless, since its establishment, the Group has set up a department that monitors compliance and formulated a monitoring system and an accountability system.

In the meantime, we carry out anti-corruption education and publicity on an irregular basis and has set up an email account and a telephone number for reporting complaints. Upon our establishment, there were 5 to 8 whistleblowing incidents in average every year. As we enhance promotion of anti-corruption and increase penalties, whistleblowing incidents have been reduced. From 2015 to date, no suspected irregularities have been reported.

## (IV) Contribution to the society

The Group's social welfare belief is to be "public-spirited to Benefit Society". We have been concerned about social welfare. For families in need and charitable organizations including schools, certain pipeline connection fee is reduced. In addition, we have given priority of employment to residents in the places where we operate, so as to boost employment rate. We also give priority consideration to the disabled or the disadvantaged if there is any suitable position.

Meanwhile, we encourage employees to participate in voluntary activities, through letter from senior management, commendation at annual meetings, subsidies and other means. A number of subsidiaries of the Group has been actively involved in charity activities. For instance, Jiaozuo Zhongyu Gas Company Limited, a member of the Group, has established "Love Alliance (愛心聯盟)". Since its establishment, it has organized or participated in more than 50 large-scale charitable activities initiated by various sectors of the community. Large-scale activities, such as new year greetings, "Golden Autumn Education Promotion Programme", summer free education campaign, "New Clothes Campaign for New year (新年新衣)", have been well received. Other activities including assistance for the elderly and children, disaster relief and condolence have also attracted active participation of volunteers and have been widely appreciated.

In 2016, "Love Alliance" delivered donation of more than RMB150,000 in total, nearly ten thousand clothes and more than 1,200 pieces of stationery, shoes and toys as well as commodities such as down jackets, rice, cooking oil and instant noodles. Major beneficiaries include Communist Youth League (共產主義青年團), Hong Sha Ling greening works (紅砂嶺綠化工程) and Red Cross. "Love Alliance" was granted the "Outstanding Contributions Award (最具奉獻獎)" by Jiaozuo City in 2010 and was entitled the "Top Ten Caring Community in Henan (河南十大愛心集體)" in 2011.


The picture shows the national culture education and training activity organized by Love Alliance during summer vacation in 2015 for subsidized university students. It aimed at caring for the psychological health of students and enhancing their confidence for happy growth through traditional culture.

# DIRECTORS' REPORT

The directors of the Company present their annual report and the audited consolidated financial statements of the Group for the year ended 31st December, 2016.

Further discussion and analysis of the activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business, an analysis using key performance indicators, a discussion of compliance with relevant laws and regulations that have a significant impact on the Group, the environmental policies and performance of the Group, an account of the Group's key relationship with its employees, customers and suppliers and an indication of likely future development in the Group's business can be found in the "Chairman's Statement", the "Management Discussion and Analysis" and the "Environmental, Social and Governance Report" sections of this annual report (which form part of this report of the Directors).

## Principal Activities

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The activities of the Company's principal subsidiaries are set out in note 46 to the consolidated financial statements.

## Results and Appropriations

The results of the Group for the year ended 31st December, 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 58.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

## Investment Properties and Property, Plant and Equipment

The Group revalued all of its investment properties and pipelines included in property, plant and equipment at the year end date. The increase in fair value of investment properties, which has been credited to profit or loss, amounted to HK$6,407,000. The investment properties are primarily used as offices and shop in the PRC.

Details of the movements during the year in investment properties and property, plant and equipment of the Group are set out in notes 16 and 17 to the consolidated financial statements respectively.

## Share Capital

Details of movements during the year in the share capital of the Company are set out in note 34 to the consolidated financial statements.

## Distributable Reserves

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for distributions of dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors, as at 31st December, 2016, the Company's reserves available for distribution amounted to HK$899,834,000 which consisted of share premium of HK$895,736,000 and accumulated profit of HK$4,098,000.

## Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

## Directors

The directors of the Company during the year and up to the date of this report were:

### Executive Directors

Mr. Wang Wenliang *(Chairman)*
Mr. Peng Wei *(Joint Managing Director)*
*(resigned with effect from 1st October, 2016)*
Mr. Lui Siu Keung *(Chief Executive Officer)*
Mr. Lu Zhaoheng

### Non-executive Director

Mr. Xu Yongxuan *(Vice-Chairman)*

### Independent non-executive Directors

Mr. Li Chunyan
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen

In accordance with the provisions of the Company's Articles of Association, Mr. Xu Yongxuan, Mr. Lu Zhaoheng and Mr. Li Chunyan will retire by rotation at the upcoming AGM and, being eligible, offer themselves for re-election.

## Directors Service Contracts

The Company renewed the service contracts with each of the Directors of the Company on 11th July, 2015. The term of appointment for the Directors is three years and the Directors are subject to retirement by rotation and re-election in accordance with the Articles of Association and the CG Code. There are no existing or proposed directors' service contracts which are not determinable by the employer within one year without payment of compensation (other than statutory compensation).

## Directors' Interests in Transactions, Arrangements or Contracts of Significance

No transactions, arrangements or contracts of significance in which a director or an entity connected with the director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Disclosure of Interests

### (a) Interests of Directors

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

**Long positions in the Shares of the Company**

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

*Notes:*

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

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

3. *The Shares are directly held by the director.*

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

Save as disclosed above, as at 31st December, 2016, none of the Directors of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

### (b) Interests of substantial shareholders of the Company

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

**Long positions in the Shares of the Company**

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

*Notes:*

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

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

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

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

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

## Share Options

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

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

The New Share Option Scheme shall be valid and effective for a period of ten years commencing on 3rd May, 2013 and will expire on 2nd May, 2023. Options granted under the New Share Option Scheme may be exercised during the period to be determined and notified by the Board to the grantee at the time of making an offer which shall not expire later than 10 years from the date of grant. An amount of HK$1.00 is payable upon acceptance of the grant of options. The exercise price shall be determined by the Board in its absolute discretion but in any event shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant which must be a business day; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

As at the date of this report, no share options have been granted under the New Share Option Scheme and the maximum number of share options which may be granted under the New Share Option Scheme is 252,400,768. These share options, if granted and converted in full, represent approximately 9.996% of the number of issued shares of the Company as at the date of this report (as at the date of the annual report of the Company for the year ended 31st December, 2015: 9.996%).

The purpose of the New Share Option Scheme is to reward participants who have contributed or will contribute to the Group and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Under the New Share Option Scheme, the Directors may offer share options to any directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the board of directors of the Company considers, in its sole discretion, have contributed or will contribute to the Group, to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme shall not, in the absence of shareholders' approval, in aggregate exceed 10% in nominal amount of the aggregate of shares in issue on the adoption date (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the New Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Company may renew the Scheme Mandate Limit at any time subject to prior shareholders' approval but in any event, the total number of shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme under the limit as refreshed must not exceed 10% of the Shares in issue as at the date of the Shareholders' approval of the renewed limit. Options previously granted under the New Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the terms or exercised options) will not be counted for the purpose of calculating the limit as renewed.

Further, no options will be granted which would result in the maximum aggregate number of shares which may be issued upon exercise of all outstanding options granted but yet to be exercised under the New Share Option Scheme, the existing options granted under the Old Share Option Scheme, in aggregate, 30% of the issued share capital of the Company from time to time.

The maximum number of shares issued and to be issued upon exercise of the options granted to each grantee under the New Share Option Scheme (including both exercised and outstanding options) in any 12-month period shall not (when aggregated with any shares subject to options granted during such period under any other share option scheme(s) of the Company other than those options granted pursuant to specific approval by the shareholders in a general meeting) exceed 1% of the shares of the Company in issue for the time being.

No share option has been granted since the adoption of the New Share Option Scheme on 3rd May, 2013.

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

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

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

## Major Customers and Suppliers

For the year ended 31st December, 2016, our five largest suppliers comprised 65.6% of our total purchase for the year. The Group's largest supplier accounted for 26.3% of the total purchase for the year. The aggregate sales attributable to the Group's five largest customers were less than 15.3% of total turnover for the year. The Group's largest customer accounted for 6.8% of the total sales for the year.

At no time during the year did a director, a close associate of a director, or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

## Pre-emptive Rights

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

## Appointment of Independent Non-executive Directors

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors independent.

## Emolument Policy

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

The emoluments of the directors of the Company are recommended by the Remuneration Committee with reference to their duties and responsibilities within the Group, the Company's remuneration policy and the prevailing market condition.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 36 to the consolidated financial statements.

## Indemnity Provision

Pursuant to article 165 of the Articles of Association of the Company, every director of the Company shall be entitled to be indemnified and assured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or trusts in relation thereto provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the said directors. Such provision was in force during the year ended 31st December, 2016 and remained in force as of the date of this report.

## Principal Risks and Uncertainties Facing by the Group

Please refer to note 45 to the consolidated financial statements for a summary of financial risks and the Environmental, Social and Governance Report for discussion on operational risks of the Group.

## Competing Business

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

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

## Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31st December, 2016.

## Donations

During the year under review, the Group made charitable and other donations amounted to approximately RMB218,000.

## 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 Wenliang**
*Chairman*

Hong Kong
22nd March, 2017

Deloitte. 德勤

**TO THE MEMBERS OF ZHONGYU GAS HOLDINGS LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Zhongyu Gas Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 58 to 167, which comprise the consolidated statement of financial position as at 31st 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 31st December, 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

100 Making another century of impact
德勤百年慶 開創新紀元

## KEY AUDIT MATTERS *(Continued)*

**Key audit matter**

*Impairment of goodwill, other intangible assets, property, plant and equipment and prepaid lease payment allocated to Harmony Gas Holdings Limited and its subsidiaries ("Harmony Gas and its subsidiaries")*

We identified the impairment of goodwill, other intangible assets, property, plant and equipment and prepaid lease payment allocated to Harmony Gas and its subsidiaries as a key audit matter due to their significance to the consolidated financial statements as a whole and significant judgment involved in the impairment assessment.

As at 31st December, 2016, the aggregate carrying amounts of the cash-generating units ("CGUs") of Harmony Gas and its subsidiaries comprise intangible assets of HK$301,862,000, goodwill of HK$62,447,000, property, plant and equipment of HK$838,343,000 and prepaid lease payments of HK$5,782,000.

Harmony Gas and its subsidiaries operates in a competitive market and incurred segment loss for the year ended 31st December, 2015 of HK$875,000. Whereas, for the year ended 31st December, 2016, the performance of Harmony Gas and its subsidiaries has improved and recorded a first year segment profit of HK$168,293,000. It may lead to an uncertainty that the business does not meet the growth projections necessary to support the carrying value of the assets allocated to Harmony Gas and its subsidiaries, and accordingly the assets may be impaired. Management's impairment review process adopts discount future cash flows model which is complex and highly judgmental, based on assumptions about future growth and discount rates, which can be sensitive and details are set out in note 19 to the consolidated financial statements.

**How our audit addressed the key audit matter**

Our procedures in relation to the impairment of goodwill, other intangible assets, property, plant and equipment and prepaid lease payment allocated to Harmony Gas and its subsidiaries included:

- testing key controls around the impairment assessment process;
- challenging of the models used including the macroeconomic assumptions used;
- comparing key assumptions (including discount rates and growth rates) used in the model to external data;
- assessing the reasonableness of forecast future cash flows by comparison to historical performance;
- performing sensitivity analysis on key assumptions, including discount rates adopted; and
- performing a detailed review of the disclosures in respect of impairments and impairment testing adopted by management included in the consolidated financial statements.

## KEY AUDIT MATTERS *(Continued)*

**Key audit matter**

*Valuation of pipelines included in property, plant and equipment*

We identified valuation of pipelines included in property, plant and equipment as a key audit matter due to the significance of this balance in the Group's consolidated financial statements and the complex and subjective judgments and estimates involved in:

- the determination of valuation techniques, which is depreciated replacement cost method considering the new replacement cost of the pipelines and deduction for obsolescence and
- the selection of different inputs in the model.

In previous years, pipelines included in property, plant and equipment were carried at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. During the year, the directors of the Company decided to adopt revaluation model to measure pipelines included in property, plant and equipment with effect from 31st December, 2016. The surplus resulted from the revaluation on the initial adoption is dealt with in other comprehensive income and accumulated in equity, under the heading property revaluation reserve. This change in accounting policy stated in note 3 has increased the carrying amount of pipelines included in property, plant and equipment by HK$837,535,000 to HK$3,537,327,000, as at 31st December, 2016. Prior period amounts are not restated.

The fair value was determined by the Group with reference to the valuations performed by an independent professional valuer (the "Valuer") engaged by the Group.

**How our audit addressed the key audit matter**

Our procedures in relation to the valuation of pipelines included in property, plant and equipment included:

- assessing the competence, capabilities and objectivity of the Valuer;
- evaluating management's process in respect of reviewing the valuation performed by the Valuer;
- holding discussion with management and the Valuer to understand the valuation basis, methodology used and underlying assumptions applied;
- obtaining the valuation reports for pipelines, and challenging the relevance and reasonableness of valuation techniques used by the Valuer; and
- assessing the reasonableness of key inputs which were used to determine the fair value under depreciated replacement cost method, including historical labour cost and historical raw chemical materials purchasing price indices for industrial producers, by comparing with the historical purchase price of the pipelines by the Group in the relevant valuation period.

## 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 consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND 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 disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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.

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

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.

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

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 Yiu Chung.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
22nd March, 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31st December, 2016*

| | NOTES | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| **Turnover** | 6 | 3,722,507 | 3,276,666 |
| Cost of sales | | (2,714,498) | (2,491,833) |
| **Gross profit** | | 1,008,009 | 784,833 |
| Other gains and losses | 8 | (158,104) | (73,633) |
| Other income | 9 | 42,389 | 46,050 |
| Selling and distribution costs | | (88,955) | (71,565) |
| Administrative expenses | | (275,220) | (209,334) |
| Finance costs | 10 | (252,495) | (114,866) |
| Share of results of a joint venture | | – | (51,962) |
| Share of results of associates | | 19,295 | (2,018) |
| **Profit before tax** | | 294,919 | 307,505 |
| Income tax expenses | 11 | (191,318) | (157,637) |
| **Profit for the year** | 12 | 103,601 | 149,868 |
| Other comprehensive (expense) income | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | |
| Exchange differences arising on translation to presentation currency | | (165,543) | (105,461) |
| Fair value gain on revaluation of pipelines included in property, plant and equipment | 3 | 837,535 | – |
| Deferred tax arising from revaluation of pipelines included in property, plant and equipment | | (209,384) | – |
| Surplus on revaluation upon transfer of property, plant and equipment to investment property at fair value | | 6,693 | – |
| Deferred tax arising from transfer of property, plant and equipment to investment property at fair value | | (1,673) | – |
| Total comprehensive income for the year | | 571,229 | 44,407 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | 206,150 | 93,390 |
| Non-controlling interests | | (102,549) | 56,478 |
| | | 103,601 | 149,868 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | 580,396 | 12,616 |
| Non-controlling interests | | (9,167) | 31,791 |
| | | 571,229 | 44,407 |
| Earnings per share | 15 | | |
| Basic | | HK8.16 cents | HK3.70 cents |
| Diluted | | HK8.16 cents | HK3.70 cents |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31st December, 2016*

| | NOTES | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 16 | **43,748** | 9,012 |
| Property, plant and equipment | 17 | **5,625,852** | 4,470,817 |
| Goodwill | 18 | **208,886** | 199,859 |
| Other intangible assets | 19 | **1,038,810** | 1,033,347 |
| Long-term deposits, prepayments and other receivables | 20 | **408,000** | 428,750 |
| Prepaid lease payments | 21 | **474,532** | 472,338 |
| Interests in associates | 22 | **164,034** | 155,418 |
| Available-for-sale investments | 23 | **6,074** | 6,301 |
| | | **7,969,936** | 6,775,842 |
| **Current assets** | | | |
| Inventories | 24 | **105,863** | 103,521 |
| Trade and bills receivables | 25 | **411,101** | 318,762 |
| Deposits, prepayments and other receivables | 25 | **237,791** | 283,844 |
| Entrusted loan receivable | 26 | **22,359** | 23,872 |
| Amount due from an associate | 27 | **56,087** | 59,680 |
| Amounts due from related parties | 27 | **24,901** | 14,053 |
| Prepaid lease payments | 21 | **13,579** | 13,693 |
| Amounts due from customers for contract work | 28 | **1,774** | 35,848 |
| Tax recoverable | | **757** | 980 |
| Pledged bank deposits | 29 | **11,574** | 95,488 |
| Bank balances and cash | 29 | **767,941** | 983,726 |
| | | **1,653,727** | 1,933,467 |
| **Current liabilities** | | | |
| Deferred income and advance received | 30 | **521,308** | 496,371 |
| Trade and bills payables | 30 | **576,497** | 591,578 |
| Other payables and accrued charges | 30 | **230,830** | 199,172 |
| Amount due to an associate | 31 | **1,155** | 1,234 |
| Amounts due to customers for contract work | 28 | **41,458** | 51,313 |
| Borrowings | 32 | **571,616** | 1,172,315 |
| Obligations under finance lease due within one year | 33 | **100,306** | 33,285 |
| Consideration payable | 38 | **575,791** | – |
| Tax payables | | **90,142** | 65,653 |
| | | **2,709,103** | 2,610,921 |
| **Net current liabilities** | | **(1,055,376)** | (677,454) |
| **Total assets less current liabilities** | | **6,914,560** | 6,098,388 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31st December, 2016*

| | NOTES | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 34 | **25,250** | 25,250 |
| Reserves | | **2,527,956** | 1,981,414 |
| **Equity attributable to owners of the Company** | | **2,553,206** | 2,006,664 |
| Non-controlling interests | | **252,725** | 265,730 |
| **Total equity** | | **2,805,931** | 2,272,394 |
| **Non-current liabilities** | | | |
| Deferred income and advance received | 30 | **5,652** | 6,034 |
| Borrowings | 32 | **3,537,814** | 3,063,890 |
| Obligations under finance lease due after one year | 33 | **214,789** | 121,986 |
| Consideration payable | 38 | **–** | 512,844 |
| Deferred taxation | 35 | **350,374** | 121,240 |
| | | **4,108,629** | 3,825,994 |
| | | **6,914,560** | 6,098,388 |

