Building a Modern Energy System
Improving the Quality of Life

ENN 新奥

ENN Energy Holdings Limited
(Stock code: 2688)

ANNUAL REPORT 2017

ENN = ENERGY + INNOVATION

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

Wang Yusuo (Chairman)
Cheung Yip Sang (Vice Chairman)
Han Jishen (Chief Executive Officer)
Liu Min (President)
Wang Dongzhi

Non-executive Director

Wang Zizheng

Independent Non-executive Directors

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

Company Secretary

Wong Chui Lai *CPA*

Authorised Representatives

Wang Dongzhi
Wong Chui Lai *CPA*

Members of the Audit Committee

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

Members of the Remuneration Committee

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

Members of the Nomination Committee

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

Members of the Risk Management Committee

Cheung Yip Sang*
Han Jishen
Liu Min
Wang Zizheng
Ma Zhixiang
Yuen Po Kwong
Law Yee Kwan, Quinn *CPA*

Registered Office

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KY1-1104
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British West Indies

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Economic and Technological
Development Zone
Langfang City
Hebei Province
The PRC

Principal Share Registrar and Transfer Office in the Cayman Islands

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

Hong Kong Branch Share Registrar and Transfer Office

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

Stock Exchange Listing

The Stock Exchange of Hong Kong Limited

Stock Code

2688

Auditors

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

Legal Adviser

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

Principal Bankers

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

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* Chairman of the relevant Board committees

OUR VISION
ENDEAVOR TO BECOME A RESPECTED, INNOVATIVE AND SMART ENTERPRISE

Established a smart, efficient and safe dispatch network for energy transmission and distribution

Committed to a safe, healthy and environmental-friendly operating environment

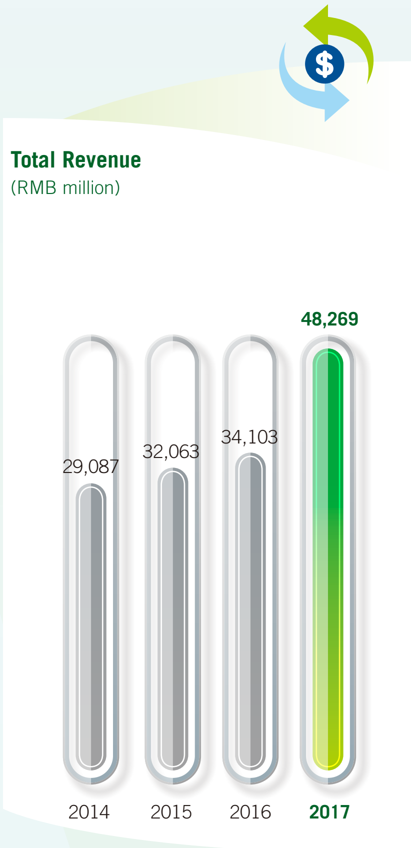
Transforming into a smart and innovative energy enterprise

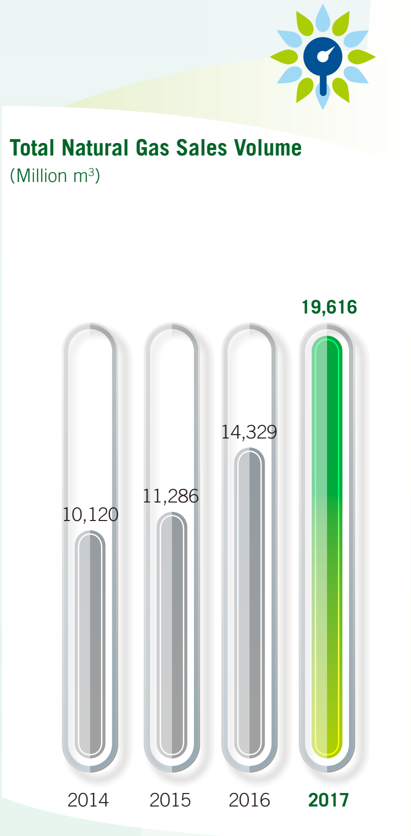
Seizing opportunities in the reform of the electricity market and leveraging the Group's customer base in the city-gas projects, the Group will push forward its natural gas sales and integrated energy sales and services so as to transform and upgrade from a gas distributor to an integrated energy service provider.

WANG Yusuo
Chairman

Results of the Year

In 2017, China's macro-economy maintained steady growth. With the supply-side structural reform achieving progress, the economic structure underwent further optimisation. For the year, GDP reached RMB82.7 trillion, representing an increase of 6.9% year-on-year. As clearly emphasised in the report to the 19th CPC National Congress, China's economy has shifted from a phase of rapid growth to a stage of high-quality development. In pursuit of economic development, the country has also put intensive efforts into constructing a green and ecological civilisation. It has pushed forward the revolutions in energy production and consumption in order to build a clean, low-carbon, safe and efficient energy system. In the face of an ever-changing market environment, the Group seized on opportunities brought by air pollution control and market-oriented reform in the energy industry to tap the potential of traditional gas sales businesses.





Meanwhile, it strives to meet customers' all-rounded energy needs by leveraging integrated energy solutions to boost the sales of multi-energy products, such as gas, electricity, cooling , heating and steam. The Group is committed to accelerating its strategic upgrade and transforming itself from a pure natural gas distributor into an industry-leading integrated energy service provider.

During the year, the Group successfully achieved all the business goals set at the beginning of the year, thanks to the concerted effort of its employees. In terms of the natural gas business, the Group's gas sales volume in 2017 reached 19.62 billion cubic metres, representing an increase of 36.9% year-on-year. The sales volume of city-gas business including residential customers, C/I customers and vehicle gas refuelling stations reached 14,475 million cubic metres, representing an increase of 28.2% year-on-year. The gas sales volume of energy trading business reached 5,141 million cubic metres, representing an increase of 69.3% year-on-year. Piped natural gas connections for 2,074,270 residential households and 23,200 C/I customers (gas appliances with total installed designed daily capacity of 16,718,347 cubic metres) were completed in 2017. As of the end of 2017, the Group operated a total of 325 CNG refuelling stations, 281 LNG refuelling stations and franchised 266 refuelling stations. The Group proactively expanded the coverage of its operations by acquiring 12 new projects and 22 new concessions nearby existing projects during the year. As of the end of 2017, projects of the Group covered a connectable population of 84.69 million.

In the meantime, the Group has actively developed integrated energy business. During the year, 19 integrated energy projects were put into operation. As at 31 December 2017, the Group has invested in and operated a total of 31 projects. During the year, the sales of other energy, such as electricity, cooling, heating, and steam realized a rapid growth and generated a revenue of RMB294 million, representing a significant growth of 92.2% year-on-year.

Capitalising on its existing customer base, the Group promoted the sales of gas appliances and the development of value-added services for end-users. During the year, it generated revenue and profit of RMB320 million and RMB122 million respectively, representing an increase of 34.5% and 22.0% respectively year-on-year.

In 2017, capitalising on the strong business development and management support capability, the Company, its subsidiaries, joint ventures and associates, recorded a total revenue of RMB68,853 million, increased by 36.9%; Profit amounted to RMB4,500 million, increased by 25.2% year-on-year; Revenue of the Group amounted to RMB48,269 million, representing an increase of 41.5% year-on-year; Profit attributable to shareholders of the Group increased by 30.3% year-on-year to RMB2,802 million; Stripping off impact from other gains and losses and share option amortisation, core profit increased by 16.2% to RMB3,731 million. In recognition of the shareholders' support, the Board recommended a final dividend of HK$1.08 (equivalent to approximately RMB0.90) per share payable to shareholders of the Company whose names are on the register of members on 29 May 2018. The total amount of dividend would be approximately HK$1,177 million.

During the year, the Group maintained a sound financial position. The credit rating agency Moody's upgraded the Group's investment-grade credit rating to Baa2 and issued a "Stable" outlook. Standard & Poor's maintained BBB investment-grade credit rating and raised the outlook to "Positive". Meanwhile, Fitch maintained BBB investment-grade credit rating and "Stable" outlook.

Strategic Options in the Era of Energy Reform

China is in the era of energy revolution. The Government is enforcing the de-capacity of traditional energy sources such as coal and coal-fired power. It clearly states that natural gas, a clean fossil fuel, will become one of the main energy sources in China, and strongly supports the development of new energy sources, such as solar power and wind power. The transformation to a clean, low-carbon, safe and efficient energy structure through multiple measures is expected to bring tremendous changes to the energy industry.

Firstly, a new supply and demand relationship driven by the demand-side is gradually being established in the energy sector. On the demand-side, consumption upgrade has led to the diversification in energy use. Users would need not only natural gas, but other integrated energy supply, such as electricity, cooling, heating and steam. At the same time, users can now select their energy service providers and are no longer subjected to monopolistic supply. On the other hand, an influx of new players has diversified the supply-side landscape, with a new demand-led energy supply and demand relationship taking place. As a result, the time for a rapid launch of integrated energy services has arrived.

Secondly, following the deepened actions of implementing of electricity reform, the monopoly of the power grid is gradually being broken down. The Chinese government encourages private capital investment in order to build and operate incremental power distribution networks. The recently promulgated "Notice on Trial Implementation of Market and Trading of Distributed Power Generation" specifies that distributed energy projects may sell electricity directly to users within neighbouring electricity distribution networks. This provides strong policy support to expand individual integrated energy projects into a regional network.

Thirdly, the Chinese government has accelerated the construction of an ecological civilisation based on the green development concept and the national policies on energy saving and environmental protection, by vigorously advocating comprehensive integrated regional energy planning, and promoting the upgrade of city energy networks. Meanwhile, as the governments on both central and local levels vigorously promote the "coal-to-gas" and "coal-to-electricity" initiatives to reduce air pollution and improve the environment, commercial and industrial natural gas boilers will gradually replace coal-fired boilers, and render users in urgent need of cost-effective alternative energy solutions. Combining the launch of National Carbon Emissions Trading Market and the implementation of Environmental Protection Tax on 1 January 2018, these initiatives have presented a lucrative opportunity for the Group to develop integrated energy business.

The reform of the energy industry is driven by consumers, led by the Government and engages all walks of society, with customers being the core element. The Group fully understands and proactively responds to customers' needs. Hence, it integrates multiple forms of energy (for example, natural gas, industrial waste heat and renewable energy resources such as solar energy, geothermal energy and wind power) for different regions as appropriate. It also customises integrated energy solutions with various forms of energy that can complement each other, such as gas, electricity, cooling, heating, and steam for users. Through the integrated energy business, the Group provides total solutions; from energy saving in production to clean and efficient energy consumption. Having transformed from an energy supplier to an energy partner of corporates, the Group focuses on developing its service capability as a partner. Fully utilising its years of industry experience, it has formulated differentiated plans such as "Power-saving Mode", "Economic Mode", "Green Energy Mode" and "Combined Mode" to satisfy the diverse needs of different clients in different industries, and facilitates the upgrade of the regional energy system.

Reshape Corporate Culture and Promote Restructuring of Management System

Corporate culture is the soul of a company. In order to adapt to the new era of Internet of Things and the Group's strategic upgrade, the Group has proactively reshaped its corporate culture, setting out the core values of "Upholding Conscience, Self-motivation, Data-driven as well as Be Open and Willing to Share". These values require all employees to act according to their conscience, be self-motivated, and to produce based on data, so as to achieve win-win results with the team through sharing and cooperation. The establishment of a new corporate cultural identity aligns the mission, vision and goals of every staff member within the Group.

Meanwhile, in order to support the continuous growth and development of business and further enhance its operational efficiency in an ever-changing market environment, the Group continued to accelerate the reform of organisation and management. By establishing the self-motivation organisations and empowerment platforms, the front-line self-motivation organisations served customers with enthusiasm, and the resources-side facilitated resources empowerment through platforms, which further promoted management restructuring. The Group encourages self-motivation organisations to manage themselves, support independent innovations, self-encouragement, self-growth, and set up challenging goals to maximize individual vitality and creativity. The Group set up "Icome", which is a smart corporate operation platform that meets all empowerment needs and ensures timely access to the resources needed to grow the organisations. A variety of capabilities can be obtained from this platform, which will allow every employee to achieve personal growth with entrepreneurial passion, leading to more efficient resources allocation and operation, and advancing in-depth management reform. In 2017, administrative, distribution and selling expenses increased by 9.2% year-on-year, accounting for 6.2% of revenue, declined from 8.1% in 2016.

Awards

With steady growth in operating results and continuous enhancement of management capability, the Group received the following honours in 2017:

- "Best IR Company (ranked No. 1 overall)", "Best Website (ranked No. 1 overall)", "Best Analyst Days (ranked No. 2 overall)", "Best IR Professional (ranked No. 3 overall)" in the Power Sector and the title of "Most Honored Company" in The All-Asia Executive Team 2017 by Institutional Investor, an international financial magazine highly recognised by investment professionals;
- "2nd Place: Best in Sector – Utilities" in the "IR Magazine Awards – Greater China 2017" organised by IR Magazine;
- "Certificate of Excellence" in the "3rd Investor Relations Awards 2017" organised by Hong Kong Investor Relations Association;
- "China Top 500" 2017 by Fortune magazine; and
- "2016 Top 100 Listed Company in Hong Kong" (Top 100 Comprehensive Strength) organised by QQ.com and Finet.