The consolidated financial statements on pages 58 to 167 were approved and authorised for issue by the Board of Directors on 22nd March, 2017 and are signed on its behalf by:

MR. WANG WENLIANG
*DIRECTOR*

MR. LUI SIU KEUNG
*DIRECTOR*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31st December, 2016*

| | Attributable to owners of the Company | | | | | | | | | Non-controlling interests | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Share option reserve HK$'000 | Property revaluation reserve HK$'000 | Other reserve HK$'000 | Statutory surplus reserve HK$'000 (Note) | Translation reserve HK$'000 | Accumulated profits HK$'000 | Total HK$'000 | Capital contribution and share of results HK$'000 (note 47) | Others HK$'000 | Total HK$'000 | Total HK$'000 |
| At 1st January, 2015 | 25,250 | 895,736 | 319 | 1,128 | (3,685) | 62,042 | 228,361 | 784,897 | 1,994,048 | 298,692 | – | 298,692 | 2,292,740 |
| Profit for the year | – | – | – | – | – | – | – | 93,390 | 93,390 | 56,478 | – | 56,478 | 149,868 |
| Other comprehensive expense for the year | – | – | – | – | – | – | (80,774) | – | (80,774) | (24,687) | – | (24,687) | (105,461) |
| Total comprehensive (expense) income for the year | – | – | – | – | – | – | (80,774) | 93,390 | 12,616 | 31,791 | – | 31,791 | 44,407 |
| Transfer to statutory surplus reserve | – | – | – | – | – | 11,021 | – | (11,021) | – | – | – | – | – |
| Dividend paid by subsidiaries to non-controlling interests | – | – | – | – | – | – | – | – | – | (19,752) | – | (19,752) | (19,752) |
| Consideration payable committed to acquire additional interest in Harmony Gas Holdings Limited ("Harmony Gas") and its subsidiaries (note 38) | – | – | – | – | – | – | – | – | – | – | (507,817) | (507,817) | (507,817) |
| Obtaining control over Harmony Gas and its subsidiaries (note 38) | – | – | – | – | – | – | – | – | – | 459,235 | – | 459,235 | 459,235 |
| Transfer to accumulated profits upon obtaining control over Harmony Gas and its subsidiaries | – | – | – | – | – | – | 15,610 | (15,610) | – | – | – | – | – |
| Capital contribution from non-controlling interests of a subsidiary | – | – | – | – | – | – | – | – | – | 3,581 | – | 3,581 | 3,581 |
| At 31st December, 2015 | 25,250 | 895,736 | 319 | 1,128 | (3,685) | 73,063 | 163,197 | 851,656 | 2,006,664 | 773,547 | (507,817) | 265,730 | 2,272,394 |
| Profit for the year | – | – | – | – | – | – | – | 206,150 | 206,150 | (102,549) | – | (102,549) | 103,601 |
| Other comprehensive income (expense) for the year | – | – | – | 480,240 | – | – | (105,994) | – | 374,246 | 93,382 | – | 93,382 | 467,628 |
| Total comprehensive income (expense) for the year | – | – | – | 480,240 | – | – | (105,994) | 206,150 | 580,396 | (9,167) | – | (9,167) | 571,229 |
| Transfer to statutory surplus reserve | – | – | – | – | – | 13,595 | – | (13,595) | – | – | – | – | – |
| Dividend paid by subsidiaries to non-controlling interests | – | – | – | – | – | – | – | – | – | (9,709) | – | (9,709) | (9,709) |
| Acquisition of additional interests in a subsidiary (note 37) | – | – | – | – | (33,854) | – | – | – | (33,854) | (36,477) | – | (36,477) | (70,331) |
| Acquisition of subsidiaries (note 38) | – | – | – | – | – | – | – | – | – | 33,991 | – | 33,991 | 33,991 |
| Capital contribution from non-controlling interests of a subsidiary | – | – | – | – | – | – | – | – | – | 8,357 | – | 8,357 | 8,357 |
| At 31st December, 2016 | 25,250 | 895,736 | 319 | 481,368 | (37,539) | 86,658 | 57,203 | 1,044,211 | 2,553,206 | 760,542 | (507,817) | 252,725 | 2,805,931 |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31st December, 2016*

| | NOTE | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before tax | | **294,919** | 307,505 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | **166,492** | 125,315 |
| Amortisation and impairment of other intangible assets | | **37,517** | 51,903 |
| Release of prepaid lease payments | | **9,990** | 8,753 |
| Net gain on disposal/written-off of property, plant and equipment | | **(2,634)** | (3,591) |
| Net allowance (reversal of allowance) for doubtful debts | | | |
| – trade receivables | | **5,566** | (281) |
| – other receivables | | **(3,604)** | 641 |
| Share of results of a joint venture | | **–** | 51,962 |
| Share of results of associates | | **(19,295)** | 2,018 |
| Impairment loss (reversal of impairment loss) recognised on amounts due from customers for contract work | | **27,010** | (1,085) |
| Gain on obtaining control over Harmony Gas and its subsidiaries | 38 | **–** | (86,749) |
| Interest income | | **(14,181)** | (29,953) |
| Finance costs | | **252,495** | 114,866 |
| Increase in fair value of investment properties | | **(6,407)** | (201) |
| Foreign exchange loss | | **159,870** | 160,876 |
| **Operating cash flows before movements in working capital** | | **907,738** | 701,979 |
| (Increase) decrease in inventories | | **(1,025)** | 5,756 |
| (Increase) decrease in trade and bills receivables | | **(93,295)** | 28,073 |
| Decrease in deposits, prepayments and other receivables | | **53,885** | 77,608 |
| Decrease in amounts due from customers for contract work | | **7,064** | 12,671 |
| Increase (decrease) in deferred income and advance received | | **24,555** | (61,307) |
| Decrease in trade and bills payables | | **(15,902)** | (28,759) |
| (Decrease) increase in other payables and accrued charges | | **(20,412)** | 6,514 |
| (Decrease) increase in amounts due to customers for contract work | | **(9,855)** | 17,982 |
| **Cash generated from operations** | | **852,753** | 760,517 |
| Interest received | | **14,181** | 29,953 |
| Income taxes paid | | **(171,191)** | (172,285) |
| Withholding tax paid | | **(3,452)** | (12,991) |
| **Net cash from operating activities** | | **692,291** | 605,194 |

*For the year ended 31st December, 2016*

| | NOTES | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Purchases of property, plant and equipment | | (610,394) | (602,617) |
| Proceeds from disposal of property, plant and equipment | | 18,159 | 8,453 |
| Placement of pledged bank deposits | | (11,574) | – |
| Withdrawal of pledged bank deposits | | 95,488 | – |
| Obtaining control over Harmony Gas and its subsidiaries | 38 | – | 126,572 |
| Acquisitions of subsidiaries | 38 | (94,690) | – |
| Acquisitions of assets and liabilities through acquisition of subsidiaries | 30 & 39 | (2,432) | (41,214) |
| Addition of prepaid lease payments | | (11,650) | (147,128) |
| Addition of investment properties | | (1,762) | – |
| Advance to a joint venture | | – | (249,967) |
| Repayment from a joint venture | | – | 286,742 |
| Addition of other intangible assets | | (4,443) | – |
| Deposits paid for acquisition of property, plant and equipment and prepaid lease payments | | (126,382) | (81,309) |
| Advance to related parties | | (10,848) | – |
| **Net cash used in investing activities** | | (760,528) | (700,468) |
| **Financing activities** | | | |
| Interest paid | | (169,890) | (138,636) |
| Loan facilities fees paid | | (43,787) | (4,566) |
| New borrowings raised | | 3,648,408 | 776,377 |
| New obligations under finance lease | | 233,590 | 186,706 |
| Repayments of borrowings | | (3,683,156) | (509,019) |
| Repayments of obligations under finance lease | | (56,334) | (31,435) |
| Deposit paid for obtaining a finance lease | | – | (8,952) |
| Dividend paid by subsidiaries to non-controlling interests | | (9,709) | (19,752) |
| Capital contribution from non-controlling interests of a subsidiary | | 8,357 | 3,581 |
| Acquisition of additional interest in a subsidiary | 37 | (70,331) | – |
| **Net cash (used in) from financing activities** | | (142,852) | 254,304 |
| **Net (decrease) increase in cash and cash equivalents** | | (211,089) | 159,030 |
| Cash and cash equivalents at 1st January | | 983,726 | 828,189 |
| Effect of foreign exchange rate changes | | (4,696) | (3,493) |
| **Cash and cash equivalents at 31st December, represented by bank balances and cash** | | 767,941 | 983,726 |

## 1. GENERAL INFORMATION AND BASIS OF PREPARATION

### General information

Zhongyu Gas Holdings Limited (the "Company") is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The Company's subsidiaries are principally engaged in the development, construction and operation of natural gas projects in the PRC.

The functional currency of the Company is Renminbi ("RMB") and the presentation currency of the consolidated financial statements is Hong Kong dollars ("HK$"). The directors of the Company (the "Directors") consider this presentation is more appropriate as the Company is listed on the Stock Exchange.

### Basis of preparation

As at 31st December, 2016, the Group has net current liabilities of HK$1,055,376,000.

The Directors have therefore given careful consideration to the future liquidity of the Group when preparing the consolidated financial statements. The Directors believe that the consolidated financial statements should be prepared on a going concern basis, taking into account the estimated operating cash flows of the Group for the next twelve months from the end of the reporting period as well as the following reasons:

(i) The Directors expect that bank borrowings of HK$223,439,000, which are due within one year after the end of the reporting period, could be renewed upon the relevant maturity dates, based on their experience.

(ii) New bank borrowings amounting to RMB190,000,000 (equivalent to HK$212,409,000) and USD20,000,000 (equivalent to HK$155,254,000) have been obtained subsequent to 31st December, 2016, in which RMB166,000,000 (equivalent to HK$185,579,000) and USD20,000,000 (equivalent to HK$155,254,000) were due after one year from the end of the reporting period.

As a result of the measures described above, the Directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

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

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

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

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

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

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

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

### HKFRS 9 Financial instruments

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

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

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

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

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

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

### HKFRS 15 Revenue from contracts with customers

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

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

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

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

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

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

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

### HKFRS 16 Leases

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

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31st December, 2016, the Group has non-cancellable operating lease commitments of HK$21,169,000 as disclosed in note 40. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors complete a detailed review.

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

## 3. CHANGE IN ACCOUNTING POLICY

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

## 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 ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain property, plant and equipment, investment properties that are measured at revalued amounts or fair values at the end of each reporting period, 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

### 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 when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Basis of consolidation *(Continued)*

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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.

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

All intragroup 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 existing 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Basis of consolidation *(Continued)*

#### *Changes in the Group's ownership interests in existing subsidiaries* (Continued)

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, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

### Business combinations

Acquisitions of 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, except that:

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

- 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 (see the accounting policy below); 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 re-assessment, the net amount 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Business combinations *(Continued)*

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 either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

#### *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 identifiable 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 as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) 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 and not larger than an operating segment.

A cash-generating unit (or a group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or a group of cash-generating units) to which goodwill has been allocated is tested for impairment at the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or a group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments in associates and a joint venture

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 the associates and joint venture 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 portion so classified is accounted for in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations". 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 the associates and joint venture used for equity accounting purpose 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 and 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 ventures (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 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)*

### Investments in associates and a joint venture *(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 being 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 at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing the relevant 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.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and 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.

### 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.

Service income is recognised when services are provided.

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.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition *(Continued)*

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

The Group's policy for the recognition of revenue from construction services is described in the accounting policy for construction contracts below.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

### Property, plant and equipment

Property, plant and equipment other than pipelines held for use in the production or supply of goods or services, or for administrative purposes (other than assets under construction as described below) are stated in the consolidated statement of financial position at cost or revalued amount less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Pipelines held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of pipelines is recognised in other comprehensive income and accumulated in property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in carrying amount arising on revaluation of such pipelines is recognised in profit or loss to the extent that it exceeds the balance, if any, on the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Assets in the course of construction for production, supply or 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 assets 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, plant and equipment, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost or revaluation of assets other than assets under construction less their residual values over their estimated 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Property, plant and equipment *(Continued)*

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 between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated profits.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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 sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

#### *Buildings under development for future owner-occupied purpose*

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

### Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties 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 and 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 profit or loss in the period in which the property is derecognised.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction 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 receivables.

### 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.

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

## 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 leases 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. Other than investment properties measured under fair value model, such costs are recognised as an expense on a straight-line basis over the lease term.

#### *The Group as lessee*

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy above).

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 lease term.

#### *Leasehold land and building for own use*

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 that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Retirement benefits costs and termination benefits

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

### Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an 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 (such as 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.

### Government grants

Government grants are not recognised until there is 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.

## 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. Amortisation for intangible assets with finite useful lives 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 (see accounting policy in respect of impairment losses on tangible and intangible assets below).

#### *Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised 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 with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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

### 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 of income or expense that are taxable or deductible in other years and 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 bases 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 differences to the extent that it 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 the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, 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 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 each 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 rate (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 amount of its assets and liabilities.

For the purposes of measuring deferred tax 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 they relate 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 the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 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 or financial liabilities at fair value through profit or loss) 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 fair value through profit or loss are recognised immediately in profit or loss.

#### *Financial assets*

The Group's financial assets are mainly loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. 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 debt instrument, 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.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost less any identified impairment losses at the end of each reporting period (see accounting policy in respect of impairment loss on financial assets below).

## 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. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, refundable deposits, other receivables, entrusted loan receivable, amounts due from an associate and related parties, pledged bank deposits and bank balances) are measured at amortised cost using the effective interest method, less any 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.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where 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 financial assets have been affected.

For financial assets, objective evidence of impairment could include:

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

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 and 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 the estimated future cash flows discounted at the financial asset's original effective interest rate.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

#### *Financial assets* (Continued)

*Impairment of financial assets (Continued)*

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset that is measured at cost less impairment is considered to be impaired, impairment loss is recognised in profit or loss immediately.

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

#### *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 Group are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities at amortised cost*

Financial liabilities including trade and bills payables, other payables, accrued charges, amount due to an associate, obligations under finance lease, consideration payable and borrowings 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)

*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 period. 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.

#### *Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise its retained interest in the asset and an associated liability for amounts it may have to pay. 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 sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Equity-settled share-based payment transactions

#### *Share options granted to employees*

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.

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 option reserve). 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 option reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in the share option reserve will be transferred to 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 option reserve will be transferred to accumulated profits.

### Inventories

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges 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 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, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

### Impairment 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 with finite useful lives 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 cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) 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 measurable), 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 (or a cash-generating unit) 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 cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

## 5. CRITICAL ACCOUNTING JUDGEMENT IN APPLYING ACCOUNTING POLICIES AND 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 judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated 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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following is the critical judgment, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that has the most significant effect on the amounts recognised in the consolidated financial statements.

## 5. CRITICAL ACCOUNTING JUDGEMENT IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Control over Harmony Gas

Note 38 describes that Harmony Gas and its subsidiaries have become subsidiaries of the Group during the year ended 31st December, 2015 although the Group has only 50% ownership interest in Harmony Gas. The Directors assessed whether or not the Group has control over Harmony Gas based on whether the Group has the practical ability to direct the relevant activities of Harmony Gas and its subsidiaries unilaterally. In making the judgement, the Directors considered: (i) the Group's absolute size of holding in Harmony Gas; (ii) revised shareholders agreement entered into during the current year that gives the Group a contractual right to appoint 4 out of 7 directors to the board of directors of Harmony Gas which simple majority vote is required for decisions regarding the key relevant activities of Harmony Gas; and (iii) revised shareholders agreement entered into during the current year that gives the Group a right to appoint the legal representative and all directors in each of the subsidiaries of Harmony Gas.

After assessment, the Directors concluded that the Group has sufficiently voting interest to direct the relevant activities of Harmony Gas and therefore the Group has control over Harmony Gas.

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 within the next financial year.

### Estimated impairment of goodwill, other intangible assets, property, plant and equipment and prepaid lease payments

Determining whether an impairment loss is required requires an estimate of the future cash flows of the relevant cash generating unit to which the assets belong expected to arise. The recoverable amount is determined based on the value in use calculation which requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. Where the future cash flows are less than expected or due to changes in estimates, a material impairment loss may arise. Details of the recoverable amount calculation for the cash generating units in respect of connection of pipeline construction are set out in note 18, whereas cash generating units in respect of sales of piped gas, operations of compressed natural gas ("CNG") vehicle filling stations and Harmony Gas are set out in note 19.

### Estimated impairment of trade and bills receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2016, the carrying amount of trade and bills receivables is HK$411,101,000 (net of allowance for doubtful debts of HK$7,615,000) (2015: carrying amount of trade and bills receivables is HK$318,762,000 (net of allowance for doubtful debts of HK$2,049,000).

## 5. CRITICAL ACCOUNTING JUDGEMENT IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the relevant assets, after taking into account their estimated residual value, if any. The Group reviews the estimated useful lives of the assets annually in order to determine the amount of depreciation expenses to be recorded during the periods. The useful lives are based on the Group's historical experience with similar assets taking into account anticipated technological changes. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates. As at 31st December, 2016, the carrying value of property, plant and equipment is approximately HK$5,625,852,000 (2015: HK$4,470,817,000).

### Fair value measurements and valuation processes of assets

As described in note 17, pipelines included in property, plant and equipment were revalued as at 31st December, 2016 based on depreciated replacement cost method ("DRC") determined by independent professional valuer. Such valuations were based on certain assumptions, which are subject to uncertainty and may materially differ from the actual results. In making the estimation for depreciated replacement cost for pipelines, the independent professional valuer considers information from the aggregate amount of the new replacement cost of the pipelines and deductions may be made to allow for the age, condition, economic or functional obsolescence and environmental factor existing at the end of the reporting period. As at 31st December, 2016, the carrying amount of pipelines is approximately HK$3,537,327,000.

## 6. TURNOVER

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

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

## 7. SEGMENT INFORMATION

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

Information that is reported to the CODM for the purpose of resources allocation and assessment of performance focuses on the type of products or services rendered which is also consistent with the basis of organisation of the Group, except for the performance of Harmony Gas, which ceased to be a joint venture of the Group and has become a subsidiary of the Group since 8th December, 2015 as a result of change of the shareholders agreement as detailed in note 38. The Group considered Harmony Gas and its subsidiaries as a single operating and reportable segment as CODM reviewed the total revenue and overall result of Harmony Gas for the reporting periods.

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

(a) sales of piped gas;

(b) connection revenue from gas pipeline construction;

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

(d) sales of liquefied petroleum gas;

(e) sales of stoves and related equipment; and

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

## 7. SEGMENT INFORMATION *(Continued)*

### Segment revenue and results

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

**For the year ended 31st December, 2016**

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

For the year ended 31st December, 2015

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

## 7. SEGMENT INFORMATION *(Continued)*

### Segment revenue and results *(Continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Except for segment profit (loss) of Harmony Gas and its subsidiaries which is presented as a separate segment, segment profit (loss) represents the financial result of each segment without allocation of central administration costs, directors' salaries, interest income, increase in fair value of investment properties, gain on obtaining control over Harmony Gas and its subsidiaries, net foreign exchange loss, certain sundry income, share of results of a joint venture, finance costs and income tax expenses. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

### Segment assets and liabilities

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

**As at 31st December, 2016**

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

## 7. SEGMENT INFORMATION *(Continued)*

### Segment assets and liabilities *(Continued)*

As at 31st December, 2015

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

## 7. SEGMENT INFORMATION *(Continued)*

### Segment assets and liabilities *(Continued)*

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

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

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

### Other segment information

**2016**

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

## 7. SEGMENT INFORMATION *(Continued)*

### Other segment information *(Continued)*

2015

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

### Geographical information

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

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

## 8. OTHER GAINS AND LOSSES

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Net (allowance) reversal of allowance for doubtful debts | | |
| – trade receivables | (5,566) | 281 |
| – other receivables | 3,604 | (641) |
| Net foreign exchange loss | (138,173) | (164,899) |
| Increase in fair value of investment properties | 6,407 | 201 |
| (Impairment loss) reversal of impairment loss recognised on amounts due from customers for contract work | (27,010) | 1,085 |
| Net gain on disposal/written-off of property, plant and equipment | 2,634 | 3,591 |
| Gain on obtaining control over Harmony Gas and its subsidiaries (note 38) | – | 86,749 |
| | (158,104) | (73,633) |

## 9. OTHER INCOME

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

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

## 10. FINANCE COSTS

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

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

## 11. INCOME TAX EXPENSES

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| PRC Enterprise Income Tax: | | |
| Current tax | 181,667 | 147,014 |
| Underprovision in prior years | 2,871 | 1,823 |
| Withholding tax levied on dividends paid previously not recognised | 9,620 | 10,550 |
| | 194,158 | 159,387 |
| Deferred tax (note 35) | (2,840) | (1,750) |
| | 191,318 | 157,637 |

## 11. INCOME TAX EXPENSES *(Continued)*

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

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

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

The 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** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit before tax | **294,919** | 307,505 |
| Tax at the domestic income tax rate of 25% (2015: 25%) (Note) | **73,730** | 76,876 |
| Tax effect of expenses not deductible for tax purpose | **66,021** | 47,867 |
| Tax effect of income not taxable for tax purpose | **(8,750)** | (18,311) |
| Underprovision in respect of prior years | **2,871** | 1,823 |
| Tax effect of share of results of a joint venture | **–** | 12,991 |
| Tax effect of share of results of associates | **(4,824)** | 504 |
| Tax effect of estimated tax losses not recognised | **23,844** | 6,990 |
| Utilisation of estimated tax losses previously not recognised | **(18,955)** | (543) |
| Withholding tax levied on dividends paid previously not recognised | **9,620** | 10,550 |
| Effect of different tax rates of group entities operating in other jurisdictions | **47,761** | 18,890 |
| Tax charge for the year | **191,318** | 157,637 |

Note: The domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used.

## 12. PROFIT FOR THE YEAR

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

## 13. DIRECTORS', JOINT MANAGING DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### Directors' and joint managing directors' emoluments

The emoluments paid or payable to the Directors and the joint managing directors of the Company are as follows:

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Fees | **1,000** | 1,000 |
| Other emoluments: | | |
| – Salaries and other benefits | **13,066** | 10,230 |
| – Discretionary and performance related incentive payments | **3,390** | 6,780 |
| – Contributions to retirement benefits scheme | **67** | 52 |
| Total emoluments | **17,523** | 18,062 |

## 13. DIRECTORS', JOINT MANAGING DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

### Directors' and joint managing directors' emoluments *(Continued)*

The emoluments of Directors and the joint managing directors of the Company are analysed as follows:

| | 2016 | | | | | 2015 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fees HK$'000 | Salaries and other benefits HK$'000 | Discretionary and performance related incentive payments HK$'000 (note iv) | Contributions to retirement benefits scheme HK$'000 | Total HK$'000 | Fees HK$'000 | Salaries and other benefits HK$'000 | Discretionary and performance related incentive payments HK$'000 (note iv) | Contributions to retirement benefits scheme HK$'000 | Total HK$'000 |
| **Executive directors** | | | | | | | | | | |
| Mr. Wang Wenliang (note i) | – | 5,010 | – | – | 5,010 | – | 4,770 | – | – | 4,770 |
| Mr. Peng Wei (note ii) | – | 3,150 | – | – | 3,150 | – | 881 | – | – | 881 |
| Mr. Lui Siu Keung (note iii) | – | 3,658 | 3,390 | 18 | 7,066 | – | 3,170 | 6,780 | 18 | 9,968 |
| Mr. Lu Zhaoheng | – | 1,248 | – | 49 | 1,297 | – | 1,409 | – | 34 | 1,443 |
| **Non-executive director** | | | | | | | | | | |
| Mr. Xu Yongxuan | 250 | – | – | – | 250 | 250 | – | – | – | 250 |
| **Independent non-executive directors** | | | | | | | | | | |
| Mr. Li Chunyan | 250 | – | – | – | 250 | 250 | – | – | – | 250 |
| Dr. Luo Yongtai | 250 | – | – | – | 250 | 250 | – | – | – | 250 |
| Mr. Hung, Randy King Kuen | 250 | – | – | – | 250 | 250 | – | – | – | 250 |
| | 1,000 | 13,066 | 3,390 | 67 | 17,523 | 1,000 | 10,230 | 6,780 | 52 | 18,062 |

Notes:

(i) Mr. Wang Wenliang resigned as a joint managing director of the Company with effect from 16th October, 2015. His emoluments for the year ended 31st December, 2015 included those for services rendered by him as a joint managing director.

(ii) Mr. Peng Wei was appointed as an executive director and a joint managing director of the Company with effect from 16th October, 2015. His emoluments disclosed above include those for service rendered by him as a joint managing director. He resigned as a joint managing director and an executive director of the Company with effect from 1st October, 2016.

(iii) Mr. Liu Siu Keung is also the chief executive officer of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive officer.

(iv) The discretionary and performance related incentive payments are determined by reference to the individual performance of the Directors and the Group's operating results, and approved by the remuneration committee. In the year ended 31st December, 2015, Mr. Wang Wenliang waived emoluments of HK$5,650,000.

## 13. DIRECTORS', JOINT MANAGING DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

### Directors' and joint managing directors' emoluments *(Continued)*

No emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as a compensation for loss of office for both years.

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.

The non-executive director's emoluments shown above was mainly for his services as director of the Company and its subsidiaries.

The independent non-executive directors' emoluments shown above were mainly for their services as Directors.

### Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2015: four) were Directors whose emoluments are disclosed above. The emoluments of the remaining one (2015: one) individual was as follows:

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other benefits | **2,287** | 675 |
| Contributions to retirement benefits scheme | **121** | 35 |
| | **2,408** | 710 |

The above emoluments were within the band of HK$2,000,001 to HK$2,500,000 (2015: nil to HK$1,000,000).

## 14. DIVIDENDS

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

## 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:

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

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

## 16. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| **FAIR VALUE** | |
| At 1st January, 2015 | 9,365 |
| Exchange adjustments | (554) |
| Increase in fair value recognised in profit or loss (note i) | 201 |
| At 31st December, 2015 | 9,012 |
| Transfer from property, plant and equipment (note ii) | 22,026 |
| Exchange adjustments | (2,152) |
| Additions | 1,762 |
| Increase in fair value recognised in other comprehensive income (note ii) | 6,693 |
| Increase in fair value recognised in profit or loss (notes i & ii) | 6,407 |
| At 31st December, 2016 | 43,748 |

## 16. INVESTMENT PROPERTIES *(Continued)*

Notes:

(i) The fair value of the Group's investment properties at 31st December, 2016 and 2015 has been arrived at on the basis of a valuation carried out on the respective dates by 河南九鼎資產評估有限公司, independent qualified professional valuer not connected to the Group.

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. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in the PRC and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties. There has been no change from the valuation technique used in the prior year.

(ii) During the year ended 31st December, 2016, certain previously self-used property of the Group have been rented out to independent third party. Accordingly the carrying amount of the property of HK$22,026,000 with fair value of HK$29,991,000 was transferred to investment properties of the Group.

The fair value of the Group's investment property at the relevant date of transfer from property, plant and equipment has been arrived at on the basis of a valuation carried out on that date by GW Financial Advisory Services Limited, independent qualified professional valuer not related to the Group. The fair value was determined based on direct comparison approach making reference to comparable market observable transactions of similar locations and conditions as available in the relevant market.

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.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. At the end of each reporting periods, the chief financial officer of the Group works closely with the independent qualified professional valuers to establish and determine the appropriate valuation techniques and inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the management of the Group.

## 16. INVESTMENT PROPERTIES *(Continued)*

### Information about fair value measurements using significant unobservable inputs

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

| Description | Fair value | | Fair value hierarchy | Valuation techniques | Significant unobservable inputs | Relationship of inputs to fair value |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | | | | |
| | **HK$'000** | HK$'000 | | | | |
| Commercial property units located in the PRC (note i) | **9,089** | 9,012 | Level 3 | Income approach | Discount rate (2016: 7.76%; 2015: 7.43%) | The higher the discount rate, the lower the fair value |
| Commercial property units located in the PRC (note ii) | **34,659** | N/A | Level 2 | Direct comparison approach | Market price (2016: RMB15,000 to RMB18,495 per square metre) | The higher the market price, the higher the fair value |
| | **43,748** | 9,012 | | | | |

There were no transfers into or out of Level 3 during the year.

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Construction in progress | Leasehold improvements | Pipelines | Machinery and equipment | Furniture and fixtures | Motor vehicles | Total |
|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| COST OR VALUATION | | | | | | | | |
| At 1st January, 2015 | 327,459 | 469,725 | 17,692 | 2,224,857 | 392,733 | 14,456 | 105,702 | 3,552,624 |
| Exchange adjustments | (21,191) | (34,917) | (1,007) | (151,865) | (25,865) | (1,001) | (8,307) | (244,153) |
| Acquisition of assets and liabilities through acquisition of a subsidiary (note 39) | 3,791 | – | – | – | 790 | 6 | – | 4,587 |
| Obtaining control over Harmony Gas and its subsidiaries (note 38) | 28,060 | 229,368 | 2,705 | 686,119 | 15,901 | 2,165 | 34,034 | 998,352 |
| Additions | 26,918 | 601,321 | – | 17,237 | 15,831 | 1,850 | 15,765 | 678,922 |
| Disposals/written-off | (12,963) | – | – | (687) | (8,967) | – | (2,549) | (25,166) |
| Transfer | 18,402 | (390,720) | – | 338,128 | 34,117 | 73 | – | – |
| At 31st December, 2015 | 370,476 | 874,777 | 19,390 | 3,113,789 | 424,540 | 17,549 | 144,645 | 4,965,166 |
| Exchange adjustments | (38,516) | (51,903) | (1,211) | (210,295) | (33,322) | (1,413) | (9,023) | (345,683) |
| Acquisitions of subsidiaries (note 38) | 5,911 | 24,371 | – | 19,595 | 15,855 | – | 196 | 65,928 |
| Additions | 26,079 | 688,400 | 1,264 | 2,518 | 34,550 | 2,739 | 4,952 | 760,502 |
| Disposals/written-off | (3,385) | – | (20) | (12,959) | (2,925) | (831) | (12,194) | (32,314) |
| Transfer | 337,232 | (542,009) | – | 113,310 | 87,584 | 3,594 | 289 | – |
| Transfer to investment property | (22,940) | – | – | – | – | – | – | (22,940) |
| Revaluation | – | – | – | 511,369 | – | – | – | 511,369 |
| At 31st December, 2016 | 674,857 | 993,636 | 19,423 | 3,537,327 | 526,282 | 21,638 | 128,865 | 5,902,028 |
| DEPRECIATION | | | | | | | | |
| At 1st January, 2015 | 50,572 | – | 2,877 | 207,527 | 92,227 | 7,028 | 47,584 | 407,815 |
| Exchange adjustments | (3,836) | – | (102) | (16,217) | (7,103) | (526) | (3,248) | (31,032) |
| Provided for the year | 13,178 | – | 2 | 73,117 | 26,666 | 1,596 | 10,756 | 125,315 |
| Eliminated on disposals/written-off | (2,258) | – | – | (9) | (2,591) | (3) | (2,888) | (7,749) |
| At 31st December, 2015 | 57,656 | – | 2,777 | 264,418 | 109,199 | 8,095 | 52,204 | 494,349 |
| Exchange adjustments | (5,179) | – | (105) | (21,410) | (9,822) | (725) | (3,555) | (40,796) |
| Provided for the year | 23,244 | – | – | 84,698 | 41,090 | 4,226 | 13,234 | 166,492 |
| Eliminated on disposals/written-off | (231) | – | (2) | (1,540) | (2,181) | (758) | (12,077) | (16,789) |
| Transfer to investment property | (914) | – | – | – | – | – | – | (914) |
| Elimination on revaluation | – | – | – | (326,166) | – | – | – | (326,166) |
| At 31st December, 2016 | 74,576 | – | 2,670 | – | 138,286 | 10,838 | 49,806 | 276,176 |
| CARRYING VALUES | | | | | | | | |
| At 31st December, 2016 | 600,281 | 993,636 | 16,753 | 3,537,327 | 387,996 | 10,800 | 79,059 | 5,625,852 |
| At 31st December, 2015 | 312,820 | 874,777 | 16,613 | 2,849,371 | 315,341 | 9,454 | 92,441 | 4,470,817 |

## 17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Buildings | Over the remaining terms of leases |
| Leasehold improvements | Over the remaining term of leases |
| Pipelines | Over the shorter of 30 years or operation period of the relevant company |
| Machinery and equipment | 6% – 30% |
| Furniture and fixtures | 20% |
| Motor vehicles | 10% – 18% |

As at 31st December, 2016, the Group is in the process of obtaining title deeds from relevant government authority for its buildings in the PRC amounting to HK$92,473,000 (2015: HK$59,386,000). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the title deeds for its buildings in the PRC.