Outlook

In 2017, the Chinese government launched various important policies, including: "The 13th Five-year Plan on Natural Gas Development", "Beijing-Tianjin-Hebei Air Pollution Prevention and Control Work Plan for 2017", "Opinions on Deepening the Structural Reform of the Oil and Natural Gas Industry", "Guiding Opinions on Enhancing Supervision on Gas Distribution Tariff", "Opinions on Accelerating the Promotion of Natural Gas Utilisation", and "Plan on Winter Heating Using Clean Energy in Northern China (2017–2021)". During the "Two Sessions" in 2018, Chinese Premier Li Keqiang clearly addressed that energy consumption per unit of GDP should be reduced by more than 3% in his government work report. The National Energy Administration also issued the "Guidelines for Energy Work in 2018" which pointed out the necessity to strengthen the mechanism of producing, supplying, storing and distributing natural gas, as well as the establishment of peak shaving capacity, and natural gas should account for 7.5% of primary energy consumption by 2018. It also stated to improve the efficiency of energy systems, and actively promote "Internet+" Smart Energy (Energy Internet) demonstrative projects and multi-energy complementary optimisation demonstrative projects, to encourage the exploration of new energy models and the active development of new energy industry trends. These favorable policies provide a strong regulatory support and development opportunity for the sustainable and rapid development of the company's natural gas business and the comprehensive development of the integrated energy business.

Looking ahead in 2018, China will continue the supply-side structural reform while promoting the construction of an ecological civilisation and implementing the green and low-carbon energy strategy. The natural gas industry is expected to maintain its pace of rapid developments, driven by the environmental policies carried out by local governments. The Group will continue to plan ahead to cope with changes in the industry and market conditions, seize opportunities under the favourable business environment and actively develop the C/I market. It will also continue to develop residential users and expand the scale of energy trading steadily, pushing forward the continuous growth of gas sales business. Understanding and proactively responding to customers' needs, the Group will actively develop the integrated energy business to drive its energy sales and services including gas, electricity, cooling, heating and steam rapidly, so as to upgrade and transform from a pure natural gas distributor to an integrated energy service provider that leads the development of the industry. The Group is confident that, through innovation of its business model and enhancement of its outstanding operational capability, it will be able to continuously enhance its corporate value and create better returns for shareholders.

Acknowledgement

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

Wang Yusuo
Chairman
22 March 2018

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OPERATIONAL LOCATIONS IN CHINA

West-to-East Pipeline I

West-to-East Pipeline II

West-to-East Pipeline III

Shaanxi-Beijing Pipeline I

Shaanxi-Beijing Pipeline II

Shaanxi-Beijing Pipeline III

Shaanxi-Beijing Pipeline IV

Hebei-Nanjing Pipeline

Zhong-Wu Pipeline

Yong-Tang-Qin Pipeline

Qin-Shen Pipeline

Sichuan-East Pipeline

Tai-Qing-Wei Pipeline

Hangzhou-Jiaxing Pipeline

Hu-Hang-Yong Pipeline

Yong-Tai-Wen Pipeline

China-Myanmar Pipeline

China-Russia East Pipeline (under construction)

Xinjiang-Guangdong-Zhejiang Coal to Gas Pipeline (under construction)

Project Managed by ENN

LNG Import Terminal

National Storage Tanks

Guangxi (5 projects)	
Beihai Tieshangang Industrial Park	–
Guigang	605,000
Guilin	1,120,000
Guiping Indstrial Park, Guigang City	–
Wuzhou Imported Renewable Resources Processing Park	–

Anhui (15 projects)	
Bengbu	1,085,000
Bowu Modern Industrial Park	–
Bozhou	505,000
Chaohu	490,000
Chuzhou	905,000
Dingyuan County	12,000
Fengyang	128,000
Guzhen	105,000
Jieshou Industrial Zone	–
Laian	152,000
Luan	755,000
Quanjiao	198,000
Suchu Modern Industry Park	–
Suzhou Economic Development Zone	132,000
Yingshang Industrial Park	–

Beijing Municipality (1 project)	
Pinggu	135,000

Fujian (12 projects)	
Anxi	126,000
Dehua	108,000
Huian	150,000
Jinjiang	665,000
Longyan Development Zone	190,000
Nanan	398,000
Ningde	1,080,000
Ningde Xiapu Yacheng Dongyang Industrial Park	–
Quangang	325,000
Quanzhou	1,420,000
Shishi	135,000
Yongchun	165,000

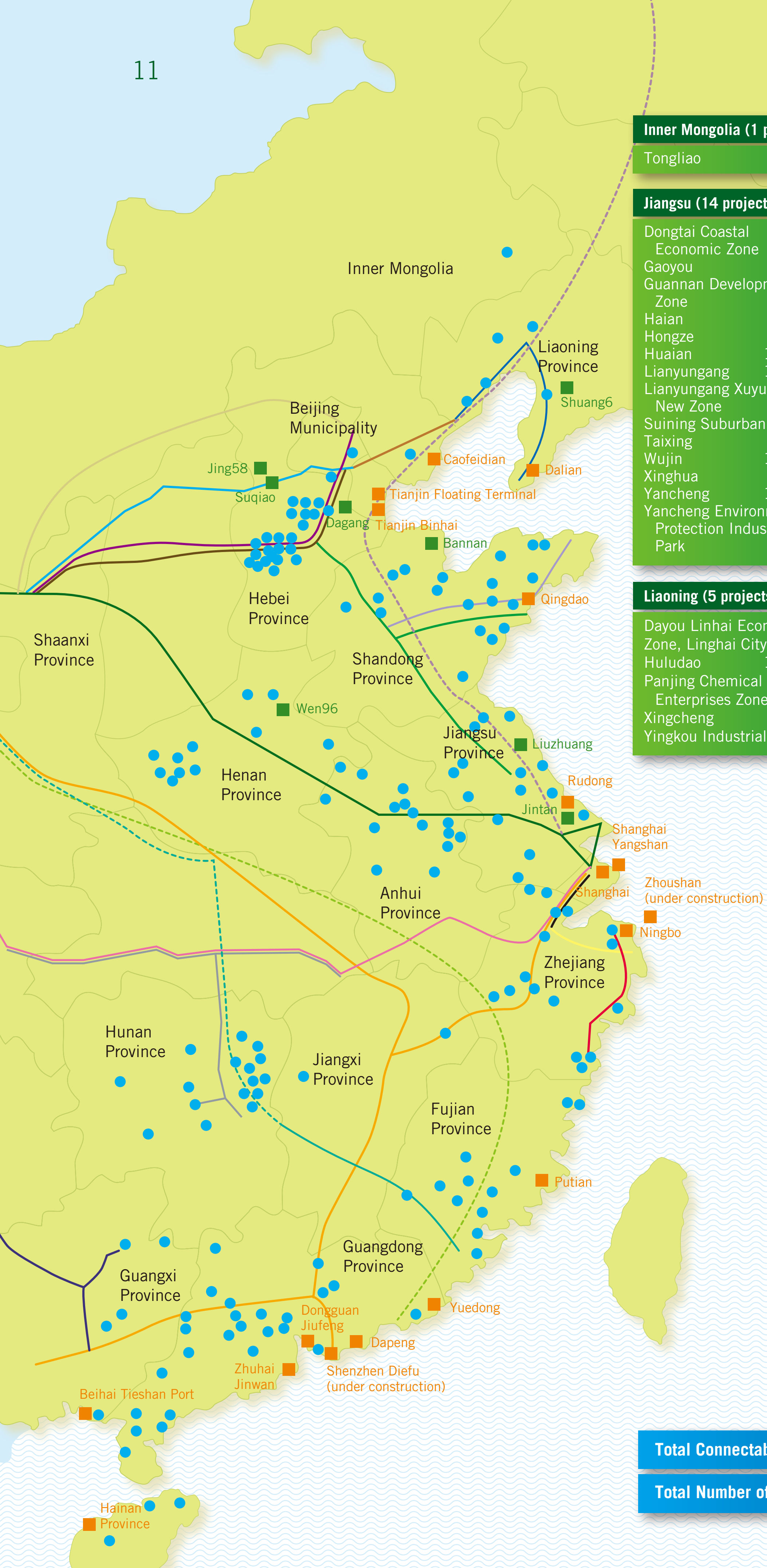
Guangdong (25 projects)	
Dongguan	7,650,000
Dongguan Dongkeng Town	101,000
Dongyuan	106,000
Fengkai	89,000
Guangning	84,000
Heyuan	330,000
Huadu	692,000
Huaiji	135,000
Jiangmen Hecheng Town Zone	–
Leizhou	355,000
Lianjiang	325,000
Lianping County	250,000
Lianzhou	170,000
Luoding	301,000
Panyu Zone, Guangzhou City	1,850,000
Shantou	1,690,000
Shenzhen Bao'an (Longchuan) Industrial Park	–
Sihui	485,000
Wuchuan	302,000
Xinyi	310,000
Yangxi County	118,000
Yunan	78,000
Zhanjiang	1,090,000
Zhaoqing	985,000
Zhaoqing Development Zone	77,000

Hebei (23 projects)	
Baoding	1,680,000
Dingxing County	270,000
Dingzhou	486,000
Gaocheng	225,000
Jingxing	360,000
Langfang	925,000
Lingshou	98,000
Luanxian	118,000
Luquan	215,000
Luquan Green Island Development Zone	–
Luquan Yian Town	11,000
Qingyuan County Western Industrial Zone B	–
Rongcheng	90,000
Shenze	48,000
Shijiazhuang	3,780,000
Yutian County	150,000
Wangdu Economic Development Zone	–
Weichang Economic Zone	–
Wenan Industrial Park	–
Wuji	89,000
Xingtang Development Zone	–
Xinji	255,000
Zhengding New Zone, Shijiazhuang City	52,000

Henan (11 projects)	
Gongyi Private Technology and Innovation Park	–
Kaifeng	1,150,000
Luoyang	2,550,000
Ruyang County	155,000
Ruzhou	370,000
Shangqiu	2,955,000
Weihui City (Tangzhuang Town) Industrial Agglomeration Zone	32,000
Xinan	155,000
Xinan Wanshan Lake Industrial Park	–
Xinxiang	1,530,000
Yichuan	115,000

Hunan (16 projects)	
Changsha	5,420,000
Changsha County	372,000
Chenzhou Suxian Industrial Zone	–
Huaihua	490,000
Liling	232,000
Liuyang Industrial Park	–
Ningxiang	450,000
North-western Liuyang	112,000
Wangcheng	170,000
Xiangtan	1,055,000
Yanling County	80,000
Yongxing County	30,000
Yongzhou	735,000
Zhuzhou	1,680,000
Zhuzhou County	285,000
Zhuzhou Nanzhou New District	–

Jiangxi (3 projects)	
Jiujiang Economic Development Zone	–
Pingxiang Xiangdong District	150,000
Shangrao Economic Development Zone	155,000



Inner Mongolia (1 project)	
Tongliao	860,000

Jiangsu (14 projects)	
Dongtai Coastal Economic Zone	–
Gaoyou	290,000
Guannan Development Zone	159,000
Haian	332,000
Hongze	387,000
Huaian	1,960,000
Lianyungang	1,160,000
Lianyungang Xuyu New Zone	–
Suining Suburban	–
Taixing	340,000
Wujin	1,190,000
Xinghua	625,000
Yancheng	1,150,000
Yancheng Environment Protection Industrial Park	–

Liaoning (5 projects)	
Dayou Linhai Economic Zone, Linghai City	63,000
Huludao	1,045,000
Panjing Chemical Enterprises Zone	–
Xingcheng	138,000
Yingkou Industrial Park	–

Shandong (18 projects)	
Binzhou Zhanhua Economic Development Zone	–
Changle County	245,000
Changle Economic Development Zone	–
Changqing Zone, Jinan City	635,000
Chengyang	895,000
Huangdao	880,000
Jiaonan	715,000
Jiaozhou	685,000
Laiyang	369,000
Liaocheng	870,000
Qingdao Sino-German Ecopark	–
Rizhao	825,000
Rizhao Haiyou Economic Development Zone	–
Xintai City Development Zone	–
Yantai	2,450,000
Yantai Development Zone	–
Zhucheng	625,000
Zouping	285,000

Sichuan (1 project)	
Liangshan Prefecture	665,000

Yunnan (3 projects)	
Kunming City Hi-tech Zone	50,800
Xuanwei	420,000
Wenshan	450,000

Zhejiang (16 projects)	
Haining	295,000
Haiyan	115,000
Huangyan	648,000
Huzhou	532,000
Jinhua	260,000
Lanxi	160,000
Longwan	362,000
Longyou	132,000
Nanxun	495,000
Ningbo Daxie Development Zone	–
Ningbo (Yinzhou)	632,000
Quzhou	385,000
Wenzhou	554,000
Wenzhou Wanquan Light Industrial Base	–
Xiaoshan	785,000
Yongkang	243,000