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

### Fair value measurement of the Group's pipelines

At 31st December, 2016, the fair value of the Group's pipelines was valued by the independent qualified professional valuer, GW Financial Advisory Services Limited, using DRC approach.

In determining the fair value of the pipelines, at the end of each reporting period, the chief financial officer ("CFO") works closely with the independent qualified professional valuer to establish and determine the appropriate valuation techniques and inputs to be used in determining the fair value of the assets. Discussion of valuation processes and results is held between CFO and the directors of the Company at least once a year.

The fair value of the pipelines has been determined using the DRC method that reflects the cost to a market participant to construct assets of comparable utility and the age of the pipelines, adjusted for obsolescence. The Group has determined that the highest and best use of the pipelines at the measurement date would be their existing use.

The Group's pipelines at revalued amount are categorised into level 3 of the fair value hierarchy.

## 17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### Fair value measurement of the Group's pipelines *(Continued)*

The following table shows the valuation techniques used in the determination of fair values and unobservable inputs used in the valuation models.

| Description | Fair value 2016 HK$'000 | Fair value 2015 HK$'000 | Valuation techniques | Significant unobservable inputs | Significant inputs |
|---|---|---|---|---|---|
| Pipelines | **3,537,327** | N/A | DRC approach | (a) historical labour cost (RMB/year) | (a) RMB7,456 to RMB48,886 (from 1998 to 2016) |
| | | | | (b) historical raw chemical materials purchasing price indices for industrial producers | (b) 93.60 to 110.40 (from 1998 to 2016) |

A significant positive adjustment to any of the above significant unobservable inputs would result in a significant increase in fair value of the pipelines, and vice versa.

Had the pipelines at 31st December, 2016 been carried at cost less accumulated depreciation and accumulated impairment losses, its carrying value would have been approximately HK$2,699,792,000.

## 18. GOODWILL

| | 2016 HK$'000 | 2015 HK$'000 |
|---|---|---|
| Cost and carrying amount | | |
| At 1st January | **199,859** | 141,442 |
| Exchange adjustments | **(12,669)** | (9,218) |
| Arising on acquisitions of subsidiaries (note 38) | **21,696** | – |
| Obtaining control over Harmony Gas and its subsidiaries (note 38) | **–** | 67,635 |
| At 31st December | **208,886** | 199,859 |

For the purposes of impairment testing, the carrying amount of goodwill has been allocated to individual cash generating units ("CGUs") relating to sales of piped gas ("Unit A") amounting to HK$96,272,000 in aggregate (2015: HK$79,671,000), connection of pipeline constructions ("Unit B") amounting to HK$50,167,000 in aggregate (2015: HK$53,563,000) and Harmony Gas ("Unit D") amounting to HK$62,447,000 (2015: HK$66,625,000).

Impairment assessment of Units A and D are set out in note 19.

The basis of the recoverable amounts and its major underlying assumptions of the CGUs engaged in Unit B are summarised below:

Unit B consisted of several CGUs which represent individual operation of certain subsidiaries engaging in the connection of pipeline constructions. For impairment test purpose, management reviews each CGU's recoverable amount and compares with the carrying amount of respective CGU. The recoverable amount of each CGU engaged in Unit B has been determined based on value in use calculation. For impairment assessment purposes, cash flow projections based on financial budgets approved by management covering a 5-year period (2015: 5-year period) at a discount rate of 12.25% (2015: 13.00%) was used. The cash flows of each CGU engaged in Unit B beyond the 5-year period (2015: 5-year period) of the financial budgets are extrapolated using a steady 2% (2015: 2%) growth rate for a number of years based on the useful life of the majority assets of each CGU. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the past performance of the respective CGUs engaged in Unit B and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit B to exceed the aggregate recoverable amount of Unit B. At the end of each reporting period, the recoverable amounts of each CGU engaged in Unit B exceeds its carrying amount, therefore, no impairment loss is considered necessary.

## 19. OTHER INTANGIBLE ASSETS

| | Exclusive rights of operation HK$'000 | Other operating rights HK$'000 | Total HK$'000 |
|---|---|---|---|
| COST | | | |
| At 1st January, 2015 | 750,751 | 183,476 | 934,227 |
| Exchange adjustments | (43,949) | (11,214) | (55,163) |
| Obtaining control over Harmony Gas and its subsidiaries (note 38) | 345,116 | – | 345,116 |
| At 31st December, 2015 | 1,051,918 | 172,262 | 1,224,180 |
| Exchange adjustments | (67,343) | (8,568) | (75,911) |
| Additions | 4,443 | – | 4,443 |
| Acquisitions of subsidiaries (note 38) | 100,901 | – | 100,901 |
| At 31st December, 2016 | 1,089,919 | 163,694 | 1,253,613 |
| AMORTISATION AND IMPAIRMENT | | | |
| At 1st January, 2015 | 41,631 | 103,760 | 145,391 |
| Exchange adjustments | (1,746) | (4,715) | (6,461) |
| Charged for the year and impairment | 49,529 | 2,374 | 51,903 |
| At 31st December, 2015 | 89,414 | 101,419 | 190,833 |
| Exchange adjustments | (717) | (12,830) | (13,547) |
| Charged for the year and impairment | 28,307 | 9,210 | 37,517 |
| At 31st December, 2016 | 117,004 | 97,799 | 214,803 |
| CARRYING VALUES | | | |
| At 31st December, 2016 | 972,915 | 65,895 | 1,038,810 |
| At 31st December, 2015 | 962,504 | 70,843 | 1,033,347 |

## 19. OTHER INTANGIBLE ASSETS *(Continued)*

The exclusive rights of operation represent sales and distribution of piped gas in certain cities in Henan, Shandong, Fujian, Jiangsu, Heilongjiang, Hebei, Zhejiang, Jilin and Anhui provinces and are amortised on a straight-line method over the period of a range of 12 to 39 years, which is the remaining finite useful life period being granted for exclusive operations in the relevant cities.

Other operating rights represent the licences possessed by the Group's subsidiaries, 濟源中裕壓縮氣有限公司 ("JYCG"), 漯河中裕壓縮氣有限公司 ("LZCG"), 三門峽中裕壓縮氣有限公司 ("SZCG") and 南京中裕壓縮氣有限公司 ("NZCG") to operate sixteen CNG vehicle filling stations in Jiyuan City, Luohe City, Sanmenxia City and Nanjing City and are amortised on a straight-line method over a period of 30 years, which is the period of the licenses being granted for operating CNG vehicle filling stations.

The Group tests intangible assets annually or more frequently if there are indications that intangible assets might be impaired.

For the purpose of impairment testing, the carrying amounts of intangible assets have been allocated to the respective cash-generating units as follows:

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Sales of piped gas ("Unit A") | **671,053** | 622,537 |
| Operation of CNG vehicle filling stations ("Unit C") | **65,895** | 70,843 |
| Harmony Gas ("Unit D") | **301,862** | 339,967 |

### Impairment testing on Unit A

Unit A consists of several CGUs which represent the operations of different subsidiaries engaging in sales of piped gas. For impairment test purpose, management reviews each CGU's recoverable amount and compares with the carrying amount of the respective CGU. The aggregate carrying amounts of the CGUs of Unit A comprise intangible assets of HK$671,053,000 (2015: HK$622,537,000), goodwill of HK$96,272,000 (2015: HK$79,671,000), property, plant and equipment of HK$2,248,808,000 (2015: HK$2,047,391,000) and prepaid lease payments of HK$155,650,000 (2015: HK$160,880,000). The recoverable amount of each CGU has been determined based on the value in use calculation of each CGU using the following assumptions for 2016 and 2015:

| | |
|---|---|
| Period of cash flow projections | 5 years (2015: 5 years) |
| Growth rates beyond 5-year period extrapolated in the financial budgets approved by the management | 1.27% – 4.66%<br>(2015: 0.25% – 5.94%) |
| Discount rates | 12.25%<br>(2015: 11.00% – 13.60%) |

## 19. OTHER INTANGIBLE ASSETS *(Continued)*

### Impairment testing on Unit A *(Continued)*

This growth rate is based on the relevant industry growth forecast and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the respective CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit A to exceed the aggregate recoverable amount of Unit A.

At the end of the reporting period, the recoverable amount of each CGU of Unit A exceeds its carrying amount and no impairment loss is considered necessary for the year ended 31st December, 2016. At 31st December, 2015, the recoverable amount of one CGU with carrying value of intangible assets of HK$152,350,000 (before impairment) is determined on the basis of the value in use calculation using the key assumptions as set out above. Due to the delay of the commencement of construction of pipelines, the revision of the estimate future cash flows resulted in a lower value in use as at 31st December, 2015. Hence, impairment loss of HK$37,394,000 was recognised in profit or loss during the year ended 31st December, 2015.

### Impairment testing on Unit C

Unit C consists of several CGUs which represent the operation of different subsidiaries engaging in the operation of CNG vehicle filling stations. For impairment test purpose, management reviews each CGU's recoverable amount for comparison with the carrying amount of the respective CGU. The aggregate carrying amounts of the CGUs of Unit C comprise intangible assets of HK$65,895,000 (2015: HK$70,843,000), property, plant and equipment of HK$76,235,000 (2015: HK$73,118,000) and prepaid lease payments of HK$42,285,000 (2015: HK$46,415,000). The recoverable amount of each CGU has been determined based on the value in use calculation of each CGU using the following assumptions for 2016 and 2015:

| | |
|---|---|
| Period of cash flow projections | 5 years (2015: 5 years) |
| Growth rate beyond 5-year period extrapolated in the financial budgets | 0% (2015: 0%) |
| Discount rate | 12.25% (2015: 14.00%) |

There is no growth rate expected based on historical data. A key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the respective CGU's past performance and management's expectations for the market development. As at 31st December, 2015 and 2016, the recoverable amount of each CGU of Unit C approximates its carrying amount and no impairment loss or reversal of impairment loss is considered necessary.

## 19. OTHER INTANGIBLE ASSETS *(Continued)*

### Impairment testing on Unit D

Unit D consists of several CGUs which represent the operations of different subsidiaries of Harmony Gas engaging in trading of natural gas. For impairment test purpose, management reviews each CGU's recoverable amount for comparison with the carrying amount of the respective CGU. The aggregate carrying amounts of the CGUs of Unit D comprise intangible assets of HK$301,862,000 (2015: HK339,967,000), goodwill of HK$62,447,000 (2015: HK$66,625,000), property, plant and equipment of HK$838,343,000 (2015: HK$754,481,000) and prepaid lease payments of HK$5,782,000 (2015: HK$6,149,000). The recoverable amount of each CGU has been determined based on the value in use calculation of each CGU using the following assumptions for 2016:

| | |
|---|---|
| Period of cash flow projections | 5 years (2015: 5 years) |
| Growth rate beyond 5-year period extrapolated in the financial budgets approved by the management | 2% (2015: 0%) |
| Discount rate | 12.25% (2015: 13.08%) |

The growth rate is based on the relevant industry growth forecast and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the respective CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit D to exceed the aggregate recoverable amount of Unit D. At the end of each reporting period, the recoverable amount of each CGU of Unit D exceeds its carrying amount and no impairment loss is considered necessary.

## 20. LONG-TERM DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Deposit paid for acquisition of additional interest in a subsidiary | **5,869** | 6,266 |
| Deposits paid for acquisition of property, plant and equipment | **226,716** | 215,632 |
| Deposits paid for acquisition of leasehold land | **91,467** | 124,046 |
| Investments in life insurance contracts | **75,547** | 73,854 |
| Other long-term deposit | **8,401** | 8,952 |
| | **408,000** | 428,750 |

## 20. LONG-TERM DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

### Deposit paid for acquisition of additional interest of a subsidiary

On 6th January, 2014, 中裕(河南)能源控股有限公司 ("Zhongyu Henan"), a wholly-owned subsidiary of the Group, entered into an equity transfer agreement with an independent third party to further acquire 20% equity interest in 温縣中裕壓縮氣有限公司 ("Wen County Zhongyu") at a total cash consideration of approximately RMB5,250,000 (equivalent to HK$6,655,000). Wen County Zhongyu is principally engaged in operation of CNG/LNG vehicle filling stations in the PRC. RMB5,250,000 (equivalent to HK$6,655,000) was paid during the year ended 31st December, 2014. The transaction is yet completed as at 31st December, 2016, subject to certain conditions which are not yet satisfied at the end of the reporting period.

### Deposits paid for acquisition of property, plant and equipment

As at 31st December, 2016, deposit of RMB74,753,000 (equivalent to HK$83,570,000) (2015: RMB86,118,000, equivalent to HK$102,791,000) was paid to a supplier for acquisition of construction materials mainly for construction of the Group's pipelines.

### Investments in life insurance contracts

The Group had entered into two life insurance contracts with HSBC Life (International) Limited to insure two executive directors of the Company.

Under the policies, the beneficiary and policy holder is the Company, and the total insured sum is approximately US$32,000,000 (equivalent to HK$248,205,000). The Company paid a gross premium in aggregate of US$9,272,000 (equivalent to HK$71,866,000), including premium charge at inception of the policies amounting to US$556,347 (equivalent to HK$4,315,000). The Company may request a partial surrender or full surrender of the policies at any time and receive cash back based on the cash value of the policies at the date of withdrawal, which is determined based on the gross premium paid plus accumulated guaranteed interest earned and minus insurance premium charged at inception. In addition, if withdrawal is made between the 1st to 18th policy year, there is a specified surrender charge.

During the year ended 31st December, 2016, interest income from investments in life insurance contracts of HK$2,704,000 (2015: HK$2,376,000) was recognised in profit or loss.

At 31st December, 2016, the expected life of the policy remained unchanged from the initial recognition and the Directors considered that the financial impact of the option to terminate the policy was insignificant.

## 21. PREPAID LEASE PAYMENTS

All the Group's prepaid lease payments comprise property interests in leasehold land in the PRC.

At 31st December, 2016, the Group is in process of obtaining land use right certificates from relevant government authorities for its land in the PRC amounting to HK$50,692,000 (2015: HK$47,597,000). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the land use right certificates for its land in the PRC.

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

## 22. INTERESTS IN ASSOCIATES

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Cost of unlisted investments | **159,806** | 159,806 |
| Share of post-acquisition losses | **17,277** | (2,018) |
| Exchange adjustments | **(13,049)** | (2,370) |
| | **164,034** | 155,418 |

Details of the Group's associates as at 31st December, 2015 and 2016 are as follows:

| Name of company | Place of establishment | Form of business structure | Proportion of nominal value of registered capital held by the Group (Note) 2016 | 2015 | Principal activities |
|---|---|---|---|---|---|
| Beijing Zhongran Xiangke Oil and Gas Technology Co., Ltd. ("Zhongran Xiangke") | PRC | Sino-foreign joint venture | **40%** | 40% | Sales of natural gas and gas pipeline construction |
| Qujing City Fuel Gas Co., Ltd. ("Qujing") | PRC | Limited liability company | **39%** | 39% | Sales of natural gas and gas pipeline construction |

Note: The above associates are held by subsidiaries of Harmony Gas and are presented separately as interests in associates since Harmony Gas become a subsidiary of the Group during the year ended 31st December, 2015. Details are set out in note 38.

## 22. INTERESTS IN ASSOCIATES *(Continued)*

### Summarised financial information of associates

Summarised financial information in respect of the Group's associates is set out below. The summarised financial information below represents amounts shown in the associates' management accounts for the year ended 31st December, 2016, with comparative figures of the period from 8th December, 2015, i.e. the date when the Group obtained control over Harmony Gas and its subsidiaries (note 38) to 31st December, 2015, prepared in accordance with HKFRSs. All of these associates are accounted for using the equity method in the Group's consolidated financial statements.