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

Total Connectable Population:	**84,692,800**
Total Number of Project :	**172**

PROJECT OPERATIONAL DATA

Operational location		Year of establishment	Length of existing pipelines (km)	No. of existing natural gas processing stations
Province	Project			
Anhui	Bengbu	2002	647	2
	Bowu Modern Industrial Park	2017	–	–
	Bozhou	2003	404	1
	Chaohu	2003	225	2
	Chuzhou	2002	663	2
	Dingyuan	2013	–	–
	Fengyang	2005	253	–
	Guzhen	2007	29	–
	Jieshou Industrial Zone	2012	38	–
	Laian	2006	174	–
	Luan	2003	356	1
	Quanjiao	2007	165	–
	Suchu Modern Industry Park	2013	14	–
	Suzhou Economic Development Zone	2015	1	–
	Yingshang Industrial Park	2014	8	–
Beijing	Pinggu	2001	147	1
Fujian	Anxi	2011	80	2
	Dehua	2003	156	1
	Huian	2006	112	–
	Jinjiang	2006	417	1
	Longyan Development Zone	2012	16	1
	Nan'an	2006	229	1
	Ningde	2015	56	–
	Ningde Xiapu Yacheng Dongyang Industrial Park	2013	20	–
	Quangang	2008	49	–
	Quanzhou	2006	599	6
	Shishi	2006	169	–
	Yongchun	2009	49	1
Guangdong	Dongguan	2003	1,894	5
	Dongguan Dongkeng Town	2015	–	–
	Dongyuan	2013	23	–
	Fengkai	2010	15	1
	Guangning	2010	39	1
	Heyuan	2013	81	–
	Huadu	2010	352	1
	Huaiji	2010	35	–
	Jiangmen Hecheng Town Zone	2012	–	–
	Leizhou	2013	22	–
	Lianjiang	2013	30	1
	Lianping County	2017	4	–
	Lianzhou	2010	10	–
	Luoding	2010	25	–
	Panyu Zone, Guangzhou City	2011	272	4
	Shantou	2004	173	4
	Shenzhen Bao'an (Longchuan) Industrial Park	2016	4	–
	Sihui	2009	92	1
	Wuchuan	2016	–	–
	Xinyi	2010	27	–
	Yangxi County	2014	31	–
	Yunan	2011	17	1
	Zhanjiang	2004	411	4
	Zhaoqing	2008	250	1
	Zhaoqing Development Zone	2005	112	1

Daily capacity of existing natural gas stations ('000 m^3)	Accumulated number of piped gas (including natural gas) customers			Number of vehicle gas refuelling stations
	Residential households	Commercial/industrial customers (sites)	Installed designed daily capacity for commercial/ industrial customers (m^3)	
3,000	358,395	2,680	1,377,588	16
–	–	–	–	–
113	184,491	868	399,278	6
210	173,934	575	550,944	5
600	229,180	2,244	772,492	7
–	–	–	–	–
–	38,930	333	848,221	1
–	100	27	127,300	–
–	–	3	48,534	2
–	61,328	877	314,340	–
480	247,323	1,152	696,104	7
–	82,243	830	186,689	1
–	5,204	34	44,865	–
–	6,141	–	168,979	–
–	740	7	34,300	–
300	43,033	436	499,782	2
1,976	25,930	70	43,118	–
2,880	19,463	397	341,970	–
–	45,383	239	716,782	–
1,340	116,507	1,172	4,291,614	–
896	8,055	7	25,105	–
660	42,158	409	1,611,944	–
–	4,680	24	81,100	–
–	10,007	9	94,750	1
–	7,113	39	438,290	–
4,260	159,014	860	477,199	23
–	47,985	520	389,092	–
480	5,281	96	95,155	–
6,172	551,920	6,658	5,385,127	27
–	–	–	–	–
–	12,528	39	26,840	–
206	4,967	2	1,161	–
596	7,757	46	72,040	–
–	39,295	252	34,226	–
540	154,635	826	616,130	2
–	11,733	69	11,793	–
–	–	–	–	–
–	2,197	14	2,847	–
2	6,104	42	30,602	–
–	–	–	–	–
–	6,208	51	36,920	–
–	12,240	66	40,690	1
1,272	117,746	669	502,592	1
120	82,466	308	285,889	1
–	–	1	19,830	–
36	28,988	220	841,250	–
–	–	–	–	–
–	2,916	22	6,781	–
–	7,164	48	19,440	–
300	4,859	21	4,520	1
985	168,405	1,032	673,697	7
2,514	100,039	454	558,356	6
100	19,036	180	570,452	–

Operational location		Year of establishment	Length of existing pipelines (km)	No. of existing natural gas processing stations
Province	Project			
Guangxi	Beihai Tieshangang Industrial Park	2015	19	–
	Guigang	2004	185	2
	Guilin	2004	484	3
	Guiping Industrial Park, Guigang City	2011	–	–
	Wuzhou Imported Renewable Resources Processing Park	2015	–	–
Hainan	Changjiang County	2014	–	–
	Dingan County	2014	–	–
	Ledong County	2014	–	–
Hebei	Baoding	2013	136	–
	Dingxing County	2017	195	–
	Dingzhou	2016	150	–
	Gaocheng	2012	393	–
	Jingxing	2011	29	–
	Langfang	1993	1,222	3
	Lingshou	2012	41	–
	Luanxian	2009	101	1
	Luquan	2004	141	1
	Luquan Green Island Development Zone	2012	299	–
	Luquan Yian Town	2015	–	–
	Qingyuan County Western Industrial Zone B	2015	–	–
	Rongcheng	2011	126	–
	Shenze	2012	243	–
	Shijiazhuang	2002	1,733	2
	Yutian County	2017	–	–
	Wangdu Economic Development Zone	2014	–	–
	Weichang Economic Zone	2017	–	–
	Wenan Industrial Park	2012	–	–
	Wuji	2012	79	–
	Xingtang Development Zone	2012	87	–
	Xinji	2012	32	–
	Zhengding New Zone, Shijiazhuang City (8)	2011	–	–
Henan	Gongyi Private Technology and Innovation Park	2016	–	–
	Kaifeng	2003	919	3
	Luoyang	2006	1,767	3
	Ruyang County	2013	18	2
	Ruzhou	2015	–	–
	Shangqiu	2004	296	1
	Weihui City (Tangzhuang Town) Industrial Agglomeration Zone	2012	13	–
	Xinan	2007	191	2
	Xinan Wanshan Lake Industrial Park	2015	–	–
	Xinxiang	2002	717	1
	Yichuan	2009	36	–

Daily capacity of existing natural gas stations ('000 m^3)	Accumulated number of piped gas (including natural gas) customers			Number of vehicle gas refuelling stations
	Residential households	Commercial/industrial customers (sites)	Installed designed daily capacity for commercial/ industrial customers (m^3)	
–	–	7	283,422	–
1,160	82,978	298	78,876	1
1,717	226,637	1,049	390,914	6
–	–	–	–	–
–	–	–	–	–
–	–	–	–	–
–	4,643	2	2,224	–
–	–	–	–	–
–	380,079	732	1,249,146	2
–	20,658	–	–	–
–	11,584	–	108	–
–	106,466	209	191,218	–
–	15,645	24	35,121	–
988	379,983	2,199	3,393,611	13
–	5,210	26	16,758	–
1,200	22,075	59	260,907	–
1,800	68,768	75	136,738	1
–	24,706	20	91,121	–
–	–	–	–	–
–	–	–	–	–
–	11,168	152	223,792	–
–	6,300	19	13,595	–
2,676	1,193,611	1,876	7,129,265	28
–	–	–	–	–
–	–	–	–	–
–	–	–	–	–
–	–	–	–	–
–	15,586	59	161,955	–
–	964	10	72,264	–
–	120	4	21,040	–
–	–	–	–	–
–	93	–	–	–
7,540	346,849	2,915	1,240,460	6
1,376	711,211	2,236	2,746,906	24
1,590	2,011	153	335,141	–
–	–	–	–	–
580	208,209	2,087	683,756	7
–	7,612	21	95,791	–
1,150	37,774	318	686,157	1
–	–	–	–	–
560	369,865	1,883	1,962,839	8
–	8,363	40	341,751	–

Operational location		Year of establishment	Length of existing pipelines (km)	No. of existing natural gas processing stations
Province	Project			
Hunan	Changsha	2003	2,173	8
	Changsha County [(6)]	2010	–	–
	Chenzhou Suxian Industrial Zone	2013	11	–
	Huaihua	2010	96	1
	Liling	2012	–	–
	Liuyang Industrial Park	2013	74	–
	Ningxiang	2011	161	1
	North-western Liuyang	2013	36	–
	Wangcheng [(6)]	2011	–	–
	Xiangtan	2003	604	4
	Yanling County	2016	7	–
	Chenzhou Yongxing County	2017	–	–
	Yongzhou	2011	61	1
	Zhuzhou	2003	650	1
	Zhuzhou County [(7)]	2010	–	–
	Zhuzhou Nanzhou New District	2017	–	–
Inner Mongolia	Tongliao	2004	236	1
Jiangsu	Dongtai Coastal Economic Zone	2017	–	–
	Gaoyou	2001	272	3
	Guannan Development Zone	2014	31	–
	Haian	2002	398	3
	Hongze	2011	126	1
	Huaian	2002	857	2
	Lianyungang	2003	651	2
	Lianyungang Xuyu New Zone	2013	30	–
	Suining Suburban	2013	21	–
	Taixing	2002	499	2
	Wujin	2003	1,689	3
	Xinghua	2002	271	2
	Yancheng	2002	1,032	4
	Yancheng Environment Protection Industrial Park	2011	58	–
Jiangxi	Nanchang Jiujiang Economic Development Zone	2017	–	–
	Pingxiang Xiangdong District	2017	–	–
	Shangrao Economic Development Zone	2015	–	–
Liaoning	Dayou Linhai Economic Zone, Linghai City	2011	40	1
	Huludao	2000	512	3
	Panjing Chemical Enterprises Zone	2012	–	–
	Xingcheng [(3)]	2002	–	–
	Yingkou Industrial Park	2016	–	–

Daily capacity of existing natural gas stations ('000 m^3)	Accumulated number of piped gas (including natural gas) customers			Number of vehicle gas refuelling stations
	Residential households	Commercial/industrial customers (sites)	Installed designed daily capacity for commercial/ industrial customers (m^3)	
3,658	1,650,539	10,999	5,204,308	22
–	–	–	–	–
–	224	2	92,040	–
120	66,522	390	99,160	2
–	–	1	1,200	–
–	7,142	105	100,955	–
720	76,442	522	292,983	1
–	2,232	4	25,165	–
–	–	–	–	–
2,082	327,828	2,493	762,805	7
–	458	–	452	–
–	–	–	–	–
960	31,003	149	103,888	2
1,020	463,327	4,851	2,241,477	5
–	–	–	–	–
–	–	–	–	–
60	163,871	355	260,620	3
–	–	–	–	–
2,982	94,075	893	249,451	1
–	5,457	31	163,566	1
268	118,985	863	693,298	2
888	40,074	244	281,675	–
580	426,745	1,723	1,364,409	12
675	337,377	1,581	1,114,322	8
–	398	12	139,721	–
–	1,388	6	66,350	–
396	133,682	620	929,382	2
3,050	389,348	3,614	3,254,692	10
1,150	80,676	1,052	336,069	3
1,650	367,747	2,474	1,042,467	7
–	–	–	–	–
–	–	–	–	–
–	–	–	–	–
–	2,220	19	156,189	–
60	18,500	71	84,151	1
1,350	315,834	938	949,239	8
–	–	–	52,549	–
–	–	–	–	–
–	–	–	–	–

Operational location		Year of establishment	Length of existing pipelines (km)	No. of existing natural gas processing stations
Province	Project			
Shandong	Binzhou Zhanhua Economic Development Zone	2013	15	–
	Changle County	2016	113	2
	Changle Economic Development Zone	2017	53	2
	Changqing Zone, Jinan City	2011	–	–
	Chengyang	2001	630	3
	Huangdao	2001	539	7
	Jiaonan	2003	354	1
	Jiaozhou	2003	532	1
	Laiyang	2002	260	1
	Liaocheng	2000	634	5
	Qingdao Sino-German Ecopark	2012	–	–
	Rizhao	2002	365	1
	Rizhao Haiyou Economic Development Zone	2016	–	–
	Yantai Development Zone (4)	2013	–	–
	Yantai	2004	1,452	8
	Xintai City Development Zone	2001	–	–
	Zhucheng	2001	451	2
	Zouping	2002	262	1
Sichuan	Liangshan Prefecture	2013	–	–
Yunnan	Kunming City Hi-tech Zone	2011	31	2
	Xuanwei	2017	–	–
	Wenshan	2010	63	1
Zhejiang	Haining	2002	556	2
	Haiyan	2008	46	2
	Huangyan	2005	179	–
	Huzhou	2004	934	2
	Jinhua	2003	173	2
	Lanxi	2003	158	–
	Longwan	2004	1	–
	Longyou	2009	144	3
	Nanxun (5)	2009	–	–
	Ningbo Daxie Development Zone	2015	5	–
	Ningbo	2007	456	2
	Quzhou	2002	388	3
	Wenzhou	2003	197	1
	Wenzhou Wanquan Light Industrial Base	2012	–	–
	Xiaoshan	1994	521	2
	Yongkang	2005	223	2
Other project				
Shanghai (CNG)			–	–
Shanghai (LPG)			–	–
Shanghai (DME)			–	–
Other gas refuelling station project			168	1
TOTAL			**39,146**	**173**

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

Notes:

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

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

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

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

Daily capacity of existing natural gas stations ('000 m^3)	Accumulated number of piped gas (including natural gas) customers			Number of vehicle gas refuelling stations
	Residential households	Commercial/industrial customers (sites)	Installed designed daily capacity for commercial/ industrial customers (m^3)	
–	6,159	20	57,001	–
30	3,972	116	91,904	–
1,800	–	–	170,000	–
–	–	–	–	4
600	287,258	1,281	1,474,899	9
7,917	280,396	1,044	2,293,674	5
1,207	184,524	212	782,404	6
420	200,537	721	977,994	3
150	86,004	530	461,874	5
2,958	248,522	1,112	1,921,277	–
–	6,158	11	6,292	–
300	225,797	951	774,281	–
–	–	–	–	16
–	–	–	–	–
2,446	590,503	1,581	2,130,010	4
–	–	–	–	4
543	167,123	996	1,241,438	4
600	59,966	392	830,837	4
–	–	–	–	–
460	12,736	52	196,096	7
–	–	–	–	–
100	27,624	56	7,914	1
1,896	118,459	927	1,169,095	3
847	4,719	108	445,565	3
–	49,404	209	288,450	1
568	169,178	1,765	1,627,027	8
210	80,897	504	304,927	3
–	46,998	334	439,087	–
–	1,771	31	92,650	–
1,164	17,996	185	178,060	–
–	–	–	–	–
–	2,355	–	37,800	–
130	213,617	648	707,265	4
280	106,962	866	504,627	5
120	38,364	146	317,862	3
–	–	–	–	–
5,400	285,533	1,201	1,001,040	5
160	37,473	448	1,013,784	–
–	–	–	–	5
–	–	–	–	29
–	–	–	–	–
20	5,055	19	31,202	153
104,370	**16,221,143**	**91,879**	**87,900,513**	**606**

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

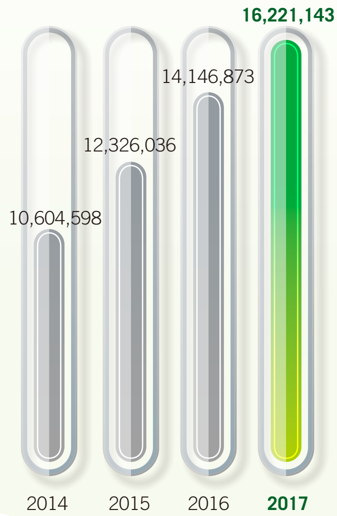
(6) The projects in Changsha County and Wangcheng are operated by Changsha ENN Gas Company Limited. The operational data is included in Changsha.