#### *Zhongran Xiangke*

*Zhongran Xiangke and its subsidiaries (collectively "Zhongran Xiangke Group")*

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current assets | **321,263** | 266,154 |
| Non-current assets | **403,460** | 379,025 |
| Current liabilities | **(258,735)** | (225,834) |
| Net assets | **465,988** | 419,345 |
| Equity attributable to owners of Zhongran Xiangke Group | **410,086** | 374,265 |
| Non-controlling interests | **55,902** | 45,080 |
| | **465,988** | 419,345 |

## 22. INTERESTS IN ASSOCIATES *(Continued)*

### Summarised financial information of associates *(Continued)*

***Zhongran Xiangke*** *(Continued)*

*Zhongran Xiangke and its subsidiaries (collectively "Zhongran Xiangke Group") (Continued)*

| | **1.1.2016 to 31.12.2016 HK$'000** | 8.12.2015 to 31.12.2015 HK$'000 |
|---|---|---|
| Revenue | **427,258** | 32,313 |
| Profit and total comprehensive income for the period attributable to: | | |
| Owners of Zhongran Xiangke Group | **62,209** | 3,707 |
| Non-controlling interests | **14,291** | 979 |
| | **76,500** | 4,686 |

Reconciliation of the above summarised financial information to the carrying amount of the interest in Zhangran Xiangke Group recognised in the consolidated financial statements:

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Equity attributable to owners of Zhangran Xiangke Group | **410,086** | 374,265 |
| Proportion of the Group's ownership interest in Zhangran Xiangke Group at 40% | **164,034** | 149,706 |
| Carrying amount of the Group's interest in Zhangran Xiangke Group | **164,034** | 149,706 |

## 22. INTERESTS IN ASSOCIATES *(Continued)*

### Summarised financial information of associates *(Continued)*

#### *Qujing*

*Qujing and its subsidiaries (collectively "Qujing Group")*

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Current assets | 236,085 | 346,073 |
| Non-current assets | 759,386 | 782,342 |
| Current liabilities | (906,218) | (965,223) |
| Non-current liabilities | (129,902) | (133,618) |
| Net (liabilities) assets | (40,649) | 29,574 |
| Equity attributable to owners of Qujing Group | (20,131) | 14,646 |
| Non-controlling interests | (20,518) | 14,928 |
| | (40,649) | 29,574 |
| Revenue | 236,918 | 16,413 |
| Loss and total comprehensive expense for the period attributable to: | | |
| Owners of Qujing Group | (34,777) | (8,976) |
| Non-controlling interests | (35,446) | (1,231) |
| | (70,223) | (10,207) |

## 22. INTERESTS IN ASSOCIATES *(Continued)*

### Summarised financial information of associates *(Continued)*

***Qujing*** *(Continued)*

*Qujing and its subsidiaries (collectively "Qujing Group") (Continued)*

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

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Equity attributable to owners of Qujing Group | **(20,131)** | 14,646 |
| Proportion of the Group's ownership interest in Qujing Group at 39% | **–** | 5,712 |
| Carrying amount of the Group's interest in Qujing Group | **–** | 5,712 |

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| The unrecognised share of loss of Qujing Group for the year | **(7,975)** | – |

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Share of loss of Qujing Group for the year | **(5,588)** | – |

## 23. AVAILABLE-FOR-SALE INVESTMENTS

| | Club membership HK$'000 | Unlisted equity security at cost less impairment HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1st January, 2015 | 2,720 | 3,803 | 6,523 |
| Exchange adjustments | – | (222) | (222) |
| At 31st December, 2015 | 2,720 | 3,581 | 6,301 |
| Exchange adjustments | – | (227) | (227) |
| At 31st December, 2016 | 2,720 | 3,354 | 6,074 |

The investments 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 value cannot be measured reliably.

## 24. INVENTORIES

| | **2016 HK$'000** | 2015 HK$'000 |
|---|---|---|
| Construction materials | **104,403** | 101,990 |
| Finished goods | **1,460** | 1,531 |
| | **105,863** | 103,521 |

## 25. TRADE AND BILLS RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

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

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

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

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

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

## 25. TRADE AND BILLS RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

### Ageing of trade receivables which are past due but not impaired

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

### Movement in the allowance for doubtful debts

***Trade receivables***

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

***Other receivables***

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

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

## 25. TRADE AND BILLS RECEIVABLES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES *(Continued)*

### Movement in the allowance for doubtful debts *(Continued)*

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

## 26. ENTRUSTED LOAN RECEIVABLE

During the year ended 31st December, 2014, Zhongyu Henan entered into an entrusted loan agreement with China CITIC Bank Corporation Limited (the "Bank"). Pursuant to this agreement, Zhongyu Henan entrusted a principal amount of RMB20,000,000 (equivalent to HK$25,352,000) ("Entrusted Asset") to a specific corporate borrower with maturity date of 29th October, 2015, carrying interest of 6% per annum. During the year ended 31st December, 2015, Zhongyu Henan and the Bank agreed to extend the repayment date of the entire entrusted loan receivable under the supplementary entrusted loan agreement from 29th October, 2015 to 26th October, 2016, carrying interest of 4.6% per annum. During the year ended 31st December, 2016, the entire entrusted loan receivable was settled.

During the year ended 31st December, 2016, Zhongyu Henan entered into an entrusted loan agreement with the Bank. Pursuant to this agreement, Zhongyu Henan entrusted a principal amount of RMB20,000,000 (equivalent to HK$22,359,000) to the same specific corporate borrower with maturity date of 25th October, 2017, carrying interest of 4.35% per annum.

As at 31st December, 2015 and 2016, the entrusted loan receivable is not past due nor impaired.

## 27. AMOUNTS DUE FROM AN ASSOCIATE AND RELATED PARTIES

As at 31st December, 2016, amount due from an associate of RMB50,170,000 (equivalent to HK$56,087,000) (2015: RMB50,000,000 (equivalent to HK$59,680,000)) is unsecured, interest bearing at 7.5% (2015: 7.5%) per annum and repayable within one year.

As at 31st December, 2016, amount due from related parties included (i) amount due from non-controlling shareholders of subsidiaries of the Group of RMB7,500,000 (equivalent to HK$8,385,000) and RMB3,000,000 (equivalent to HK$3,354,000) are unsecured, interest bearing at 7.8% and 5.22% per annum respectively and repayable within one year; (ii) amount due from a non-controlling shareholder of a subsidiary of the Group of HK$11,290,000 (2015: HK$12,055,000); and (iii) amount due from a spouse of a non-controlling shareholder of a subsidiary of the Group of HK$1,872,000 (2015: HK$1,998,000), which are unsecured, non-interest bearing and repayable on demand.

## 28. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

| | **2016** **HK$'000** | 2015 HK$'000 |
|---|---|---|
| Contracts in progress at the end of the reporting period: | | |
| Contract costs incurred plus recognised profits | **285,483** | 297,694 |
| Less: Progress billings | **(281,949)** | (296,951) |
| Less: Impairment losses recognised net of reversal (Note) | **(43,218)** | (16,208) |
| | **(39,684)** | (15,465) |
| Analysed for reporting purposes as: | | |
| Amounts due from customers for contract work | **1,774** | 35,848 |
| Amounts due to customers for contract work | **(41,458)** | (51,313) |
| | **(39,684)** | (15,465) |

As at 31st December, 2016, advances received from customers before the contract work is performed amounted to HK$261,598,000 (2015: HK$271,793,000) and were included in "deferred income and advance received" classified as current liabilities.

Note: The Directors reviewed the recoverable amounts of the amounts due from customers for contract work and identified that certain projects are under slow construction progress. In the opinion of the Directors, for amounts that are considered to be irrecoverable, impairment losses were recognised in full. For those amounts previously impaired but subsequently settled, impairment losses were reversed. Accordingly, during the year ended 31st December, 2016, the Group recognised an impairment loss of HK$27,010,000 (2015: a reversal of impairment loss of HK$1,085,000).

## 29. PLEDGED BANK DEPOSIT AND BANK BALANCES AND CASH

The bank balances carry interest at market rates which ranged from 0.01% to 0.35% (2015: 0.01% to 0.35%) per annum for the year ended 31st December, 2016. At 31st December, 2016, the bank balances and cash of HK$680,620,000 (2015: HK$629,510,000) are denominated in RMB.

As at 31st December, 2016, the bank balances and cash consisted of HK$71,780,000 and HK$15,541,000 (2015: HK$286,210,000 and HK$68,006,000) are denominated in USD and HK$ respectively, which are foreign currencies of the respective group entities.

As at 31st December, 2016, pledged bank deposit of RMB10,353,000 (equivalent to HK$11,574,000) are used to secure the short-term general banking facilities granted to the Group. As at 31st December, 2016, the maturities of the deposits are less than one year and is classified as current asset.

As at 31st December, 2015, pursuant to a letter of undertaking, the Group is required to maintain a deposit of RMB80,000,000 (equivalent to HK$95,488,000) with a bank as a condition precedent to a short-term bank borrowing. As at 31st December, 2015, the maturity of the deposit is less than one year and is classified as current asset. The pledged bank deposit carry interest at an average market rate of 0.385% per annum. The pledged bank deposits were released during the year ended 31st December, 2016 upon settlement of the relevant bank borrowings.

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

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

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

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

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

As at 31st December, 2016, included in other payables and accrued charges are (i) deposits received from customers in relation to gas supply business of HK$43,433,000 (2015: HK$48,160,000); (ii) accrued expenses of HK$32,445,000 (2015: HK$36,250,000); (iii) unsettled consideration for the acquisition of assets and liabilities through acquisition of a subsidiary of RMB600,000, equivalent to HK$671,000 (2015: RMB2,600,000, equivalent to HK$3,103,000); and (iv) unsettled consideration for the acquisition of subsidiaries of RMB51,183,000, equivalent to HK$57,220,000 as disclosed in note 38 (2015: RMB20,650,000, equivalent to HK$26,176,000).

## 31. AMOUNT DUE TO AN ASSOCIATE

The amount due to an associate is unsecured, non-interest bearing and repayable on demand.

## 32. BORROWINGS

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Secured bank borrowings | 317,451 | 923,339 |
| Unsecured bank borrowings | 3,759,888 | 3,279,657 |
| Unsecured other borrowings | 32,091 | 33,209 |
| | 4,109,430 | 4,236,205 |
| Carrying amount repayable*: | | |
| Within one year | 571,616 | 1,172,315 |
| More than one year, but not exceeding two years | 839,136 | 2,230,180 |
| More than two years but not exceeding five years | 2,613,267 | 731,621 |
| More than five years | 85,411 | 102,089 |
| | 4,109,430 | 4,236,205 |
| Less: Amounts due within one year shown under current liabilities | (571,616) | (1,172,315) |
| | 3,537,814 | 3,063,890 |

* The amounts due are based on scheduled repayment dates set out in the respective loan agreements.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

| | 2016 | 2015 |
|---|---|---|
| Effective interest rate: | | |
| Fixed-rate borrowings | 4.35% – 5.90% | 2.60% – 7.20% |
| Variable-rate borrowings | 3.14% – 11.13% | 3.44% – 8.40% |

The Group's certain variable-rate borrowings bear interest at a range of 100% to 125% of People's Bank of China ("PBOC") Prescribed Interest Rate per annum for both years. As at 31st December, 2016, Interest of London Interbank Offered Rate ("LIBOR") plus a premium ranging from 2% to 3% (2015: 2.5% to 3.13%) per annum and as at 31st December, 2015, interest of Hong Kong Interbank Offered Rate ("HIBOR") plus a premium of 2.8% per annum is charged on remaining outstanding variable-rate loan balances.

## 32. BORROWINGS *(Continued)*

As at 31st December, 2016, the bank borrowing balances consisted of approximately HK$1,464,879,000 (2015: HK$2,951,315,000) and nil (2015: HK$373,070,000) are denominated in USD and HK$ respectively, which are foreign currencies of the respective group entities.

As at 31st December, 2016, certain bank borrowings were secured by the Group's prepaid lease payments, buildings and pledged bank deposits with the carrying amounts of HK$46,225,000 (2015: HK$44,660,000), HK$2,807,000 (2015: HK$3,147,000) and nil (2015: HK$95,488,000) respectively.

## 33. OBLIGATIONS UNDER FINANCE LEASE

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Analysed for reporting purpose as: | | |
| Current liabilities | **100,306** | 33,285 |
| Non-current liabilities | **214,789** | 121,986 |
| | **315,095** | 155,271 |

| | **Minimum lease payments** | | **Present value of minimum lease payments** | |
|---|---|---|---|---|
| | **2016**<br>**HK$'000** | 2015<br>HK$'000 | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
| Amount payable under finance leases: | | | | |
| Within one year | **111,809** | 41,339 | **100,306** | 33,285 |
| In more than one year but not more than two years | **108,899** | 41,339 | **101,682** | 35,200 |
| In more than two years but not more than five years | **114,991** | 92,629 | **113,107** | 86,786 |
| | **335,699** | 175,307 | **315,095** | 155,271 |
| Less: Future finance charges | **(20,604)** | (20,036) | **N/A** | N/A |
| Present value of lease obligations | **315,095** | 155,271 | **315,095** | 155,271 |
| Less: Amount due for settlement within one year (shown under current liabilities) | | | **(100,306)** | (33,285) |
| Amount due for settlement after one year | | | **214,789** | 121,986 |

## 33. OBLIGATIONS UNDER FINANCE LEASE *(Continued)*

The Group leased certain of its pipelines under finance lease. The lease term is five years. Interest rates underlying all obligations under finance lease were ranged from 4.280% to 5.249% per annum. No arrangement was entered into for contingent rental payments.

During the year ended 31st December, 2016, the Group obtained finance leases of RMB200,000,000 (equivalent to HK$233,590,000) (2015: RMB150,000,000 (equivalent to HK$186,706,000)) in relation to the Group's pipelines with an aggregate carrying amount of RMB416,222,000 (equivalent to HK$465,312,000) (2015: RMB200,836,000 (equivalent to HK$239,718,000)).

The Group's obligations under finance lease are secured by the lessor's charge over the leased assets.

## 34. SHARE CAPITAL

| | Number of shares 2016 & 2015 '000 | Amount 2016 & 2015 HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.01 each | | |
| Authorised | 10,000,000 | 100,000 |
| Issued and fully paid | | |
| At 1st January and 31st December | 2,525,008 | 25,250 |

All the shares issued during the year ended 31st December, 2016 rank pari passu with the then existing shares in all respects.

## 35. DEFERRED TAXATION

The following is the deferred tax liabilities recognised and movements thereon during the current and prior years.

| | Revaluation of investment properties and pipelines HK$'000 | Other intangible assets HK$'000 | Undistributed profits of subsidiaries HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1st January, 2015 | 1,655 | 43,053 | 924 | 45,632 |
| Exchange adjustments | (96) | (3,758) | (53) | (3,907) |
| Obtaining control over Harmony Gas and its subsidiaries (note 38) | – | 83,706 | – | 83,706 |
| Charge (credit) to profit or loss (note 11) | 48 | (1,798) | – | (1,750) |
| Release of previously provided deferred tax upon payment | – | – | (2,441) | (2,441) |
| At 31st December, 2015 | 1,607 | 121,203 | (1,570) | 121,240 |
| Exchange adjustments | (102) | (4,308) | 101 | (4,309) |
| Acquisitions of subsidiaries (note 38) | – | 25,226 | – | 25,226 |
| Charge (credit) to profit or loss (note 11) | 1,555 | (7,195) | 2,800 | (2,840) |
| Charge to property revaluation reserve | 211,057 | – | – | 211,057 |
| At 31st December, 2016 | 214,117 | 134,926 | 1,331 | 350,374 |

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits amounting to HK$1,252,469,000 (2015: HK$1,339,842,000) of certain PRC subsidiaries in relation to the owners of the Company. 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.

At 31st December, 2016, the Group had unused estimated tax losses of HK$259,076,000 (2015: HK$270,793,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unrecognised estimated tax losses due to unpredictability of future profit stream. Included in unrecognised tax losses are losses of PRC subsidiaries of HK$197,063,000 (2015: HK$215,295,000) that will expire in various dates up to 2021 (2015: 2020), other losses may be carried forward indefinitely.

## 36. SHARE-BASED PAYMENT TRANSACTIONS

### Equity-settled share option schemes

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

Under the New Share Option Scheme, the Directors may offer share options to any directors and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the board of directors of the Company considers, in its sole discretion, have contributed or will contribute to the Group, to subscribe for shares in the Company in accordance with the terms of the New Share Option Scheme.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme shall not, in the absence of shareholders' approval, in aggregate exceed 10% in nominal amount of the aggregate of shares in issue on the adoption date (the "Scheme Mandate Limit"). Options lapsed in accordance with the terms of the New Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

The Company may renew the Scheme Mandate Limit at any time subject to prior shareholders' approval but in any event, the total number of shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme under the limit as refreshed must not exceed 10% of the Shares in issue as at the date of the Shareholders' approval of the renewed limit. Options previously granted under the New Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the terms or exercised options) will not be counted for the purpose of calculating the limit as renewed.

Further, no options will be granted which would result in the maximum aggregate number of shares which may be issued upon exercise of all outstanding options granted but yet to be exercised under the New Share Option Scheme, the existing options granted under the Old Share Option Scheme, in aggregate, 30% of the issued share capital of the Company from time to time.

No share option has been granted since the adoption of the New Share Option Scheme on 3rd May, 2013.