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

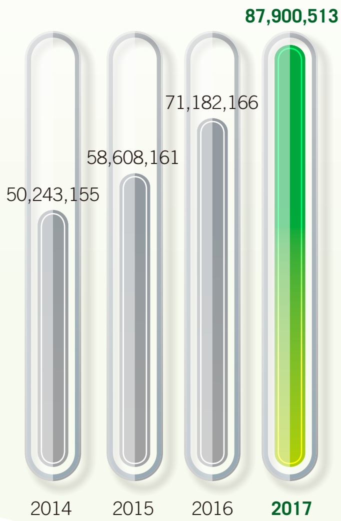
(8) The project in Zhengding New Zone, Shijiazhuang City is operated by Shijiazhuang ENN Gas Company Limited. The operational data is included in Shijiazhuang.

OPERATIONAL HIGHLIGHTS

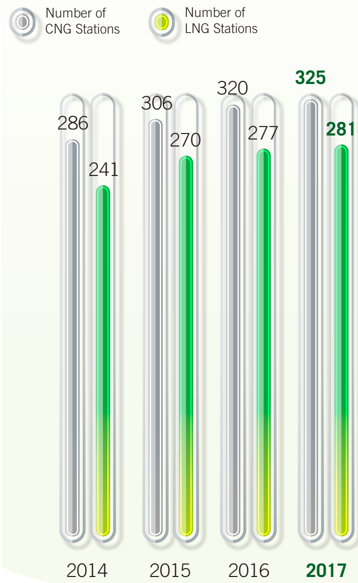
Accumulated Number of Connected Residential Customers
(Households)



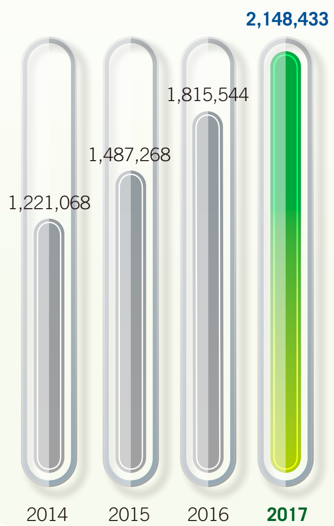
Accumulated Number of Connected Commercial/ Industrial Customers
(Installed designed daily capacity m3)



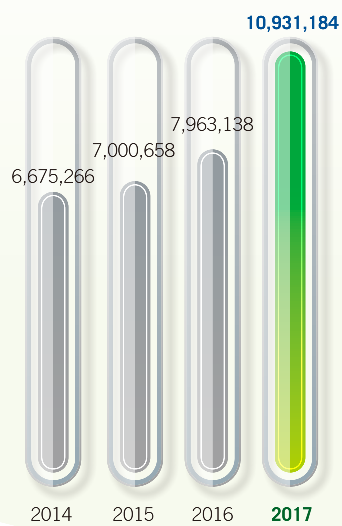
Number of Vehicle Gas Refuelling Stations



Units of Natural Gas Sold to Residential Households
('000m3)

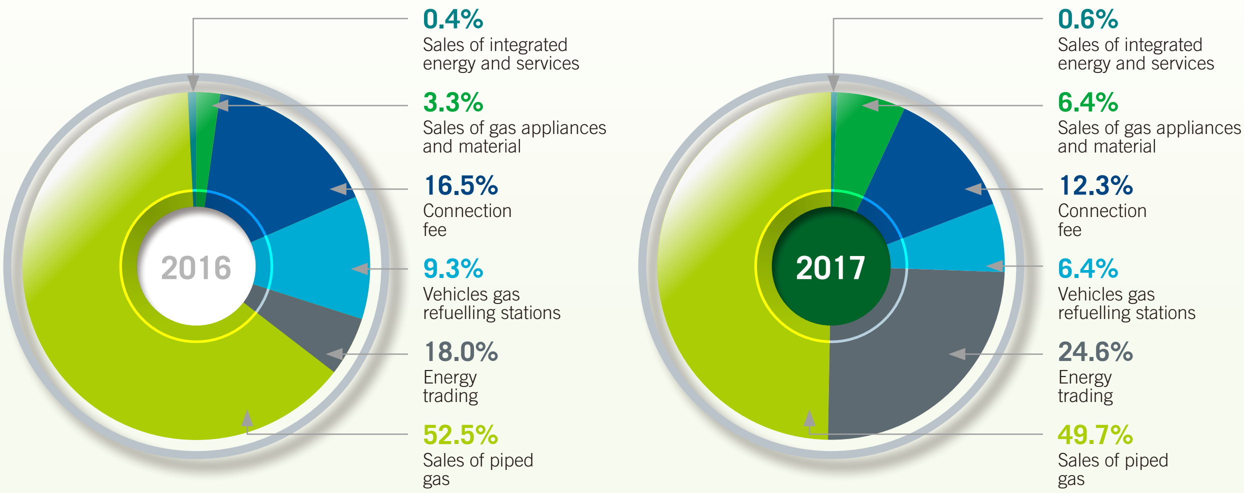


Units of Natural Gas Sold to Commercial/ Industrial Customers
('000m3)



Units of Natural Gas Sold to Vehicle Gas Refuelling Stations
('000m3)

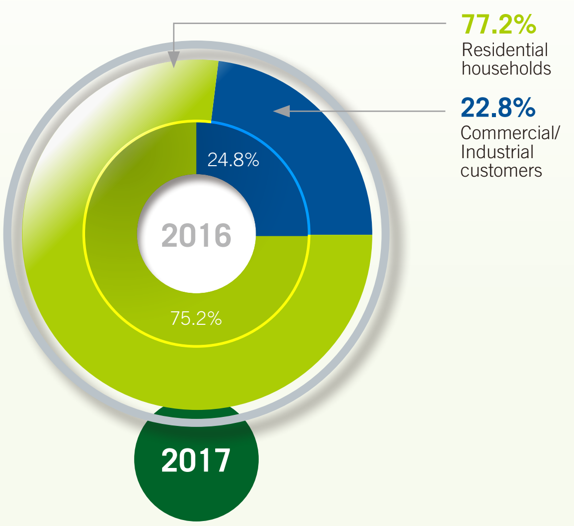
Revenue Breakdown by Segment



Revenue Breakdown by Customer

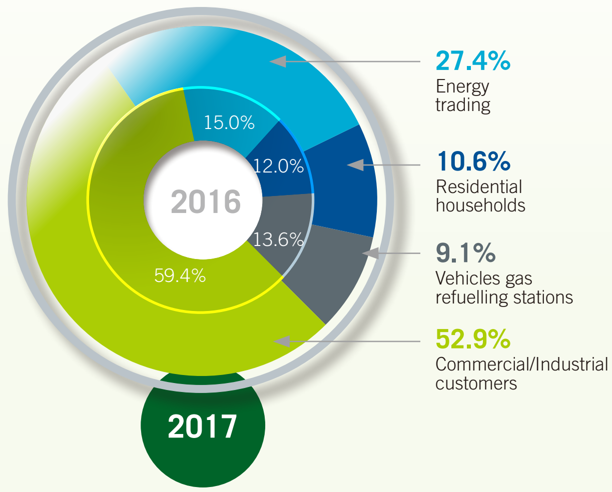
Connection Fee

(including subsidiaries, joint ventures and associates)



Sales of Gas

(including subsidiaries, joint ventures and associates)



COMPARISON OF TEN-YEAR RESULTS

	2017	2016	2015	2014
Highlights (Group)				
Number of connected households (piped gas)	**16,221,143**	14,146,873	12,326,036	10,604,598
Installed designed daily capacity for commercial/ industrial customers (piped gas) (m^3)	**87,900,513**	71,182,166	58,608,161	50,243,155
Units of piped gas sold				
Gas sold to Residential households ('000 m^3)	**2,153,314**	1,821,136	1,490,416	1,225,825
Gas sold to Commercial/industrial customers ('000 m^3)	**10,934,583**	7,966,280	7,001,499	6,676,785
Gas sold to Vehicles gas refuelling stations ('000 m^3)	**1,447,063**	1,561,737	1,588,928	1,441,323
Wholesale of gas sales volume ('000 m^3)	**5,140,957**	3,036,778	1,231,521	804,160
Length of existing pipelines[1] (km)	**39,146**	32,921	29,936	27,065
Number of existing natural gas processing stations	**173**	166	157	149
Daily capacity of existing natural gas processing stations (m^3)	**104,370,000**	84,910,000	80,198,000	73,617,000
Revenue & Profit (RMB million)				
Revenue	**48,269**	34,103	32,063	29,087
Profit before tax	**5,190**	4,195	4,027	4,747
Income tax expense	**(1,517)**	(1,307)	(1,306)	(1,127)
Profit for the year	**3,673**	2,888	2,721	3,620
Non-controlling interests	**(871)**	(737)	(685)	(652)
Profit and total comprehensive income for the year attributable to owners of the Company	**2,802**	2,151	2,036	2,968
Dividends	**976**	775	705	709
Assets & Liabilities (RMB million)				
Non-current assets	**36,155**	32,487	30,328	23,715
Associates	**1,505**	1,350	1,024	882
Joint Ventures	**3,929**	3,704	3,810	3,436
Current assets	**17,626**	13,840	11,857	15,002
Current liabilities	**(25,605)**	(18,341)	(19,408)	(13,540)
Non-current liabilities	**(13,393)**	(15,186)	(11,516)	(14,954)
Net assets	**20,217**	17,854	16,095	14,541
Capital & Reserves (RMB million)				
Share capital	**112**	112	113	113
Reserves	**16,840**	14,854	13,355	11,985
Equity attributable to owners of the Company	**16,952**	14,966	13,468	12,098
Non-controlling interests	**3,265**	2,888	2,627	2,443
	20,217	17,854	16,095	14,541
Earnings per share – basic (RMB)	**2.59**	1.99	1.88	2.74

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

2013	2012	2011	2010 (Restated)	2009 (Restated)	2008
9,274,794	7,785,098	6,815,165	5,618,583	4,706,663	3,745,145
41,864,127	33,422,696	25,767,276	18,175,160	13,486,437	9,518,438
1,030,054	930,290	824,276	640,597	520,170	420,880
5,538,164	4,345,314	3,591,898	2,765,488	2,031,242	1,816,947
1,186,697	935,926	696,442	520,438	388,420	334,031
370,019	248,536	260,928	222,833	–	–
23,907	21,312	18,854	16,340	14,126	12,584
137	126	115	100	94	90
58,088,000	46,176,000	32,003,000	23,970,000	14,638,000	14,378,000
22,966	18,027	15,068	11,215	8,413	8,266
2,760	2,852	2,327	1,811	1,383	1,131
(960)	(859)	(660)	(410)	(304)	(260)
1,800	1,993	1,667	1,401	1,079	871
(548)	(511)	(414)	(388)	(276)	(240)
1,252	1,482	1,253	1,013	803	631
414	362	315	297	200	158
21,006	18,137	15,517	12,712	10,542	9,138
804	798	694	488	324	292
2,998	2,271	1,733	1,361	1,016	758
11,097	9,687	8,944	5,079	4,754	4,354
(10,869)	(11,614)	(9,520)	(7,489)	(5,364)	(5,428)
(13,144)	(8,609)	(8,528)	(4,611)	(4,844)	(3,697)
11,892	10,670	8,840	7,540	6,428	5,417
113	113	110	110	110	106
9,430	8,540	6,936	5,922	5,007	4,128
9,543	8,653	7,046	6,032	5,117	4,234
2,349	2,017	1,794	1,508	1,310	1,183
11,892	10,670	8,840	7,540	6,427	5,417
1.16	1.39	1.19	0.97	0.78	0.63

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

Results of the Year

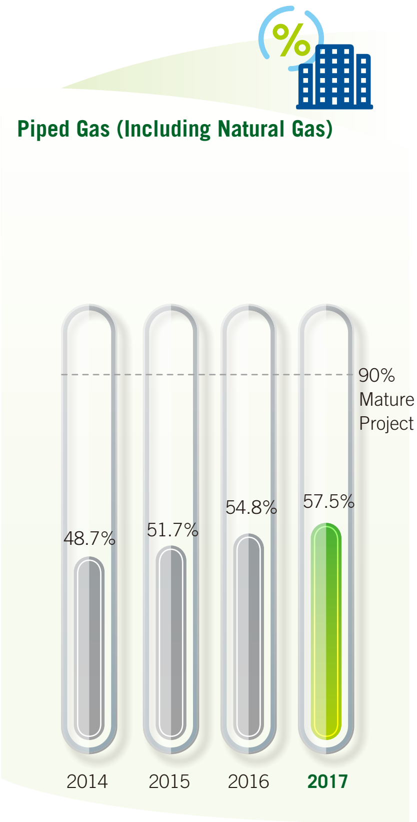
Benefiting from the improving macro-economy and the government's determination to control air pollution, the apparent natural gas consumption in China recorded a rapid growth of 15.3% in 2017, higher than that in the past two years. Capitalised on the strong business development and management support capability, the Company, its subsidiaries, joint ventures and associates seized opportunities brought by the favourable external environment, proactively developed more customers to increase natural gas sales volume. During the year, 19.62 billion cubic metres of natural gas sales volume was recorded, representing a significant year-on-year growth of 36.9% which was a much higher growth rate compared with the industry's average. Total revenue increased 36.9% to RMB68,853 million driven by the robust growth of natural gas sales volume, while profit increased 25.2% to RMB4,500 million compared to last year.