## 36. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

### Equity-settled share option schemes *(Continued)*

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

| Category of grantee | Exercise price per share HK$ | Date of grant | Exercisable period | At 1st January, 2015, 31st December, 2015, 1st January, 2016 and 31st December, 2016 |
|---|---|---|---|---|
| Directors | 0.49 | 11th April, 2011 | 11th April, 2011 to to 10th April, 2021 | 2,000,000 |
| Exercisable at the end of the year | | | | 2,000,000 |
| Weighted average exercise price | | | | HK$0.49 |

## 37. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

On 30th August, 2016, a non-wholly owned subsidiary, Gas Investment China Co., Ltd. ("GICC") and AMP Capital Asian Giants Infrastructure Fund ("AMP Capital"), the non-controlling shareholder of Sino Gas Construction Limited ("SGCL") entered into an equity transfer agreement (the "Equity Transfer Agreement"), pursuant to which AMP Capital has agreed to transfer its 49% equity interest in SGCL to GICC for a cash consideration of USD9,000,000 (equivalent to HK$70,331,000). Thereafter, the Group's effective interest in SGCL increased from 13% to 37.5%. The Group maintained control over SGCL as detailed in note 46. The transaction was accounted for as an equity transaction.

The difference between the consideration paid and the carrying amount of the Group's additional interest in SGCL of HK$33,854,000 was debited to equity as other reserve during the year ended 31st December, 2016.

## 38. ACQUISITION OF BUSINESS

### Year ended 31st December, 2016

#### *Acquisition of a subsidiary – Sihong Wo Jin*

On 28th October, 2016, the Group acquired 100% of the registered share capital of 泗洪沃金燃氣有限公司 ("Sihong Wo Jin") for consideration of RMB31,245,000 (equivalent to HK$35,705,000) from independent third parties, on that date, control in Sihong Wo Jin was passed to the Group. This acquisition has been accounted for using the purchase method. Sihong Wo Jin is principally engaged in the sales of piped gas. Sihong Wo Jin was acquired so as to continue the expansion of the Group's operations.

Considered transferred:

| | HK$'000 |
|---|---|
| Cash | 35,705 |

Assets acquired and liabilities of Sihong Wo Jin recognised at the date of acquisition are as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 22,679 |
| Other intangible assets – exclusive right of operation in sales of piped gas | 24,335 |
| Trade and bills receivables | 2,018 |
| Inventories | 267 |
| Deposits, prepayments and other receivables | 1,663 |
| Bank balances and cash | 519 |
| Trade and bills payables | (484) |
| Other payables and accrued charges | (15,857) |
| Deferred tax liability | (6,084) |
| | 29,056 |

Goodwill arising on acquisition:

| | HK$'000 |
|---|---|
| Consideration transferred | 35,705 |
| Less: Fair value of identifiable net assets acquired | (29,056) |
| | 6,649 |

## 38. ACQUISITION OF BUSINESS *(Continued)*

### Year ended 31st December, 2016 *(Continued)*

#### *Acquisition of a subsidiary – Sihong Wo Jin* (Continued)

Goodwill arose in the acquisition of Sihong Wo Jin because the consideration paid for the acquisition included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce arising from the acquisition of Sihong Wo Jin. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Net cash outflow on acquisition of Sihong Wo Jin during the year ended 31st December, 2016:

| | HK$'000 |
|---|---|
| Total cash consideration | 35,705 |
| Less: cash and cash equivalents balances acquired | (519) |
| Unsettled consideration (included in other payables and accrued charges as at 31st December, 2016) (RMB5,333,000) | (5,962) |
| | 29,224 |

Included in the profit for the year ended 31st December, 2016 is loss of HK$109,000 attributable to Sihong Wo Jin. Revenue for the year ended 31st December, 2016 includes HK$1,246,000 generated from Sihong Wo Jin.

Had the acquisition of Sihong Wo Jin been completed on 1st January, 2016, total group revenue for the year would have been HK$3,728,593,000 and profit for the year would have been HK$104,329,000. 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 1st January, 2016, nor is it intended to be a projection of future results.

## 38. ACQUISITION OF BUSINESS *(Continued)*

### Year ended 31st December, 2016 *(Continued)*

#### *Acquisition of a subsidiary – Henan Yicheng*

On 28th November, 2016, the Group acquired 70% of the registered share capital of 河南怡誠大有燃氣有限公司 ("Henan Yicheng") for consideration of RMB84,000,000 (equivalent to HK$94,360,000) from independent third parties, on that date control in Henan Yicheng was passed to the Group. This acquisition has been accounted for using the purchase method. Henan Yicheng is principally engaged in the sales of piped gas. Henan Yicheng was acquired so as to continue the expansion of the Group's operations.

Considered transferred:

| | HK$'000 |
|---|---|
| Cash | 94,360 |

Assets acquired and liabilities of Henan Yicheng recognised at the date of acquisition are as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 43,249 |
| Prepaid lease payments | 6,150 |
| Other intangible assets – exclusive right of operation in sales of piped gas | 76,566 |
| Trade and bills receivables | 2,592 |
| Deposits, prepayments and other receivables | 6,965 |
| Bank balances and cash | 722 |
| Inventories | 1,050 |
| Trade and bills payables | (337) |
| Other payables and accrued charges | (4,511) |
| Deferred tax liability | (19,142) |
| | 113,304 |

## 38. ACQUISITION OF BUSINESS *(Continued)*

### Year ended 31st December, 2016 *(Continued)*

#### *Acquisition of a subsidiary – Henan Yicheng* (Continued)

Goodwill arising on acquisition:

| | HK$'000 |
|---|---|
| Consideration transferred | 94,360 |
| Plus: Non-controlling interests (30% in Henan Yicheng) (Note) | 33,991 |
| Less: Fair value of identifiable net assets acquired | (113,304) |
| | 15,047 |

Note: The non-controlling interests in Henan Yicheng recognised at the date when the Group obtained control over Henan Yicheng was measured by reference to the fair value of 30% equity interest in Henan Yicheng.

Goodwill arose in the acquisition of Henan Yicheng because the consideration paid for the acquisition included amounts in relation to the benefits of expected synergies, revenue growth, future market development and the assembled workforce arising from the acquisition of Henan Yicheng. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

Net cash outflow on acquisition of Henan Yicheng during the year ended 31st December, 2016:

| | HK$'000 |
|---|---|
| Total cash consideration | 94,360 |
| Less: cash and cash equivalents balances acquired | (722) |
| Unsettled consideration (included in other payables and accrued charges as at 31st December, 2016) (RMB25,200,000) | (28,172) |
| | 65,466 |

Included in the profit for the year ended 31st December, 2016 is loss of HK$405,000 attributable to Henan Yicheng. Revenue for the year ended 31st December, 2016 includes HK$5,659,000 generated from Henan Yicheng.

Had the acquisition of Henan Yicheng been completed on 1st January, 2016, total group revenue for the year would have been HK$3,753,979,000 and profit for the year would have been HK$103,295,000. 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 1st January, 2016, nor is it intended to be a projection of future results.

## 38. ACQUISITION OF BUSINESS *(Continued)*

### Year ended 31st December, 2015

#### *Obtaining control over Harmony Gas and its subsidiaries during the current year*

On 8th December, 2015, Zhongyu Gas Investment (Beijing) Limited ("Zhongyu Gas (Beijing)"), a wholly-owned subsidiary of the Group), which is an existing 50% shareholder of Harmony Gas, entered into the first amended and restated shareholders agreement ("Revised Shareholders Agreement") with another joint venture partner, an existing 38.7% shareholder of Harmony Gas (the "Seller").

Pursuant to the terms of the Revised Shareholders Agreement, key decisions regarding the relevant activities of Harmony Gas and its subsidiaries are to be made by the Group, accordingly, the control in Harmony Gas was passed to the Group. Since then Harmony Gas ceased to be a joint venture of the Group and become a non-wholly owned subsidiary of the Company.

Also, the Group has the obligation to purchase from the Seller additional 38.7% equity interest in Harmony Gas for a cash consideration of US$78,722,395 (equivalent to HK$610,162,000), that will result in the Group's equity interest in Harmony Gas increasing from 50% to 88.7% upon the completion of the further acquisition, which is required to take place on or before 14th July, 2017 according to the Sale and Purchase Agreement signed between Zhongyu Gas (Beijing) and the Seller. As a result, by applying a discount rate of 12.295% per annum, the present value of the liability is HK$507,817,000 and has been recognised by the Group as at 8th December, 2015, to reflect the Group's commitment to purchase the additional equity interest with the corresponding debit being recognised in non-controlling interests.

Based on the Revised Shareholders Agreement, the Directors have concluded that the Group has obtained control over Harmony Gas and its subsidiaries after the Revised Shareholders Agreement was entered into effective from 8th December, 2015, for the following reasons:

(a) Zhongyu Gas (Beijing) has the right to appoint 4 directors out of 7 of Harmony Gas which simple majority vote is required for decisions impacting the key relevant activities of Harmony Gas, the composition of the board of directors of Harmony gas has been changed accordingly as at 8th December, 2015;

(b) Zhongyu Gas (Beijing) has the right to appoint the legal representative and all directors in each of the subsidiaries of Harmony Gas;

(c) certain actions that require unanimous consent from all shareholders of Harmony Gas have been removed from the Revised Shareholders Agreement, including:

  (i) declaration or payment of any dividends;

  (ii) adoption or approval of annual budget and business plan; and

  (iii) hiring, termination or determination of organisation of the member of the management.

## 38. ACQUISITION OF BUSINESS *(Continued)*

### Year ended 31st December, 2015 *(Continued)*

#### *Obtaining control over Harmony Gas and its subsidiaries during the current year* (Continued)

Assets and liabilities of Harmony Gas and its subsidiaries at the date recognised by the Group when the Group obtained the control over Harmony Gas and its subsidiaries:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 998,352 |
| Other intangible assets | 345,116 |
| Deposits paid for acquisition of property, plant and equipment and prepaid lease payments | 34,564 |
| Prepaid lease payments | 11,623 |
| Interests in associates | 159,806 |
| Inventories | 17,736 |
| Trade and bills receivables | 142,488 |
| Deposits, prepayments and other receivables | 85,591 |
| Amount due from an associate | 60,584 |
| Amounts due from related parties | 14,265 |
| Amounts due from customers for contract work | 45,069 |
| Pledged bank deposit | 96,934 |
| Bank balances and cash | 126,572 |
| Deferred income, advance received, other payables and accrued changes | (114,503) |
| Trade payables | (280,512) |
| Amount due to an associate | (1,252) |
| Amounts due to related parties | (249,967) |
| Amount due to customers for contract work | (21,517) |
| Borrowings | (549,421) |
| Tax payables | (8,183) |
| Deferred taxation | (83,706) |
| Non-controlling interests of the subsidiaries of Harmony Gas | (21,196) |
| | 808,443 |

## 38. ACQUISITION OF BUSINESS *(Continued)*

### Year ended 31st December, 2015 *(Continued)*

***Obtaining control over Harmony Gas and its subsidiaries during the current year*** *(Continued)*

Goodwill arising:

| | HK$'000 |
|---|---|
| Consideration for obtaining control over Harmony Gas and its subsidiaries represented by the fair value of 50% equity interest in Harmony Gas and its subsidiaries | 438,039 |
| Plus: Non-controlling interests (Note) | 438,039 |
| Less: Identifiable net assets acquired | (808,443) |
| Goodwill arising on obtaining control over Harmony gas and its subsidiaries | 67,635 |

The fair value as well as the gross contractual amounts of the trade and bills receivables, deposits, prepayments and other receivables, amounts due from an associate and related parties and amounts due from customers for contract work acquired amounted to HK$142,488,000, HK$85,591,000, HK$60,584,000, HK$14,265,000 and HK$45,069,000 respectively at the date when the Group obtains control over Harmony Gas and its subsidiaries. The best estimate of the contractual cash flows not expected to be collected is nil at the date when obtaining control over Harmony Gas and its subsidiaries.

Note: The non-controlling interests in the subsidiaries of Harmony Gas recognised at the date when the Group obtained control over Harmony Gas and its subsidiaries was measured by reference to the fair value of 50% equity interest in Harmony Gas and its subsidiaries. The difference between non-controlling interests' share of the fair value over the net asset value of Harmony Gas and its subsidiaries represented goodwill attributable to the non-controlling interests.

Goodwill arose in the acquisition of Harmony Gas because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Harmony Gas. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is not expected to be deductible for tax purposes.

A gain of HK$86,749,000 recognised in profit or loss (note 8), represented the difference between the fair value of the 50% equity interest in Harmony Gas and its subsidiaries (without control premium) and the carrying value that was previously classified as a joint venture of the Group.

## 38. ACQUISITION OF BUSINESS *(Continued)*

### Year ended 31st December, 2015 *(Continued)*

***Obtaining control over Harmony Gas and its subsidiaries during the current year*** *(Continued)*

Net cash inflow on obtaining control of Harmony Gas and its subsidiaries during the year ended 31st December, 2015:

| | HK$'000 |
|---|---|
| Bank balances and cash acquired | 126,572 |

Harmony Gas and its subsidiaries are principally engaged in trading of natural gas and gas pipeline construction. Included in the profit for the year ended 31st December, 2015 is a loss of HK$875,000 attributable to Harmony Gas and its subsidiaries. Revenue for the year ended 31st December, 2015 includes HK$69,018,000 generated from Harmony Gas and its subsidiaries.

Had the acquisition of Harmony Gas been completed on 1st January, 2015, total group revenue for the year would have been HK$3,795,523,000 and profit for the year would have been HK$140,243,000. 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 1st January, 2015, nor is it intended to be a projection of future results.

## 39. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF A SUBSIDIARY

On 19th October, 2015, the Group acquired 100% of the registered share capital of 修武縣寧城能源利用有限公司 ("Xiuwu Ningcheng") for a cash consideration of RMB5,800,000 (equivalent to HK$6,923,000) from independent third parties. The principal assets of Xiuwu Ningcheng are certain land and buildings and equipment. Xiuwu Ningcheng has not commenced business at the date of acquisition.

| | HK$'000 |
|---|---|
| Net assets acquired | |
| Property, plant and equipment | 4,587 |
| Prepaid lease payments | 2,336 |
| | 6,923 |
| Net cash outflow arising on acquisition | |
| Cash consideration paid | 6,923 |
| Less: Unsettled consideration (included in other payables and accrued charges as at 31st December, 2015) | (3,103) |
| | 3,820 |

In the opinion of the Directors, the above acquisition did not constitute a business combination in accordance with HKFRS 3 "Business combination" as Xiuwu Ningcheng has not commenced business at the date of acquisition. The acquisition has been accounted for as acquisition of assets and liabilities through acquisition of a subsidiary.

## 40. OPERATING LEASES

### The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **9,358** | 6,875 |
| In the second to fifth year inclusive | **8,993** | 10,649 |
| Over five years | **2,818** | 3,266 |
| | **21,169** | 20,790 |

Operating lease payments represent rental payable by the Group in respect of leasehold land and buildings and equipment. Leases for rented premises and equipment are negotiated for a period of one to twenty-five years (2015: one to twenty-five years) with fixed rental.

### The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises and equipment which fall due as follows:

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **3,005** | 742 |
| In the second to fifth year inclusive | **1,854** | 1,320 |
| | **4,859** | 2,062 |

Leases are negotiated for an average term of five years (2015: five years).

The Group's completed investment properties with a carrying amount of HK$43,748,000 (2015: HK$9,012,000) are held for rental purposes. All of the properties held have committed tenants for the next two to five years (2015: two to five years).

## 41. RETIREMENT BENEFITS PLANS

The Group had joined the Mandatory Provident Fund Scheme under the rules and regulations of the Hong Kong Mandatory Provident Fund Schemes Authority. The Group's employees in Hong Kong are required to join the scheme. The Group and each employee employed in Hong Kong are required to make a contribution of 5% on the employees' monthly relevant income with a maximum monthly contribution of HK$1,500 per person.

The Company's subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participated in various central pension schemes operated by the relevant municipal and provincial governments. These subsidiaries are required to make defined contributions to these schemes at rates ranging from 15% to 30% of their covered payroll. The Group has no other material obligation for the payment of its staff's retirement and other post-retirement benefits other than the contributions described above.

## 42. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in the consolidated financial statements, the Group entered into the following transactions with Harmony Gas during the period from 1st January, 2015 to 7th December, 2015 (i.e. prior to the Group's obtaining control over Harmony Gas and its subsidiaries):

| | 2015<br>HK$'000 |
|---|---|
| Interest income | 20,653 |
| Connection revenue from gas pipeline construction | 71,107 |

### Compensation of key management personnel

The Directors considered that they are the only key management personnel of the Group. Their emoluments are set out in note 13.

## 43. CAPITAL COMMITMENTS

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

## 44. MAJOR NON-CASH TRANSACTION

During the year ended 31st December 2016, the Group has derecognised certain prepaid lease payments of HK$8,666,000 due to redevelopment of Sanmenxia City. As the local government of Sanmenxia City compensated another prepaid lease payments to the Group, the Group has recognised certain prepaid lease payments of HK$2,753,000 and the difference of HK$5,913,000 was recognised as other receivables and included in "deposits, prepayments and other receivables" as at 31st December, 2016.

During the year ended 31st December 2015, the Group has derecognised certain property, plant and equipment of HK$12,555,000 due to redevelopment of Sanmenxia City. As the local government of Sanmenxia City agreed to compensate the same to the Group, the amount was recognised as other receivables and included in "deposits, prepayments and other receivables" as at 31st December, 2015.