The Group's revenue significantly increased by 41.5% to RMB48,269 million. Despite the gas shortage in winter 2017 in China, the Group was able to ensure steady gas supply to customers, thanks to its powerful gas sources dispatching and allocating capabilities. The Group's expanding scale of natural gas sales, coupled with the early-entry into synergistic business segments including energy trading and integrated energy business, successfully created larger return for the Group and its shareholders. During the year, profit attributable to shareholders amounted to RMB2,802 million, represented a significant increase of 30.3%. Basic earnings per share increased 30.2% to RMB2.59. The Board recommended a final dividend of HKD1.08 per share, increased by 30.1% year-on-year.

City-gas Business

C/I Customers

In 2017, China issued "Opinions on Accelerating the Promotion of Natural Gas Utilisation", reiterating that it would gradually develop natural gas as one of the dominant energy sources for China's modern clean energy system. It also proposed that by 2020, the share of natural gas in primary energy mix would rise to around 10%. In the "Clean Heating Plan for Winter in Northern China (2017–2021)" jointly issued by ten ministries and commissions, including the National Development and Reform Commission and the National Energy Administration, clearly stated that by 2021, coal-fired boilers with a capacity below 35 steam tons/hour in the "2+26" key cities, and those with a capacity below 20 steam tons/hour in counties would be demolished. Coal-fired boilers with a capacity below 10 steam tons/hour would be demolished in other areas of northern China by 2021 as well. Following the implementation of tightened environmental policies carried out by the central government, local governments in Beijing-Tianjin-Hebei, Henan, Shandong, Hunan and Zhejiang promulgated air pollution control policies and encouraged businesses to adopt cleaner energy to replace highly polluting fuels, including coal, heavy oil and low-quality diesel.



* Penetration rate of projects under ENN coverage

In response to the above policies, the Group made great effort to conduct "coal-to-gas" conversion so as to develop more customers with large gas consumption, and offered customised integrated energy solutions to customers to improve their energy efficiency and reduce the overall cost of energy consumption. During the year, the Group completed natural gas connection for 23,200 new C/I customers (installed gas appliances with designed daily capacity of 16,718,347 cubic metres), and the aggregate number of C/I customers connected to piped gas (including natural gas) reached 91,879 (installed gas appliances with designed daily capacity of 87,900,513 cubic metres), and the average connection fee was RMB102 per cubic metre. During the year, new connections to customers from "coal-to-gas" conversion reached approximately 6.02 million cubic metres/day, accounting for 36% of newly connected C/I customers. The tertiary industry accounted for 51.6% of the gross domestic product in 2017, thereby becoming the new engine of China's economic development. In addition to expanding the scale of natural gas sales, the Group also focused on the development of high-quality commercial customers with higher affordability, so as to enrich and optimise its customer portfolio. During the year, new connections to commercial customers reached 6.47 million cubic metres/day, accounting for 38.7% of newly connected C/I customers. The Group's growing customer base has laid a solid foundation for the growth of natural gas sales. During the year, natural gas sales volume attributable to C/I customers significantly rose 37.3% to 10,931 million cubic metres, among which natural gas sold to industrial customers reached 9,043 million cubic metres and that to commercial customers reached 1,888 million cubic metres, representing a growth of 41.4% and 20.5% respectively year-on-year.

Residential Customers

In 2017, the PRC government clearly stated that it would accelerate the increase in gas penetration rate for urban residents and promote clean heating in rural areas depending upon local conditions. The Group actively co-operated with the governments to speed up households connection in new and existing buildings, while making efforts to carry out "coal-to-gas" conversion projects and eliminate scattered coal focusing on selective urban villages in more affordable areas including Hebei, Henan, Jiangsu and Shandong. Capitalising on its strong customer development, safety operation, and exceptional customer service capabilities, the Group completed natural gas connection for 2,074,270 residential households, with the aggregate number of residential households connected to piped gas (including natural gas) reached 16,221,143, and the average connection fee was RMB2,775 per household. As of the end of 2017, the average gas penetration rate of the Group's city-gas projects increased from 54.8% at the end of 2016 to 57.5%.

The Group's sales of natural gas to residential customers reached 2,148 million cubic metres, up 18.3% over last year. Such rapid growth was mainly due to the ramping up of gas consumption by newly connected residential customers, as well as the increase in the residential use of natural gas space heaters in rural areas of northern China during winter. During the year, the Group continued to promote gas space heaters in regions with higher gas demand in the winter season, such as urban villages, villages on the outskirts, high-end residential communities and villa districts, successfully developed 350,000 residential users of natural gas space heaters in 2017, with the aggregate users of natural gas space heaters amounted to 820,000, which will continue to drive the Group's residential gas sales volume.

New Projects

During the year, the Group acquired 12 new projects and 22 new concessions around its existing projects, with an additional connectable population of 1,270,000. As at 31 December 2017, the Group had 172 projects in China, covering a connectable population of 84.69 million. Looking forward, the Group will focus on business opportunities in areas in proximity to its existing city-gas projects, so as to expand its coverage employing its economies of scale and synergies. It will also continue to keep track of and acquire city-gas and industrial park projects capitalising on the integrated energy business model.

Projects	The Group's shareholding	Major industries in concessions
1. Dingxing County, Hebei	100%	Foundry, mechanical processing, chemical industry, construction materials, printing, food processing, embroidery
2. Yutian County, Hebei	55%	Rubber industry, metal processing, coir mattress industry
3. Chengde Weichang Economic Development Zone, Hebei	100%	Materials smelting, food, leisure and tourism, cultural industry, modern logistics
4. Yongxing County, Hunan	70%	New energy, new materials
5. Xiangdong District, Pingxiang, Jiangxi	60%	Industrial ceramics, colour printing and packaging, fine chemicals
6. Jiujiang Economic and Technological Development Zone, Jiangxi	100%	High-end equipment manufacturing, new materials and new energy, intelligent home appliances, electronic information and communication, environmental protection and energy saving, new energy vehicles manufacturing
7. Changle Economic Development Zone, Shandong	60%	Plate, chemical industry, plastics
8. Dongtai Coastal Economic Development Zone, Jiangsu	100%	Green bio-pharmaceuticals, biological feed, meat slaughtering and deep processing, cultivation, eco-tourism
9. Bozhou Wuhu Modern Industrial Park, Anhui	100%	Equipment manufacturing, energy saving and environmental protection, food and pharmaceutical
10. Heyuan Lianping County, Guangdong	100%	Electronic appliances, green plastics, eco-friendly food
11. Zhuzhou Nanzhou New District, Hunan	100%	Clothing, construction materials, machine manufacturing, new material
12. Xuanwei, Yunnan	35%	Tobacco, Regeneration steel manufacturing, chemical fertilizer

The 22 new concessions around existing projects include:

Provinces	Operational areas
Anhui	Guzhen Industrial Cluster, ShunheTown in Liuan, Dongqiao Town in Liuan, Niuji Town in Qiaocheng District, Bozhou, Lumiao Town, Yanji Town, Zhangdian Village, Guantang Town, Shatu Town
Hebei	Dahe Town in Luquan, Handan Fuxing Economic Development Zone
Henan	Luoyang Circular Economic Industrial Park, Luoyang Lugang Industrial Park
Hunan	Jiahe Economic Development Zone, Chenzhou Yongxing Industrial Park
Guangdong	Hengshan Town, Shijian Town, Hengshan Town Lidong Industrial Park, Hengshan Town Lidong High-tech Industrial Park, Binheng Town Jiangji Industrial Park, Wuhe Town Huanan Industrial Park in Guangning County, Zhaoqing
Guangxi	Dongcheng District in Beihai

Vehicle Gas Refuelling Business

PRC Vehicle Gas Refuelling Business

The price of crude oil has been at a relatively low level over the years after a dramatic drop in 2015, reducing the economic advantages of natural gas over gasoline and diesel. Meanwhile, gas demand from CNG and LNG vehicles was under pressure due to external factors such as the prevailing mobile car hailing services, the promotion of electric buses by local governments and the prohibition of gas-powered coal transporting vehicles at the ports around Beijing-Tianjin-Hebei. During the year, vehicle natural gas sales volume decreased by 7.8% to 1,396 million cubic metres, of which gas sales volume of CNG refuelling stations was 800 million cubic metres while that of LNG refuelling stations was 596 million cubic metres.

In response to the challenging market environment, the Group proactively adjusted its market development strategy by cooperating with mobile car hailing service providers, and increased efforts to promote natural gas usage to light and medium-duty trucks, delivery trucks and sanitation vehicles, with a view to expanding the customer base of CNG vehicles. Moreover, the Group also rolled out promotional campaigns to attract new customers while retaining the existing ones, such as offering rebates for top ups and gifts with bonus points. As for LNG refuelling business, the Group expanded its franchising business through the "Smart Card" program and established refuelling corridors for major customers from the logistic industry, thereby expanding the LNG refuelling network, it also deepened the progress of management restructuring and single station accountability system, so as to enhance profitability of individual stations. Following the increase in sales growth of LNG heavy-duty trucks in 2017, the Group will proactively follow up with customers who have invested in these new trucks. The Group believes that gas sales volume of LNG refuelling stations will be improved after deploying the above-mentioned marketing strategies.

As at the end of 2017, the Group operated a total of 325 CNG refuelling stations, 281 LNG refuelling stations and franchised 266 refuelling stations, spanning across 23 provinces, municipalities and autonomous regions across the country. The "13th Five-year Plans for Natural Gas Utilisation" introduced by the PRC government and local governments in Hebei, Shandong and Henan proposed to accelerate natural gas consumption in the transportation industry and strongly supported the promotion of natural gas vehicles and construction of natural gas refuelling stations. As of the end of 2017, there were around 4.6 million natural gas vehicles and 7,500 natural gas refuelling stations in China. There is still a large gap between the goal set in the "13th Five-Year Plan", which targets to introduce or convert around 10 million vehicles into natural gas-powered in 2020 and construct more than 12,000 natural gas refuelling stations in China. Therefore, the progress of introducing more natural gas vehicles and refuelling stations has to be speeded up. The Group will continue to develop vehicle gas refuelling station business leveraging on its first-mover advantage, rich operational experience and established high-quality refuelling network.

North America Gas Refuelling Business

As the price difference between oil and gas remained small in North America in 2017, it was challenging for the Group to develop new customers and maintain the existing ones. Given the business in North America was still unprofitable, upon prudent assessment, the Group considered that it would be difficult to forecast the break-even time under the challenging business environment. Thereby, the Group disposed of the North America company on 31 January 2018 to mitigate any ongoing impact on the Group's financial performance.

Integrated Energy Business

China insists on advancing the energy revolution as a national policy for energy development, achieving a fundamental shift in forms of energy production and consumption, strengthening the construction of a smart energy management system, enhancing demand-side responding capability, and realising the smart interaction between energy production and consumption. Riding on the deepening actions to control air pollution in China, the development of energy consumption will shift from merely volume expansion to the focus on enhancing quality and efficiency, completely changing the previous way of energy consumption which was extensive and inefficient. The implementation of the trading of energy usage quota, carbon emission quota, renewable energy for power generation quota, etc. will bring opportunities for the rapid development of clean energy. On the other hand, energy supply will gradually shift to demand-side driven as the liberalisation process releases consumers' options. Embracing the changes of the energy system, the Group planned ahead strategically. Through the integration of various energy sources such as natural gas, industrial waste heat and renewable energy including solar energy, geothermal energy and wind energy available locally, the Group can customise integrated energy solutions to satisfy the diverse energy needs of customers, which was a modification on the foundation of distributed energy technology, thus, improving their energy efficiency and reducing energy cost.