## 45. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes borrowings disclosed in note 32 net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, accumulated profits and other reserves.

The management of the Group reviews the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through new share issues, repurchase of shares and the issue of new debt or the redemption of the existing debt.

### Categories of financial instruments

| | **2016**<br>**HK$'000** | 2015<br>HK$'000 |
|---|---|---|
| Financial assets | | |
| Available-for-sale investments | **6,074** | 6,301 |
| Loans and receivables (including cash and cash equivalents) | **1,366,972** | 1,591,167 |
| Financial liabilities | | |
| Amortised cost | **5,461,258** | 5,504,781 |
| Obligations under finance lease | **315,095** | 155,271 |

## 45. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, refundable deposits, other receivables, entrusted loan receivable, amounts due from an associate and related parties, pledged bank deposits and bank balances, trade and bills payables, other payables, accrued charges, amount due to an associate, obligations under finance lease, consideration payable and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### *Market risk*

*Interest rate risk*

The Group's fair value interest rate risk relates primarily to fixed-rate pledged bank deposits, fixed-rate amount due from an associate, fixed-rate borrowings and fixed-rate obligations under finance lease, currently, the Group has not used any derivative contracts to hedge these exposure to interest rate risk. However, management monitors interest rate exposure and will consider hedging significant fixed rate borrowings should the need arise.

The Group's cash flow interest rate risk primarily relates to variable-rate bank balances and variable-rate borrowings. The Group has not used any interest rate swaps to mitigate its exposure to cash flow interest rate risk. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated. The interest rates of variable bank borrowings are based on (1) a range of multiples of PBOC Prescribed Interest Rate; or (2) interest rate at LIBOR plus a premium; or (3) interest rate at HIBOR plus a premium.

The sensitivity analysis has been determined based on the exposure to the variable-rate bank balances and bank borrowings at the end of the reporting period and management's assessment of the reasonably possible change interest rates. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. If interest rates on bank borrowings and bank balances had been 50 basis points and 20 basis points respectively (2015: 50 basis points for bank borrowings and 20 basis points for bank balances) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by HK$13,329,000 (2015: decrease/increase HK$12,878,000).

## 45. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### ***Market risk*** *(Continued)*

*Foreign currency risk*

The Group collects most of its revenue in RMB and incurs most of the expenditures as well as capital expenditures in RMB. The Directors consider that the Group's exposure to foreign currency exchange risk is insignificant, except for certain bank balances, bank borrowings and consideration payable denominated in USD or HK$, as the majority of the Group's transactions are denominated in the functional currency of the respective group entities. The equivalent amount of HK$ are set out below:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| USD | **71,780** | 286,210 | **2,040,670** | 3,464,159 |
| HK$ | **15,541** | 68,006 | **–** | 373,070 |
| | **87,321** | 354,216 | **2,040,670** | 3,837,229 |

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

*Sensitivity analysis*

The Group is mainly exposed to the foreign currency risk in HK$ and USD.

The following table details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in RMB against USD or HK$. 5% (2015: 5%) represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes respective USD and HK$ bank balances, bank borrowings and consideration payable, and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates increase in post-tax profit where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit or loss.

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| USD | **73,833** | 119,173 |
| HK$ | **(583)** | 11,440 |

In management's 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.

## 45. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

#### *Credit risk*

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at the end of reporting period, in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. 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 debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. As at 31st December, 2016, other than the concentration of credit risk on the amounts due from an associate and related parties and entrusted loan receivable (2015: amount due from an associate and entrusted loan receivable), the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. 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 reputable banks in the PRC or banks with high credit-ratings assigned by international credit-rating agencies and the Group has limited exposure to any single financial institution.

The policy of allowances for doubtful debts of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's estimate. In determining whether impairment is required, the Group takes into consideration the aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flows expected to receive discounted using the original effective interest rate and the carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

#### *Liquidity risk*

As at 31st December, 2016, the Group has net current liabilities of HK$1,055,376,000. As explained in note 1, the Directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on bank borrowings as significant sources of liquidity. The management monitors the utilisation of bank borrowings and ensures compliance with the relevant covenants.

The following table details the Group's remaining contractual maturity based on the agreed repayment terms for its financial liabilities. For non-derivative financial liabilities, 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 (estimated based on interest rate at the end of the reporting period) and principal cash flows.

## 45. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

***Liquidity risk*** *(Continued)*

*Liquidity tables*

| | Weighted average effective interest rate | On demand or less than 3 months HK$'000 | 3 months to 1 year HK$'000 | 1 – 5 years HK$'000 | More than 5 years HK$'000 | Total undiscounted cash flow HK$'000 | Carrying amount at 31.12.2016 HK$'000 |
|---|---|---|---|---|---|---|---|
| 2016 | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and bills payables | – | 394,046 | 182,451 | – | – | 576,497 | 576,497 |
| Other payables and accrued charges | – | 198,385 | – | – | – | 198,385 | 198,385 |
| Consideration payable | 12.295% | – | 610,162 | – | – | 610,162 | 575,791 |
| Amount due to an associate | – | 1,155 | – | – | – | 1,155 | 1,155 |
| Obligations under finance lease | 4.42% | 27,952 | 83,857 | 223,890 | – | 335,699 | 315,095 |
| Bank borrowings | | | | | | | |
| – fixed rate | 4.52% | 38,006 | 113,485 | 98,444 | 23,381 | 273,316 | 247,854 |
| – variable rate | 5.43% | 32,320 | 407,120 | 3,927,159 | 98,573 | 4,465,172 | 3,861,576 |
| | | 691,864 | 1,397,075 | 4,249,493 | 121,954 | 6,460,386 | 5,776,353 |

| | Weighted average effective interest rate | On demand or less than 3 months HK$'000 | 3 months to 1 year HK$'000 | 1 – 5 years HK$'000 | More than 5 years HK$'000 | Total undiscounted cash flow HK$'000 | Carrying amount at 31.12.2015 HK$'000 |
|---|---|---|---|---|---|---|---|
| 2015 | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and bills payables | – | 362,427 | 229,151 | – | – | 591,578 | 591,578 |
| Other payables and accrued charges | – | 162,920 | – | – | – | 162,920 | 162,920 |
| Consideration payable | 12.295% | – | – | 610,162 | – | 610,162 | 512,844 |
| Amount due to an associate | – | 1,234 | – | – | – | 1,234 | 1,234 |
| Obligations under finance lease | 5.249% | 10,335 | 31,004 | 133,968 | – | 175,307 | 155,271 |
| Bank borrowings | | | | | | | |
| – fixed rate | 5.15% | 70,763 | 243,116 | 99,661 | 28,979 | 442,519 | 408,715 |
| – variable rate | 3.87% | 284,312 | 622,098 | 3,146,704 | 127,145 | 4,180,259 | 3,827,490 |
| | | 891,991 | 1,125,369 | 3,990,495 | 156,124 | 6,163,979 | 5,660,052 |

Note: 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.

## 45. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

### Fair value

The fair value of financial assets and financial liabilities are determined by in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## 46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

### As at 31st December, 2016 and 2015

| Name of subsidiary | Place/country of incorporation/ registration/ operation | Form of business structure | Paid up issued share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | 2016 | 2015 | |
| | | | | % | % | |
| Zhongyu Gas Investment Limited | Hong Kong | Limited liability company | 1 ordinary share of HK$1 each | 100# | 100# | Investment holding |
| Zhongyu Gas Investment Limited### | British Virgin Islands | Incorporated | 1 ordinary share of US$1 each | 100# | 100# | Investment holding |
| Zhongyu Gas Investment (Beijing) Limited### | British Virgin Islands | Incorporated | 1 ordinary share of US$1 each | 100# | 100# | Investment holding |
| China City Gas Construction Holdings Co., Ltd.### | British Virgin Islands | Incorporated | 100 ordinary shares of US$1 each | 100## | 100## | Investment holding |
| China City Gas Construction Explore Co., Ltd.### | British Virgin Islands | Incorporated | 100 ordinary shares of US$1 each | 100## | 100## | Investment holding |
| China Gas Construction Expansion Co., Ltd.### | British Virgin Islands | Incorporated | 1,330,000 ordinary shares of US$1 each | 100## | 100## | Investment holding |
| China City Gas Construction Development Co., Ltd.### | British Virgin Islands | Incorporated | 100 ordinary shares of US$1 each | 100## | 100## | Investment holding |

## 46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

### As at 31st December, 2016 and 2015 *(Continued)*

| Name of subsidiary | Place/country of incorporation/ registration/ operation | Form of business structure | Paid up issued share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|---|
| China City Gas Construction Investment Co., Ltd.### | British Virgin Islands | Incorporated | 100 ordinary shares of US$1 each | 100## | 100## | Investment holding |
| 浙江中裕燃氣有限公司 | PRC | Wholly-foreign owned enterprise | Registered capital USD8,500,000 | 100## | 100## | Trading of natural gas, gas pipeline construction and operation of CNG/LNG vehicle filling stations |
| 中裕城市能源投資控股(深圳)有限公司 | PRC | Wholly-foreign owned enterprise | Registered capital USD100,000,000 | 100## | 100## | Investment holding |
| 樂清中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB50,000,000 | 85## | – | Not yet commenced business |
| 漯河中裕能源有限公司 | PRC | Limited liability company | Registered capital RMB100,000,000 | 88.9## | – | Not yet commenced business |
| 三門峽中裕燃氣有限公司 | PRC | Sino-foreign joint venture | Registered capital HK$50,000,000 | 90## | 90## | Trading of natural gas and liquefied petroleum gas and gas pipeline construction |
| 新密中裕燃氣有限公司 | PRC | Sino-foreign joint venture | Registered capital HK$15,000,000 | 97## | 97## | Trading of natural gas and gas pipeline construction |
| 新密中裕壓縮氣有限公司 | PRC | Limited liability company | Registered capital RMB63,000,000 | 99.8## | 99.8## | Operation of CNG/LNG vehicle filling stations |
| 偃師中裕燃氣有限公司 | PRC | Sino-foreign joint venture | Registered capital HK$25,000,000 | 95## | 95## | Trading of natural gas and liquefied petroleum gas and gas pipeline construction |

## 46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

### As at 31st December, 2016 and 2015 *(Continued)*

| Name of subsidiary | Place/country of incorporation/ registration/ operation | Form of business structure | Paid up issued share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|---|
| 永城中裕燃氣有限公司 | PRC | Sino-foreign joint venture | Registered capital HK$50,000,000 | 100## | 100## | Trading of natural gas and gas pipeline construction |
| 永城中裕運輸有限公司 | PRC | Limited liability company | Registered capital RMB500,000 | 100## | 100## | Dangerous goods transportation |
| 臨沂中裕能源有限公司 | PRC | Wholly-foreign owned enterprise | Registered capital HK$210,000,000 | 100## | 100## | Trading of natural gas and gas pipeline construction |
| 臨沂中裕能源壓縮天然氣有限公司 | PRC | Limited liability company | Registered capital RMB10,000,000 | 51## | 51## | Operation of CNG/LNG vehicle filling stations |
| 臨沭中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB15,160,000 | 100## | 100## | Trading of natural gas and gas pipeline construction |
| 東海縣中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB$10,000,000 | 100## | 67## | Trading of natural gas and gas pipeline construction |
| 濟源中裕燃氣有限公司 | PRC | Sino-foreign joint venture | Registered capital RMB40,280,000 | 92.9## | 92.9## | Trading of natural gas and gas pipeline construction |
| 漯河中裕燃氣有限公司 ("Luohe Zhongyu") | PRC | Sino-foreign joint venture | Registered capital RMB95,468,511 | 77.3## | 77.3## | Trading of natural gas and gas pipeline construction |
| 漯河中裕燃氣工程安裝有限公司 | PRC | Sino-foreign joint venture | Registered capital RMB5,000,000 | 73.4## | 73.4## | Gas pipeline construction |
| 焦作中裕燃氣有限公司 | PRC | Sino-foreign joint venture | Registered capital HK$84,800,000 | 93.2## | 93.2## | Trading of natural gas, coal gas and liquefied petroleum gas and gas pipeline construction |

## 46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

### As at 31st December, 2016 and 2015 *(Continued)*

| Name of subsidiary | Place/country of incorporation/ registration/ operation | Form of business structure | Paid up issued share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|---|
| 焦作中裕燃氣工程安裝有限公司 | PRC | Limited liability company | Registered capital RMB40,000,000 | 93.2## | 93.2## | Gas pipeline construction |
| 修武中裕燃氣發展有限公司 | PRC | Limited liability company | Registered capital RMB10,000,000 | 96.7## | 96.7## | Trading of natural gas and gas pipeline construction |
| 臨沂中裕燃氣有限公司 ("Linyi Zhongyu") | PRC | Sino-foreign joint venture | Registered capital RMB42,000,000 | 51# | 51# | Trading of natural gas and gas pipeline construction |
| 中裕(河南)能源控股有限公司 | PRC | Wholly-foreign owned enterprise | Registered capital HK$600,000,000 | 100# | 100# | Investment holding |
| 邵武中裕壓縮氣有限公司 | PRC | Limited liability company | Registered capital RMB6,000,000 | 100## | 100## | Operation of CNG/LNG vehicle filling stations |
| 濟源中裕壓縮氣有限公司 | PRC | Limited liability company | Registered capital RMB10,000,000 | 100## | 100## | Operation of CNG/LNG vehicle filling stations |
| 三門峽中裕壓縮氣有限公司 | PRC | Limited liability company | Registered capital RMB8,000,000 | 100## | 100## | Operation of CNG/LNG vehicle filling stations |
| 南京晶橋中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB10,000,000 | 100## | 100## | Trading of natural gas and gas pipeline construction |
| 西平中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB5,000,000 | 100## | 100## | Research and development of natural gas technology |
| 鄭州中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB10,000,000 | 100## | 100## | Not yet commenced business |

## 46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

### As at 31st December, 2016 and 2015 *(Continued)*

| Name of subsidiary | Place/country of incorporation/ registration/ operation | Form of business structure | Paid up issued share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|---|
| 靈寶中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB20,000,000 | 100## | 100## | Trading of natural gas and gas pipeline construction |
| 德州中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB25,000,000 | 100## | 100## | Trading of natural gas, gas pipeline construction and operation of CNG/LNG vehicle filling stations |
| 北京中裕泰峰投資管理有限公司 | PRC | Limited liability company | Registered capital RMB1,000,000 | – | 100## | Not yet commenced business |
| 陝縣中裕燃氣有限公司 | PRC | Wholly-foreign owned enterprise | Registered capital RMB10,000,000 | 100## | 100## | Trading of natural gas and gas pipeline construction |
| 温縣中裕壓縮氣有限公司 | PRC | Limited liability company | Registered capital RMB5,000,000 | 80## | 80## | Trading of natural gas and gas pipeline construction |
| 深圳市鵬凱吉星貿易有限公司 | PRC | Limited liability company | Registered capital RMB100,000 | 100## | 100## | Not yet commenced business |
| 沁陽中裕燃氣有限公司 | PRC | Wholly-foreign owned enterprise | Registered capital RMB10,000,000 | 100## | 100## | Trading of natural gas and gas pipeline construction |
| 武夷山中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB30,000,000 | 99.8## | 99.8## | Trading of natural gas and gas pipeline construction |
| 武陟中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB26,000,000 | 100## | 100## | Trading of natural gas, gas pipeline construction and operation of CNG/LNG vehicle filling stations |

## 46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

### As at 31st December, 2016 and 2015 *(Continued)*

| Name of subsidiary | Place/country of incorporation/ registration/ operation | Form of business structure | Paid up issued share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|---|
| 鐵力市嘉華燃氣有限公司 | PRC | Limited liability company | Registered capital RMB20,000,000 | 100## | 100## | Trading of natural gas and gas pipeline construction |
| 焦作中裕壓縮氣有限公司 | PRC | Limited liability company | Registered capital RMB15,000,000 | 100## | 100## | Operation of CNG/LNG vehicle filling stations |
| 修武縣寧城能源利用有限公司 | PRC | Limited liability company | Registered capital RMB5,246,014 | 100## | 100## | Not yet commenced business |
| 漯河中裕壓縮氣有限公司 | PRC | Sino-foreign joint venture | Registered capital RMB5,000,000 | 100## | 100## | Operation of CNG/LNG vehicle filling stations |
| 漯河裕聯加氣站經營有限公司 | PRC | Limited liability company | Registered capital RMB9,300,000 | 100## | 100## | Operation of CNG/LNG vehicle filling stations |
| 南京中裕壓縮氣體有限公司 | PRC | Limited liability company | Registered capital RMB10,000,000 | 100## | 100## | Operation of CNG/LNG vehicle filling stations |
| 南京中裕天然氣加氣有限公司 | PRC | Limited liability company | Registered capital RMB7,000,000 | 70## | 70## | Operation of CNG/LNG vehicle filling stations |
| 上海宣閩能源投資管理有限公司 | PRC | Limited liability company | Registered capital RMB20,000,000 | 100## | 100## | Investment holding |
| 邵武市宣燃天然氣有限公司 | PRC | Limited liability company | Registered capital RMB20,000,000 | 100## | 100## | Trading of natural gas and gas pipeline construction |
| 河南怡誠大有燃氣有限公司 | PRC | Limited liability company | Registered capital RMB50,000,000 | 70## | – | Trading of natural gas and gas pipeline construction |
| 泗洪沃金燃氣有限公司 | PRC | Limited liability company | Registered capital RMB10,000,000 | 100## | – | Trading of natural gas and gas pipeline construction |