Leveraging on its vast experience in operating distributed energy projects in the past, and its key advantage of direct access to end users, the Group pushed forward the development of integrated energy business in key cities by targeting customers with multiple energy needs, such as industrial parks, urban complexes, public infrastructures, and industrial customers, expediting its energy sales including gas, electricity, cooling, heating and steam. During the year, revenue from the sales of integrated energy and services recorded a significant increase of 92.2% to RMB294 million, and 19 projects were put into operation, aggregated number of projects in operation reached 31, among which 2 projects were selected to be on the first listing of "Multi-energy Complementary Integration and Optimisation Demonstrative Projects" of the National Energy Administration. The Group furthered its transformation from a pure natural gas distributor to an industry-leading integrated energy service provider, driving the growth of its gas sales volumes while pushing ahead the development of integrated energy sales and services.

The newly invested and operated projects during the year include:

Provinces	Projects
Hebei	Langfang New Chaoyang Pan-energy Micro-grid, Luan County Hospital
Shandong	Pan-energy Station of Qingdao Haier Industrial Park, Qingdao Oriental Movie Metropolis
Guangdong	Dongguan Zhongsheng Pharmaceutical
Henan	Ruzhou Julong Biological Engineering, Kaifeng Huiyuan Juice Group, Luoyang Yibin District Pan-energy Micro-grid, Luoyang Guangmao Food Trading (洛陽廣貿食品), Luoyang Rongtuo Coking (洛陽榕拓焦化)
Zhejiang	Wenzhou Jinhai Industrial Park, Longyou Chengnan Industrial Park, Jinhua New Energy Vehicle Industrial Park, Xiaoshan Jiande Datong Industrial Park
Hunan	Zhuzhou Tianyi Independent Industrial and Technology Park
Shanghai	ASE Group (Shanghai)
Jiangsu	Xuzhou Guanyin Airport, Yancheng JINHDA Technology
Guangxi	Hechi Daren Industrial Park

ENERGY TRADING BUSINESS

During the year, benefiting from the tremendous natural gas demand from the downstream users, the Group leveraged on its growing resources allocation capabilities, intelligent dispatching and logistics system, and the extensive distribution network, achieved 5,141 million cubic metres of natural gas sales from energy trading business, representing a significant year-on-year increase of 69.3%. Revenue achieved a notable year-on-year growth of 93.0% to RMB11,878 million. The Group's market share further increased, and became a leading LNG distributor in China. The Group continued to secure key resources through deepening the collaboration with upstream suppliers including the three oil majors and LNG processing plants, investing in Shanghai Petroleum and Natural Gas Exchange as well as Chongqing Petroleum and Natural Gas Exchange, and securing long term gas supply contracts with overseas suppliers to lock the core resources. It also actively established the logistics and gas storage systems, thereby building a highly efficient, cost-effective and safe integrated storage and transportation system to ensure stable gas supply in winters. The Group will reinforce the development of downstream market and further expand the scale of energy trading, so as to broaden its revenue sources, while strategically prepare for the full liberalisation of natural gas pricing mechanism.

SALES OF GAS APPLIANCES BUSINESS

During the year, through providing piped gas connection to residential customers, the Group intensively promoted gas appliances such as cooking stoves, water boilers, range hoods and space heaters, generated a revenue of RMB320 million. Taking advantage of the conversion from scattered coals in rural villages, it stepped up its marketing strategy to expand the market nationally leveraging on its existing 16.14 million residential households. The Group also established online sales platform in collaboration with major e-commerce platforms including Taobao, Suning and Jingdong etc, facilitating interactive online and offline sales, enhancing its brand awareness and brand influence, thus, increasing its market share.

FINANCIAL RESOURCES REVIEW

Key Financial Data

During the year, the Group's total revenue amounted to RMB48,269 million, representing an increase of 41.5% over last year. Gross profit margin of the Group was 17.3%, down 4.3 percentage points over last year, while net profit margin was 7.6%, down 0.9 percentage point over last year. The decrease in gross profit margin was mainly due to the increasing share of revenue from natural gas sales which was a recurring revenue stream, and the increase in its average procuring cost. The Group's improving economy of scale and effective cost control offset part of the gross margin decline, thus, net profit margin decreased slightly. Profit attributable to shareholders was RMB2,802 million, representing an increase of 30.3% year-on-year.

Liquidity and Financial Resources

The Group maintained a stable capital structure, with a net gearing ratio of 49.9% (2016: 53.9%). Currently, the Group's operating and capital expenditures are funded by operating cash flows, current assets, bank loans and issued bonds. The Group has sufficient sources of funds and unutilised banking facilities to meet its working capital requirements and future capital expenditure.

During the year, the Group maintained a sound financial position. The credit rating agency Moody's upgraded the Group's investment-grade credit rating to Baa2 and issued a "Stable" outlook. Standard & Poor's maintained BBB investment-grade credit rating and raised the outlook to "Positive". Meanwhile, Fitch maintained BBB investment-grade credit rating and "Stable" outlook.

Borrowings Structure

As at 31 December 2017, the Group's total debts amounted to RMB18,067 million (2016: RMB16,791 million). Short-term loans (including convertible bonds and corporate bonds) amounted to RMB8,368 million while the remaining loans were long term loans with a term of one year or more. Bank balances and cash of the Group, excluding restricted bank deposits, amounted to RMB7,972 million (2016: RMB7,163 million).

The principal amount of the Group's debts denominated in foreign currencies amounted to USD1,550 million (2016: USD1,115 million and HK$388 million), while the remaining debts were denominated in Renminbi.

Except for the loans equivalent to RMB405 million that are secured by assets with a carrying value equivalent to RMB335 million, all other loans are unsecured.

As at 31 December 2017 and 2016, the Group's major bonds were listed below:

Major bonds	Currency	Maturity date	As at 31 December 2017	As at 31 December 2016
Seven-year 6.45% Fixed Rate Bonds	RMB	16 February 2018	500 million	500 million
Five-year Zero-Coupon Convertible Bonds (note a)	USD	26 February 2018	479 million	500 million
Five-year 3.25% Fixed Rate Bonds	USD	23 October 2019	65 million	65 million
Three-year 3.55% Fixed Rate Bonds	RMB	2 December 2019	2,500 million	2,500 million
Maximum Five-year 3.68% Fixed Rate Bonds	RMB	17 December 2020	2,500 million	2,500 million
Ten-year 6% Fixed Rate Bonds	USD	13 May 2021	366 million	366 million
Five-year 3.25% Fixed Rate Bonds (note b)	USD	24 July 2022	600 million	–

Notes:

a) During the year, the Company repurchased the convertible bonds with principal amount of USD20 million in the open market at a consideration of approximately USD24 million (equivalent to approximately RMB156 million) and settled the convertible bonds with principal amount of USD750,000 at a consideration of approximately USD875,000 (equivalent to approximately RMB6 million). These convertible bonds have been cancelled pursuant to the terms and conditions governing the convertibles bonds. As at 31 December 2017, the principal amount of the convertible bonds outstanding was USD479,250,000.

   Subsequent to the end of the reporting period, the Company settled all of the outstanding convertible bonds by cash and by delivery of 1,625,327 new ordinary shares of the Company. All of the convertible bonds were delisted on the Singapore Exchange Securities Trading Limited on 20 February 2018.

b) On 24 July 2017, the Company announced the issuance of USD600,000,000 3.25% fixed rate bonds due 2022. The bonds were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 July 2017.

Foreign Exchange Risk Management

As the major operations of the Group are in China, revenues and expenses are mainly denominated in Renminbi. Therefore, the Group is not exposed to significant foreign exchange risk in its operation. The Company's foreign exchange risk mainly arises from various bonds and loans denominated in foreign currencies.

As at 31 December 2017, the principal amount of the Group's debts in foreign currencies amounted to USD1,550 million (2016: USD1,115 million and HK$388 million). The Company entered into foreign currency derivative contracts with certain financial institutions to manage its foreign exchange risk. The Company will continue to monitor the exchange rate closely and take appropriate actions when necessary.

Executive Directors

Mr. WANG Yusuo, aged 54, is a founder of the Group, the Chairman and the Executive Director of the Company. He is responsible for overseeing the Group's overall strategic planning and providing leadership for and overseeing the functioning of the Board. He has over 30 years of experience in investment and the management of the gas business in the PRC. He holds a Doctor of Philosophy in Management from Tianjin University of Finance and Economics. He is the father of Mr. Wang Zizheng, the Non-executive Director. He is a Director and a controlling shareholder of ENN Group International Investment Limited ("EGII"), a controlling shareholder of the Company. He is also the Chairman of ENN Ecological Holdings Co., Ltd. (Stock Code: 600803) and Beibu Gulf Tourism Corporation Limited (Stock Code: 603869), whose shares are listed in Shanghai.

Mr. CHEUNG Yip Sang, aged 51, is the Executive Director and the Vice Chairman of the Company and has joined the Group in 1998. He assists the Chairman in overseeing the Group's overall strategic planning and overseeing the functioning of the Board. He graduated from The Chinese People's Armed Police Force Academy in 1990 with a Bachelor's Degree in Legal Studies and received an Executive Master of Business Administration from the Peking University in 2006. He has extensive experience in corporate governance and the market integration in the public utilities sector. He also has wide exposure in the research and development of the gas industry. He is currently a Non-executive Director of Shanghai Dazhong Public Utilities (Group) Co., Ltd. (Stock Code: 01635), whose shares are listed in Hong Kong.

Mr. HAN Jishen, aged 53, is the Executive Director and the Chief Executive Officer of the Company. He is fully responsible for the Group's strategic planning and execution, business development, etc. He graduated from Baoding Staff University in 1990 and obtained an Executive Master of Business Administration from the Nanyang Technological University in Singapore in 2007. He has joined the Group in 1993 and worked at the senior managerial level for over 19 years in various subsidiaries of the Group and has extensive experience and qualifications in market research, business development and operation management in the energy industry. When he was a president of the Group, he has been fully responsible for the comprehensive business development, daily operations and management of the Group's business, evaluating and rectifying the execution of strategic plans, ensuring the achievement of the Group's targets. He has an in-depth understanding of energy industry and the current businesses of the Group, and he also has insights into the strategic development of the Group.

Mr. LIU Min, aged 52, is the Executive Director and the President of the Company. He is responsible for daily operations and management, reviewing the execution of strategic plans and their adjustment, and ensuring the achievement of the Group's targets. He graduated from Chongqing University with a major in Electronic System and Automation in 1986 and obtained the Master of Business Administration in the Guanghua School of Management of Peking University in 2002. He has held key positions in the China Three Gorges Corporation and China General Nuclear Power Holding Limited. He joined ENN Group in 2011, and he has taken up several key senior managerial roles, including the position of senior vice president in ENN Group. He has gained in-depth and extensive managerial experience in the energy industry in the PRC for over 25 years, especially in diversified energy supply industry.

Mr. WANG Dongzhi, aged 49, is the Executive Director of the Company. He is responsible for the major merger and acquisition, corporate financing and implementation of good corporate governance of the Group. He graduated in 1991 with a Bachelor Degree in Engineering Management from the Beijing Chemical University. He obtained a Bachelor's Degree in Economics in 1996, the qualifications of Certified Accountant in the PRC in 2000, a Master Degree in Business Management from the Tianjin University in 2003 and received the Executive Master of Business Administration from China Europe International Business School (CEIBS) in 2016. Prior to joining the Group in 2000, he was in charge of the finance department in a Sino-foreign joint venture company. He has extensive experience in financial management. He is also the President of EGII, which is a controlling shareholder of the Company.

Non-executive Directors

Mr. WANG Zizheng, aged 30, was appointed as the Non-executive Director of the Company. He graduated from Shanghai Tongji University with a Bachelor's Degree in Urban Planning. He has extensive experience in investment, merger and acquisition and operation management of overseas LNG refuelling stations. He is the Chairman of EGII, which is a controlling shareholder of the Company, the Director of Beibu Gulf Tourism Corporation Limited (Stock Code: 603869), whose shares are listed in Shanghai. He is the son of Mr. Wang Yusuo.

Independent Non-executive Directors

Mr. MA Zhixiang, aged 66, is an Independent Non-executive Director of the Company. He has held senior management positions in China Petroleum Pipeline Bureau and PetroChina Company Limited and has resigned from these positions in March 2012. He graduated from School of Mechanics of University of Petroleum (East China) with a Doctor's Degree in Engineering in Storage and Transportation. He is a professor-level senior engineer and an expert who enjoys State Council Special Allowance. He has more than 40 years' extensive experience in corporate management in petroleum and natural gas industry.

Mr. YUEN Po Kwong, aged 49, is an Independent Non-executive Director of the Company. He is currently a partner of Fangda Partners specialising in dispute resolution and contentious regulatory compliance. He graduated from Oxford University in United Kingdom with a Master's degree in Chemistry and from Cornell University with a Master's degree in Synthetic Organic Chemistry. He then attended College of Law in Guildford, England and obtained his Diploma in Law (with Distinction) and Diploma in Legal Studies. Before studying law in England, He was a teaching fellow at Cornell University. Prior to joining Fangda Partners to establish its Hong Kong office in 2012, He was a partner of the "Magic Circle Firms", specialising in resolving China related disputes. He has extensive experience in regulatory and corporate compliance.

Mr. LAW Yee Kwan, Quinn, JP, aged 65, is an Independent Non-executive Director of the Company. He is a fellow member of HKICPA and currently a member of its Professional Conduct Committee. He is also a fellow member of the Association of Chartered Certified Accountants. At present, he serves as a council member cum audit committee chairman at the Hong Kong University of Science and Technology and a member of Financial Affairs Expert Working Group of University Grants Committee. He played significant management roles both in the private and public sector. He held directorship in several listed companies both in Hong Kong and overseas in the past. During the period from March 2008 to February 2013, he was the Deputy Chairman and Managing Director of the Urban Renewal Authority, a statutory organisation in Hong Kong. He is currently one of independent non-executive directors of HKBN Limited (Stock Code: 1310) and Bank of Tianjin Co Ltd (Stock Code: 1578), whose shares are listed in Hong Kong.