## 46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

### As at 31st December, 2016 and 2015 *(Continued)*

| Name of subsidiary | Place/country of incorporation/ registration/ operation | Form of business structure | Paid up issued share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|---|
| Harmony Gas Holdings Limited### | Cayman Islands | Limited liability company | 78,287,805 ordinary shares of USD0.0001 each | 50## | 50## | Investment holding |
| Prosperity Gas Holdings Ltd.### | Cayman Islands | Limited liability company | 201 ordinary shares of USD1 each | 50## | 50## | Investment holding |
| Prosperity Gas 2 Co., Ltd. | Hong Kong | Limited liability company | 1 ordinary shares of HK$1 each | 50## | 50## | Investment holding |
| Sino Gas International Holdings, Inc### | United States of America | Incorporated | 1,000 common stock without par value | 50## | 50## | Investment holding |
| Sino Gas Investment Development Limited### | British Virgin Islands | Incorporated | 25,500 ordinary shares of USD1 each | 50## | 50## | Investment holding |
| Gas Investment China Co., Ltd.### | British Virgin Islands | Incorporated | 21,500,000 ordinary shares of USD1 each | 50## | 50## | Investment holding |
| Tong Yuan International Holding Limited | Hong Kong | Limited liability company | 10,000 ordinary shares of HK$1 each | 25.5## | 25.5## | Investment holding |
| Sino Gas Construction Limited | British Virgin Islands | Incorporated | 209,730 ordinary shares of USD1 each | 37.5 | 13.0## | Investment holding |
| 北京中燃偉業燃氣有限公司 | PRC | Limited liability company | Registered capital RMB206,000,000 | 50## | 50## | Trading of natural gas |
| 江蘇中燃偉業能源投資有限公司 | PRC | Limited liability company | Registered capital RMB132,100,000 | 50## | 50## | Investment holding |
| 江蘇偉業燃氣有限公司 | PRC | Limited liability company | Registered capital RMB70,126,680 | 50## | 50## | Trading of natural gas and gas pipeline construction |

## 46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

### As at 31st December, 2016 and 2015 *(Continued)*

| Name of subsidiary | Place/country of incorporation/ registration/ operation | Form of business structure | Paid up issued share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|---|
| 泗洪偉業燃氣有限公司 | PRC | Limited liability company | Registered capital RMB36,613,250 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 五河中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB5,991,870 | 50## | 50## | Trading of natural gas and liquefied petroleum gas and gas pipeline construction |
| 泗縣中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB4,541,710 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 灌南縣偉業燃氣有限公司 | PRC | Limited liability company | Registered capital RMB14,857,800 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 北京晨光燃氣有限公司 | PRC | Limited liability company | Registered capital RMB35,239,600 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 昌黎中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB5,000,000 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 玉田縣中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB5,000,000 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 蔚縣今力燃氣有限公司 | PRC | Limited liability company | Registered capital RMB9,500,000 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 張家口市下花園今力燃氣有限公司 | PRC | Limited liability company | Registered capital RMB5,000,000 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 藁城市偉業燃氣有限公司 | PRC | Limited liability company | Registered capital RMB5,000,000 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 鹿泉市晨光燃氣有限公司 | PRC | Limited liability company | Registered capital RMB6,000,000 | 50## | 50## | Trading of natural gas and gas pipeline construction |

## 46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

### As at 31st December, 2016 and 2015 *(Continued)*

| Name of subsidiary | Place/country of incorporation/ registration/ operation | Form of business structure | Paid up issued share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|---|
| 成安中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB10,000,000 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 白山市偉業燃氣有限公司 | PRC | Limited liability company | Registered capital RMB15,000,000 | 50## | 50## | Trading of natural gas and liquefied petroleum gas and gas pipeline construction |
| 白山中裕車用燃氣有限公司 | PRC | Limited liability company | Registered capital RMB10,000,000 | 50## | 50## | Operation of CNG/LNG vehicle filling stations |
| 白山市偉業燃氣物資有限公司 | PRC | Limited liability company | Registered capital RMB1,000,000 | 50## | 50## | Sales of gas equipment and materials |
| 撫松縣偉業燃氣有限公司 | PRC | Limited liability company | Registered capital RMB10,000,000 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 白山市意和建設工程有限公司 | PRC | Limited liability company | Registered capital RMB6,000,000 | 50## | 50## | Gas pipeline construction |
| 白山市偉業管道天然氣有限公司 | PRC | Limited liability company | Registered capital RMB50,000,000 | 50## | 50## | Not yet commenced business |
| 河北中燃偉業燃氣集團有限公司 | PRC | Limited liability company | Registered capital RMB95,579,270 | 50## | 50## | Trading of natural gas |
| 吳橋中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB8,800,000 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 寧晉縣偉業燃氣有限公司 | PRC | Limited liability company | Registered capital RMB11,700,000 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 臨漳中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB7,700,000 | 50## | 50## | Trading of natural gas and gas pipeline construction |

## 46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

### As at 31st December, 2016 and 2015 *(Continued)*

| Name of subsidiary | Place/country of incorporation/ registration/ operation | Form of business structure | Paid up issued share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company 2016 % | 2015 % | Principal activities |
|---|---|---|---|---|---|---|
| 衡水中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB6,927,000 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 隆堯縣中燃偉業燃氣有限公司 | PRC | Limited liability company | Registered capital RMB5,825,000 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 行唐縣偉業燃氣有限公司 | PRC | Limited liability company | Registered capital RMB7,135,000 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 故城偉業燃氣有限公司 | PRC | Limited liability company | Registered capital RMB14,500,000 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 南宮中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB7,439,000 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 雞澤中裕燃氣有限公司 | PRC | Limited liability company | Registered capital RMB5,500,000 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 新河縣偉業燃氣有限公司 | PRC | Limited liability company | Registered capital RMB5,000,000 | 50## | 50## | Trading of natural gas and gas pipeline construction |
| 廊坊開發區偉業危險貨物運輸有限公司 | PRC | Limited liability company | Registered capital RMB1,000,000 | 50## | 50## | Dangerous goods transportation |

\# The proportion of nominal value of issued share capital/registered capital directly held by the Company.

\#\# The proportion of nominal value of issued share capital/registered capital indirectly held by the Company. Regarding the companies, of which the proportion of nominal value of issued share capital/registered capital held by the Company are less than 50%, the Group obtained control through investment in non-wholly owned subsidiaries of Harmony Gas.

\#\#\# The place of operation of the Company is Hong Kong.

None of the subsidiaries had issued any debt securities at the end of the both years.

## 47. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

| Name of subsidiary | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | | Total comprehensive income (expense) attributable to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | | | | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Linyi Zhongyu | PRC – Shandong province | **49%** | 49% | **48,143** | 25,705 | **219,000** | 170,857 |
| Luohe Zhongyu | PRC – Henan province | **22.71%** | 22.71% | **27,379** | 6,695 | **71,465** | 53,795 |
| Harmony Gas and its subsidiaries | PRC | **50%** | 50% | **(102,858)** | (7,674) | **293,653 (Note)** | 430,365 (Note) |
| Individually immaterial subsidiaries with non-controlling interests | | | | | | **176,424** | 118,530 |
| | | | | | | **760,542** | 773,547 |

Note: The amount shown excludes those attributable to non-controlling interests of Harmony Gas' subsidiaries.

## 47. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

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.

### (i) Linyi Zhongyu

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Current assets | **111,688** | 133,591 |
| Non-current assets | **530,498** | 471,433 |
| Current liabilities | **(178,214)** | (256,336) |
| Non-current liabilities | **(17,033)** | – |
| Equity attributable to owners of the Company | **227,939** | 177,831 |
| Non-controlling interests | **219,000** | 170,857 |

## 47. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

### (i) Linyi Zhongyu *(Continued)*

| | 2016<br>HK$'000 | 2015<br>HK$'000 |
|---|---|---|
| Revenue | 431,985 | 433,952 |
| Expenses | (358,921) | (362,142) |
| Profit for the year | 73,064 | 71,810 |
| Profit attributable to owners of the Company | 37,263 | 36,623 |
| Profit attributable to the non-controlling interests | 35,801 | 35,187 |
| Profit for the year | 73,064 | 71,810 |
| Other comprehensive income (expense) attributable to owners of the Company | 12,845 | (9,869) |
| Other comprehensive income (expense) attributable to the non-controlling interests | 12,342 | (9,482) |
| Other comprehensive income (expense) for the year | 25,187 | (19,351) |
| Total comprehensive income attributable to owners of the Company | 50,108 | 26,754 |
| Total comprehensive income attributable to the non-controlling interests | 48,143 | 25,705 |
| Total comprehensive income for the year | 98,251 | 52,459 |
| Dividends paid to non-controlling interests | – | – |
| Net cash generated from operating activities | 71,931 | 92,982 |
| Net cash used in investing activities | (31,445) | (60,714) |
| Net cash used in financing activities | (32,006) | (3,723) |
| Net cash inflow | 8,480 | 28,545 |

## 47. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

### (ii) Luohe Zhongyu

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current assets | **343,686** | 268,986 |
| Non-current assets | **529,660** | 362,856 |
| Current liabilities | **(353,502)** | (275,290) |
| Non-current liabilities | **(259,753)** | (174,266) |
| Equity attributable to owners of the Company | **188,626** | 128,491 |
| Non-controlling interests | **71,465** | 53,795 |

## 47. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

### (ii) Luohe Zhongyu *(Continued)*

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Revenue | **365,302** | 403,025 |
| Expenses | **(311,820)** | (350,221) |
| Profit for the year | **53,482** | 52,804 |
| Profit attributable to owners of the Company | **41,336** | 40,812 |
| Profit attributable to the non-controlling interests | **12,146** | 11,992 |
| Profit for the year | **53,482** | 52,804 |
| Other comprehensive income (expense) attributable to owners of the Company | **51,843** | (18,025) |
| Other comprehensive income (expense) attributable to the non-controlling interests | **15,233** | (5,297) |
| Other comprehensive income (expense) for the year | **67,076** | (23,322) |
| Total comprehensive income attributable to owners of the Company | **93,179** | 22,787 |
| Total comprehensive income attributable to the non-controlling interests | **27,379** | 6,695 |
| Total comprehensive income for the year | **120,558** | 29,482 |
| Dividends paid to non-controlling interests | **9,709** | 19,686 |
| Net cash generated from operating activities | **60,560** | 125,500 |
| Net cash generated from (used in) investing activities | **44,544** | (213,617) |
| Net cash (used in) generated from financing activities | **(108,939)** | 52,065 |
| Net cash outflow | **(3,835)** | (36,052) |

## 47. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

### (iii) Harmony Gas and its subsidiaries

| | **1.1.2016 to 31.12.2016 HK$'000** | 8.12.2015 to 31.12.2015 HK$'000 |
|---|---|---|
| Current assets | **37,376** | 557,974 |
| Non-current assets | **1,868,466** | 1,608,589 |
| Current liabilities | **(1,150,237)** | (1,159,947) |
| Non-current liabilities | **(154,735)** | (127,577) |
| Equity attributable to owners of the Company | **293,653** | 430,365 |
| Non-controlling interests of Harmony Gas | **293,653** | 430,365 |
| Non-controlling interests of Harmony Gas' subsidiaries | **13,564** | 18,309 |
| Revenue | **566,635** | 69,018 |
| Expenses | **(926,420)** | (74,333) |
| Loss for the period | **(359,785)** | (5,315) |
| Loss for the period attributable to | | |
| – the owners of the Company | **(177,818)** | (1,363) |
| – non-controlling interests of Harmony Gas | **(177,818)** | (1,363) |
| – non-controlling interests of Harmony Gas' subsidiaries | **(4,149)** | (2,589) |
| Loss for the period | **(359,785)** | (5,315) |
| Other comprehensive income (expense) for the period attributable to | | |
| – the owners of the Company | **74,960** | (6,311) |
| – non-controlling interests of Harmony Gas | **74,960** | (6,311) |
| – non-controlling interests of Harmony Gas' subsidiaries | **(596)** | (298) |
| Other comprehensive income (expense) for the period | **149,324** | (12,920) |
| Total comprehensive expense for the period attributable to | | |
| – the owners of the Company | **(102,858)** | (7,674) |
| – non-controlling interests of Harmony Gas | **(102,858)** | (7,674) |
| – non-controlling interests of Harmony Gas' subsidiaries | **(4,745)** | (2,887) |
| Total comprehensive expense for the period | **(210,461)** | (18,235) |
| Net cash generated from operating activities | **62,474** | 19,162 |
| Net cash used in investing activities | **(110,996)** | (20,881) |
| Net cash generated from financing activities | **122,812** | 8,260 |
| Net cash inflow | **74,290** | 6,541 |
| Dividend paid to non-controlling interests of Harmony Gas' subsidiaries | **–** | – |

## 48. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

| | **2016** | 2015 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Non-current assets | | |
| Unlisted investments in subsidiaries | **1,073,531** | 995,200 |
| Investments in life insurance contracts | **75,547** | 73,854 |
| Available-for-sale investment | **2,720** | 2,720 |
| Amounts due from group companies | **2,713,503** | 2,295,486 |
| | **3,865,301** | 3,367,260 |
| Current assets | | |
| Other receivables | **5,593** | 17,669 |
| Bank balances and cash | **174,408** | 305,741 |
| | **180,001** | 323,410 |
| Current liabilities | | |
| Other payables and accrued charges | **6,280** | 3,480 |
| Bank borrowings | **127,633** | 672,676 |
| | **133,913** | 676,156 |
| Net current assets (liabilities) | **46,088** | (352,746) |
| Total assets less current liabilities | **3,911,389** | 3,014,514 |
| Capital and reserves | | |
| Share capital (note 34) | **25,250** | 25,250 |
| Reserves (Note) | **947,423** | 703,959 |
| Total equity | **972,673** | 729,209 |
| Non-current liabilities | | |
| Bank borrowings | **2,938,716** | 2,285,305 |
| | **3,911,389** | 3,014,514 |

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 22nd March, 2017 and are signed on its behalf by:

MR. WANG WENLIANG
*DIRECTOR*

MR. LUI SIU KEUNG
*DIRECTOR*

## 48. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

**Reserves of the Company**

| | Share premium HK$'000 | Share option reserve HK$'000 | Translation reserve HK$'000 | Accumulated (losses) profit HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1st January, 2015 | 895,736 | 319 | 50,882 | (68,096) | 878,841 |
| Loss for the year | – | – | – | (153,283) | (153,283) |
| Other comprehensive expense for the year | – | – | (21,599) | – | (21,599) |
| Total comprehensive expense for the year | – | – | (21,599) | (153,283) | (174,882) |
| At 31st December, 2015 | 895,736 | 319 | 29,283 | (221,379) | 703,959 |
| Profit for the year | – | – | – | 225,477 | 225,477 |
| Other comprehensive income for the year | – | – | 17,987 | – | 17,987 |
| Total comprehensive income for the year | – | – | 17,987 | 225,477 | 243,464 |
| At 31st December, 2016 | 895,736 | 319 | 47,270 | 4,098 | 947,423 |

| | For the year ended 31st December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Turnover | **3,722,507** | 3,276,666 | 3,412,690 | 3,130,885 | 2,754,084 |
| Profit for the year attributable to | | | | | |
| Owners of the Company | **206,150** | 93,390 | 324,351 | 262,248 | 226,021 |
| Non-controlling interests | **(102,549)** | 56,478 | 65,429 | 62,569 | 55,533 |
| | **103,601** | 149,868 | 389,780 | 324,817 | 281,554 |

| | As at 31st December | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Assets and liabilities | | | | | |
| Total assets | **9,623,663** | 8,709,309 | 6,898,822 | 4,698,914 | 3,548,701 |
| Total liabilities | **(6,817,732)** | (6,436,915) | (4,606,082) | (2,770,240) | (1,987,239) |
| | **2,805,931** | 2,272,394 | 2,292,740 | 1,928,674 | 1,561,462 |
| Equity attributable to the owners of the Company | **2,553,206** | 2,006,664 | 1,994,048 | 1,692,480 | 1,390,235 |
| Non-controlling interests | **252,725** | 265,730 | 298,692 | 236,194 | 171,227 |
| | **2,805,931** | 2,272,394 | 2,292,740 | 1,928,674 | 1,561,462 |

中裕燃氣

ZHONGYU GAS

(Incorporated in the Cayman Islands with limited liability)

（於開曼群島註冊成立之有限公司）

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