Senior Management

Mr. LIU Yongxin, aged 55, is the Senior Vice President of the Company. He is responsible for the international business development. He graduated from Xi'an Transportation Science University (currently known as Chang'an University) in 1987 with a Master's Degree in Vehicle Engineering, and obtained a Master's Degree in Finance from the Massey University in New Zealand in 1999. He was awarded the Doctor of Philosophy in Finance and Investment Management from the Sun Yat-sen University in 2010. Prior to joining the Group in 2008, he worked at Exxon Mobil and BP and held various important positions in marketing, operation, investment and merger and acquisition, etc. He has extensive experience in operation and market expansion in the energy sector.

Ms. WU Xiaojing, aged 50, is the Senior Vice President of the Company. She is responsible for the marketing and sales in Southern China region. She graduated from The Chinese People's Armed Police Force Academy in 1990 and obtained a Bachelor's Degree in Law with a major in Immigration Inspection and obtained an Executive Master of Business Administration from Peking University in 2011. Prior to joining the Group in 2004, she worked in the Southern China branch of Beckman Coulter, Inc. and was responsible for regional business development. She has extensive experience in business operation and market development.

Mr. JIANG Chaoxing, aged 47, is the Senior Vice President of the Company. He is responsible for the marketing and sales in Northeast China region. He graduated from The Northeast Electric Power University in 2010 with a major in Project Management and obtained a Master's Degree subsequently. Prior to joining the Group in 2017, he worked in Shenwu Technology Group Corp Co., Ltd. and Heilongjiang Chenergy Investment Group Company Limited (黑龍江辰能集團) as the Deputy General Manager, and in Datang Qitaihe Power Generation Co., Ltd (大唐七台河發電公司) as the General Manager. He has extensive experience in market development and comprehensive management of enterprises.

Ms. SU Li, aged 45, is the Senior Vice President of the Company. She is responsible for the marketing and sales in Zhejiang region. She graduated from Shanghai Jiao Tong University in 2015 and obtained an Executive Master of Business Administration. Prior to joining the Group in 2002, she worked in Zhanggongshan Hostel (張公山賓館) as the Manager of the sales department. She has extensive experience in energy business operation and market development.

Mr. HU Qili, aged 48, is the Senior Vice President of the Company. He is responsible for the marketing and sales in Beijing-Tianjin-Hebei region. He graduated from The Tsinghua University in 2015 and obtained an Executive Master of Business Administration subsequently. He joined the Group in 1993, and then held important positions in project companies in Beijing, Hebei, Jiangsu, Liaoning and Hunan. He has extensive experience in energy business operation and market development.

Mr. GONG Luojian, aged 46, is the Senior Vice President of the Company. He is responsible for the marketing and sales in Eastern China region. He graduated from The Nankai University, Tianjin in 2007 and obtained a Master's Degree of Business Administration. Prior to joining the Group in 2007, he worked in Jiangsu Taizhou Chunlan E-business Co., Ltd (江蘇泰州春蘭電子商務公司) and Jiangsu Chunlan Automobile Co., Ltd (江蘇春蘭自動車公司), and was responsible for the publicity and promotion. He has extensive experience in energy business operation and market development.

Mr. YANG Jun, aged 42, is the Senior Vice President of the Company. He is responsible for the energy trading and transportation energy business. He graduated from Shanghai Jiao Tong University in 2011 and obtained an Executive Master of Business Administration. He joined the Group in 1992, and then held various positions in different departments. He has wide exposure in energy trading and comprehensive management.

Mr. ZHANG Guangmin, aged 46, is the Senior Vice President of the Company. He is responsible for the marketing and sales in Henan region. He graduated from Chongqing University in 1995 and obtained a Bachelor's Degree in thermal energy engineering. Prior to joining the Group in 2002, he worked in Luoyang Liquidified Gas Co., Ltd (洛陽液化氣公司). He has extensive experience in energy business operation and engineering management.

Mr. ZHANG Yuying, aged 44, is the Vice President of the Company. He is responsible for the implementation of the reconstruction management work of the Group. He graduated from the Renmin University of China in 2003 with an Executive Master of Business Administration. Prior to joining the Group in 2003, he worked in Kaifeng Electromechanical Group and Henan Tongli Electrical Appliances Group. He has extensive experience in business operation, market development and strategic planning.

Mr. ZHANG Guozhong, aged 54, is the Vice President of the Company. He is responsible for human resources, coal-to-gas (electricity) conversion and smart home business of the Group. He graduated from the Tianjing University of Finance and Economics in 2009 with an Executive Master of Business Administration. Prior to joining the Group in 2001, he worked as the Secretary of Discipline Inspection Commission in the General Armaments Department of Commission for Science, Technology and Industry for National Defence. He has extensive experience in business operation and human resources planning.

Ms. WONG Chui Lai, aged 40, is the Company Secretary of the Company. She is responsible for implementation of good corporate governance. Prior to joining the Group in 2007, She worked at one of the big four international accounting firms. She graduated from the City University of Hong Kong in 2000, with a Bachelor of Business Administration (Hons) in Accountancy. She is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Association of Chartered Certified Accountants (ACCA) in England. She has over 17 years of experience in accounting and financial management.

CORPORATE GOVERNANCE REPORT

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

The board of directors (the "Board") and the management of the Company have been continually reviewing and enhancing the corporate governance practices with reference to local and international standards. Since its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has adopted the Code of Corporate Governance (the "CG Code") as the main guideline for corporate governance. The Board believes that its continuous efforts in enhancing the Company's corporate governance practices have, directly and indirectly, contributed to the strong business growth of the Company and its subsidiaries (the "Group") in the past years. The Company is honoured to have continuously receiving numerous awards from independent bodies in recognition of the Group's achievements in its business and management over the previous years. The awards newly achieved during the year are set out in the section headed "Awards" under the "Chairman's Statement" on page 9 of this Annual Report:

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

- Policy for appointment of Directors;
- Policy for remuneration of Directors and senior management;
- Duties and responsibilities of Directors and senior management;
- Procedures for Directors to seek independent professional advice;
- Division of the duties of the Chairman and chief executive of the Company;
- Procedures for disclosure of interests in shares of the Company and its associated corporations;
- Code for securities transactions by relevant persons;
- Procedures for shareholders to propose a person for election as a Director;
- Shareholders' communication policy;
- Internal whistleblowing policy;
- Information disclosure policy; and
- Board diversity policy.

For the year ended 31 December 2017, the Company complied with all the code provisions of the CG Code.

The Board continues to monitor and review the corporate governance practice of the Company to ensure compliance with the code provisions.

A. Board of Directors

The Board

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

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

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

The Board meets regularly to keep abreast of the business and operational performance of the Group. For the year ended 31 December 2017, the Board has, amongst others:

1. reviewed the performance and formulated business strategies of the Group;
2. reviewed and approved annual results of the Group for the year ended 31 December 2016, and interim results for the six months ended 30 June 2017;
3. considered and approved the changes in the composition of the Board;
4. reviewed and approved the overall adjustments to remuneration of Directors and senior management;
5. reviewed the effectiveness of risk management and internal control systems taken by the Group;
6. reviewed the general mandate granted to the Directors to issue new shares of the Company and repurchase the shares of the Company;
7. reviewed and approved the repurchase and cancellation of certain part of the shares of the Company; and
8. reviewed and approved the issuance of the USD600 million 3.25% bonds due in 2022 by the Company.

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

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

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

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

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

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

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

Chairman and Chief Executives

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

The management of the Board of the Company shall be principally borne by the Chairman and the Vice Chairman of the Company, and the daily management of the Group's operation shall be borne by the Chief Executive Officer and the President of the Company. Their roles are segregated with a clear division of responsibilities set out in writing. During the year under review, Mr. Cheung Yip Sang, the Vice Chairman, assisted Mr. Wang Yusuo, the Chairman of the Board ("the Chairman"), to be responsible for overseeing the Group's overall direction and strategic planning. In addition, the Chairman and the Vice Chairman also play key roles in promoting all Directors to actively contribute to Board affairs and establishing good corporate governance practices and procedures. The Chairman holds a face-to-face meeting with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors at least once a year. During the year, the daily management of the Group's operation was borne by Mr. Sean S J Wang, Executive Director and Chief Executive Officer and Mr. Han Jishen, Executive Director and President. The corresponding work was undertaken by Mr. Han Jishen, the successor Chief Executive Officer, and Mr. Liu Min, the President, after resignation of Mr. Sean S J Wang on 12 January 2018. The Chief Executive Officer is principally responsible for the Group's strategic planning, execution and business expansion, etc., whereas the President is principally responsible for leading the senior management to execute the strategies and plans set out by the Board, focusing on the daily management of the Group's operation, strategy execution review and deviation correction and achievement of business goals, and reporting to the Board on the Group's operation from time to time to ensure proper discharge of duties delegated by the Board.

Board composition

As at the date of this Annual Report, the members of the Board are:

Mr. Wang Yusuo	(Executive Director and Chairman)
Mr. Cheung Yip Sang	(Executive Director and Vice Chairman)
Mr. Han Jishen	(Executive Director and Chief Executive Officer)
Mr. Liu Min	(Executive Director and President)
Mr. Wang Dongzhi	(Executive Director)
Mr. Wang Zizheng	(Non-executive Director)
Mr. Ma Zhixiang	(Independent Non-executive Director)
Mr. Yuen Po Kwong	(Independent Non-executive Director)
Mr. Law Yee Kwan, Quinn	(Independent Non-executive Director)

The Board has nine members, comprising five Executive Directors, one Non-executive Director and three Independent Non-executive Directors respectively. The list of Directors and their roles and functions has been published on the websites of the Stock Exchange and the Company. During the year, the Board has at all times met the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualification, or accounting or related financial management expertise pursuant to Rule 3.10 of the Listing Rules and the appointment of independent non-executive directors representing at least one-third of the board pursuant to Rule 3.10A of the Listing Rules.

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

As at the date of this report, except that Mr. Wang Zizheng (Non-executive Director) is the son of the Chairman, no relationship (neither financial, business nor family) exists among members of the Board, and in particular, there is no relationship (neither financial, business nor family) between the Chairman and chief executives.

Responsibilities of Directors

The Directors shall take decisions objectively in the best interests of the Group as a whole. They meet regularly to keep abreast of the Group's conduct, business activities, operational performance and latest development. Details of Directors' attendance at Board and Board Committee meetings and general meetings held in 2017 are set out in the paragraph headed "Directors' attendance" in this section.

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

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

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

The Company has adopted the Model Code as the Code of Conduct for Securities Transactions by the Directors of the Company and as the code of conduct regarding dealing in securities of the Company by the Directors and the relevant employees of the Company or its subsidiaries.

Each Director is required to confirm with the Company in writing, twice a year, that he has complied with the Model Code. All the Directors have confirmed that they complied with the required standards thereof throughout the year ended 31 December 2017.

Directors' attendance

The Board meets at least once on a quarterly basis. A total of 7 Board meetings (including four regular Board meetings) were held in 2017. Details of Directors' attendance record of Board meetings, Board Committee meetings and general meetings in 2017 are as follows:

	No. of meetings attended during 2017					
	Board (Note 1)	*Audit Committee*	*Nomination Committee*	*Remuneration Committee*	*Risk Management Committee*	*Annual General Meeting*
Executive Directors:						
Wang Yusuo	7/7(4/4)*	–	1/1	–	–	1/1
Cheung Yip Sang (Note 2)	7/7(4/4)*	–	–	–	1/1	1/1
Sean S J Wang (Note 3)	5/5(3/3)*	–	–	–	1/1	1/1
Han Jishen	7/7(4/4)*	–	–	–	1/1	0/1
Wang Dongzhi	7/7(4/4)*	–	–	–	–	1/1
Non-executive Directors:						
Wang Zizheng	7/7(4/4)*	–	–	–	1/1	0/1
Jin Yongsheng (Note 4)	2/2(1/1)*	–	1/1	2/2	–	–
Independent Non-executive Directors:						
Ma Zhixiang	7/7(4/4)*	4/4	1/1	2/2	1/1	0/1
Yuen Po Kwong	7/7(4/4)*	4/4	1/1	2/2	1/1	0/1
Law Yee Kwan, Quinn	7/7(4/4)*	4/4	1/1	2/2	1/1	1/1

Notes:

1. * Regular Board meetings
2. On 21 March 2017, Mr. Cheung Yip Sang has been appointed as a member of the Remuneration Committee and the Nomination Committee of the Company.
3. On 21 March 2017, Mr. Sean S J Wang was appointed as Executive Director and Chief Executive Officer of the Company as well as a member of the Risk Management Committee. He resigned as an Executive Director and the Chief Executive Officer and ceased to be a member of the Risk Management Committee on 12 January 2018.
4. On 21 March 2017, Mr. Jin Yongsheng resigned from his position as Non-executive Director of the Company and ceased to be a member of the Nomination Committee and the Remuneration Committee.

B. Directors' Training and Professional Development

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

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

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

For the year ended 31 December 2017, all the Directors had provided their training records to the Company.

C. Appointments and Resignations of Directors

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

The Articles stipulate that all Directors are subject to retirement by rotation at least once every three years and retiring Directors are eligible for re-election at the Annual General Meeting ("AGM") at which they retire. All Non-executive Directors (including the Independent Non-executive Directors) are appointed for a specific term of three years, subject to retirement by rotation.

D. Board Diversity Policy

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

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

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition and selection of candidates, the Board will base on a range of diversity perspectives, including but not limited to gender, age, educational background, professional qualifications and work experience. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

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

E. Remuneration of Directors and Senior Management

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

The key components of the remuneration package of Executive Directors and senior management of the Company include basic wages and performance bonus. The remuneration packages of Non-executive Directors (including Independent Non-executive Directors) is a fixed director's fee. The Company has established share option schemes which target Directors and senior management as a long-term incentive to motivate them in pursuit of corporate goal and objectives.

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

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

Details of Directors' remuneration for the two years ended 31 December 2017 and 2016 respectively are listed out in Note 12 to the consolidated financial statements.

The remuneration payable to the Directors and senior management of the Company for the year ended 31 December 2017 fell within the following bands:

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

F. Delegation by the Board

Management functions

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

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

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

Board committees

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

Each of the committees has adopted clear written terms of reference setting out details of its authorities and duties and obligations on no less exacting terms than the CG Code. Terms of reference of each of the committees have been accepted by the Board and published on the websites of the Stock Exchange and the Company.

Audit Committee

The Audit Committee was established on 28 March 2001. During the year, the Audit Committee comprises Mr. Law Yee Kwan, Quinn, Mr. Ma Zhixiang and Mr. Yuen Po Kwong, all being Independent Non-executive Directors, and is chaired by Mr. Law Yee Kwan, Quinn (Independent Non-executive Director).

The Audit Committee reports directly to the Board and is mainly responsible for reviewing the interim and annual financial statements of the Group and the effectiveness of the internal control systems and risk management so as to protect the interests of the shareholders as a whole. The committee holds meetings with the external auditor and senior management of the Company regularly. During 2017, the Audit Committee held four meetings, details of its members' attendance are set out in the paragraph headed "Directors' attendance" in Section A of this report, and:

- reviewed the financial statements of the Group for the year ended 31 December 2016 and the six months ended 30 June 2017;
- discussed with the external auditor the impact of any changes in accounting policy as well as the scope of annual audit and interim review;

- reviewed the remuneration and terms of engagement of the external auditor for the year ended 31 December 2017;
- reviewed the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- reviewed the nature and scope of audit and reporting obligations of the external auditor;
- reviewed the external auditor's management recommendation letters and the management's response thereto;
- reviewed the effectiveness of the Group's risk management and internal control, and made recommendations to the Board; and
- reviewed the continuing connected transactions of the Group for the year ended 31 December 2016 under the Listing Rules.

Auditors' remuneration

For the year ended 31 December 2017, audit services provided to the Group by Deloitte Touche Tohmatsu ("Deloitte"), the auditors of the Company, and the amounts of remuneration paid and payable in connection therewith are as follows:

	Approximate Amount (RMB)
Annual audit services fee to Deloitte	4,901,000
Non-audit services fee to Deloitte	
• Interim results review service	1,123,000
• Consultancy service on ESG reporting	560,000
• Bond issuance related services	493,000
Total	7,077,000

Save as disclosed above, the Group did not engage Deloitte to provide other services in 2017 and up to the date of this Annual Report.

Nomination Committee

The Board has established a Nomination Committee on 30 March 2012. During the year, the committee is chaired by Mr. Wang Yusuo (Chairman of the Board) and comprises all Independent Non-executive Directors (including Mr. Ma Zhixiang, Mr. Yuen Po Kwong and Mr. Law Yee Kwan, Quinn) and a Non-executive Director, Mr. Jin Yongsheng. On 21 March 2017, Mr. Jin Yongsheng resigned from his position as a director, and also ceased to be a member of the Nomination Committee, the vacancy of which was filled by Mr. Cheung Yip Sang (Executive Director and Vice Chairman).

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

During 2017, the Nomination Committee held one meeting, details of its members' attendance are set out in the paragraph headed "Directors' attendance" in Section A of this report, and, amongst others:

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

Remuneration Committee

The Company's Remuneration Committee was established on 31 December 2004. During the year, the Remuneration Committee is chaired by Mr. Yuen Po Kwong (Independent Non-executive Director), and comprises all Independent Non-executive Directors (including Mr. Ma Zhixiang and Mr. Law Yee Kwan, Quinn) and a Non-executive Director (Mr. Jin Yongsheng) or an Executive Director (Mr. Cheung Yip Sang). On 21 March 2017, Mr. Jin Yongsheng resigned from his position as a director, and also ceased to be a member of the Remuneration Committee, the vacancy of which was filled by Mr. Cheung Yip Sang (Executive Director and Vice Chairman).

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

During 2017, the Remuneration Committee held two meetings, details of its members' attendance are set out in the paragraph headed "Directors' attendance" in Section A of this report. The Remuneration Committee (among others) sought opinion from the Chairman and the Vice Chairman of the Board, and, amongst others:

- reviewed the remuneration of the Executive Directors and senior management of the Company;
- reviewed the fees of the Non-executive Directors of the Company; and
- approved the remuneration packages of directors appointed and re-designated during the year, and made recommendations to the Board.

Risk Management Committee

The Company's Risk Management Committee was established on 9 December 2015. During 2017, the committee comprises two Executive Directors (Mr. Han Jishen and Mr. Sean S J Wang or Mr. Wang Dongzhi), a Non-executive Director (Mr. Wang Zizheng) and three Independent Non-executive Directors (Mr. Ma Zhixiang, Mr. Yuen Po Kwong and Mr. Law Yee Kwan, Quinn), and was chaired by Mr. Cheung Yip Sang (Executive Director and Vice Chairman). On 21 March 2017, Mr. Wang Dongzhi ceased to be a member of the Risk Management Committee due to re-designation of duties. On the same day, Mr. Sean S J Wang was appointed as a member of the Risk Management Committee. On 12 January 2018, Mr. Sean S J Wang has resigned as an Executive Director and the Chief Executive Officer and ceased to be a member of the Risk Management Committee.

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

During 2017, the Risk Management Committee held one meeting, details of its members' attendance are set out in the paragraph headed "Directors' attendance" in Section A of this report. The Risk Management Committee:

- reviewed the Group's risk management procedure for identifying, assessing and managing the substantial risks; and
- made recommendations on the optimisation of the risk management and the internal monitoring system to the Board.

G. Company Secretary

The Company Secretary supports the Chairman, the Board and the Board Committees by ensuring good information flow within the Board and that Board policy and procedures are followed. The Company Secretary reports to the Chairman and Vice Chairman, whose biography is set out on page 37 under the section headed "Directors and Senior Management" of this Annual Report and on the Company's website.

During 2017, the Company Secretary participated in not less than 15 hours of relevant professional training.

H. Accountability and Audit

Financial reporting

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

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

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

The annual and interim results of the Group are announced in a timely manner within three months and two months respectively after the end of the respective financial periods. The integrity of the financial statements is monitored by the Audit Committee. A statement of the reporting responsibility of the external auditor is set out in the Independent Auditor's Report on page 65.

Risk Management and Internal controls

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

The management has reported and confirmed to the Audit Committee and the Board that the relevant systems have been effective for the year ended 31 December 2017 and the Board has considered the results of the review of the Audit Committee and confirmed that the Group's risk management and internal control systems are effective.

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

Risk Identification

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

Risk Assessment

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

Risk Response

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

Risk Monitoring and Reporting

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

Internal Audit Team

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

Whistleblowing Policy

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

Information Disclosure Policy

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

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

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

I. Non-compete Undertakings

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

J. Communication with Shareholders

Effective communication

The Board believes that effective communication of full and clear information of the Company is the key to enhance corporate governance standards and shareholders' confidence. The Board established a Shareholders' Communication Policy setting out the channels in relation to shareholders' communication, with the objective of ensuring timely and accurate communication with shareholders.

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

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

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

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

The notice of the AGM is distributed to all shareholders at least 20 clear business days prior to such AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. Separate resolutions are proposed on each substantially separate issue, including the election or re-election of each Director nominated.

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

Shareholders' rights

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

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

Shareholders' enquiries

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

Shareholders may make enquiries with the Board at the general meetings. Alternatively, shareholders may send written enquiries together with their contact details (such as postal address or email address) to the principal place of business of the Company in Hong Kong at Rooms 3101–04, 31st Floor, Tower 1, Lippo Centre, No. 89 Queensway, Hong Kong or to send e-mail to the Company (email address: enn@ennenergy.com).

General meeting held in 2017

In 2017, the Company held one general meeting which is an AGM.

The most recent general meeting was the AGM held on 26 May 2017 at Tianshan and Lushan Rooms, Level 5 Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Central, Hong Kong. All ordinary resolutions proposed at the AGM were passed as more than 50% of the votes were cast in favour of these resolutions and all special resolutions were passed as more than 75% of the votes were cast in favour of these resolutions. The resolutions considered and approved mainly include:

- To receive and consider the audited consolidated financial statements for the year ended 31 December 2016 together with the directors' and independent auditor's reports;
- To declare a final dividend for the year ended 31 December 2016;
- To re-elect retiring Directors and to authorise the Board to fix its Directors' remuneration;
- To re-appoint external auditor and to authorise the Board to fix their remuneration;
- To grant a general mandate to the Directors to issue new shares of the Company and repurchase shares of the Company; and
- To approve and adopt the amended and restated articles of association of the Company in substitution for and to the exclusion of the existing articles of association of the Company and authorise the Board of the Company to do all things necessary to implement the adoption of the amended and restated articles of association.

The full text of the above resolutions is set out in the Notice of the AGM of the Company dated 6 April 2017. The poll result of the AGM was published on the websites of the Stock Exchange and the Company.

Amendments to the Memorandum and Articles of Association

During the year, the Memorandum and Articles of Association were amended and restated by the Company and passed by the shareholders of the Company at the AGM held on 26 May 2017. The latest consolidated version of the Company's Memorandum and Articles of Association has been published on the websites of the Stock Exchange and the Company.

Investor Relations

The Company regards communication with institutional and other investors as an important means to enhance the transparency of the Group and to collect views and feedbacks from such investors. The Group has an Investor Relations Department to handle matters relating to investor relations. In the year under review, the Executive Directors and senior management of the Company participated in 34 international investors' conferences and 3 international roadshows in Hong Kong, the Mainland China, Japan, Singapore, Europe and the United States to communicate with existing shareholders and the investment community in respect of the Group's latest results, prospects and development strategies. In addition, the Company led more than 30 tours of investors to inspect the city-gas projects, vehicle gas refuelling stations and integrated energy projects, to enhance the investors' intuitive understanding of the Group's business.

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

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

Hotline telephone number:	(852) 2528 5666/(86) 316 2599928
By fax:	(852) 2865 7204
By post:	Rooms 3101–04, 31st Floor, Tower 1, Lippo Centre, No. 89 Queensway, Hong Kong
Attention:	Ms. Shirley Kwok/Ms. Grace Wei/Ms. Evonne Zhang/Ms. Olivia Xia
By email:	enn@ennenergy.com

By order of the Board
WANG YUSUO
Chairman

Hong Kong, 22 March 2018

The Directors have pleasure in submitting to shareholders their annual report and the audited consolidated financial statements (the "Consolidated Financial Statements") for the year ended 31 December 2017.

Principal Activities

The Company is an investment holding company. The Group is principally engaged in investment and construction, as well as operation and management of gas pipeline infrastructures, vehicle and ship refuelling stations and integrated energy stations, the sales and distribution of piped gas, liquefied natural gas and other multi-energy products, and energy trading business and provision of other services in relation to energy supply in the PRC.

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

Business Review and Performance

A fair review of the business of the Company and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the Chairman's Statement from pages 6 to 9 and Management Discussion and Analysis from pages 24 to 33 in this Annual Report. The principal risks and uncertainties affecting the Group are provided under the heading of "Financial Resources Review" in Management Discussion and Analysis on page 32 and Notes 5 and 53 to the Consolidated Financial Statements in this Annual Report. The risk management and internal control policies of the Group are provided in the Corporate Governance Report from pages 38 to 51 in this Annual Report. Particulars of important events affecting the Company that have occurred since the end of the financial year 2017, if any, can also be found in the abovementioned sections and the Notes to the Consolidated Financial Statements. The outlook of the Company's business is discussed throughout this Annual Report including the Chairman's Statement from pages 6 to 9 of this Annual Report. In addition, more details regarding the Group's performance by reference to environmental and social-related key performance indicators and policies, relationship with stakeholders and compliance with relevant laws and regulations that have a significant impact on the Group are confirmed in the Environmental, Social and Governance Report that will be published on the websites of the Stock Exchange and the Company within three months after the publication of this Annual Report.

This discussion forms part of this Directors' Report.

Results and Appropriations

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 68 in this Annual Report.

The Directors recommend the payment of a final dividend of HK$1.08 (equivalent to approximately RMB0.9) per share to the shareholders on the register of members on 29 May 2018. The total dividend amount is approximately RMB976 million, and remaining profit for the year of approximately RMB1,696 million is retained.

Financial Summary

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

Property, Plant and Equipment

During the year, the Group continued to expand its pipeline infrastructure and other related facilities. An aggregate of RMB4,612 million was incurred in acquiring property, plant and equipment. Details of the movements during the year in property, plant and equipment of the Group are set out in Note 16 to the Consolidated Financial Statements.

Share Capital

Details of movements during the year in the share capital of the Company are set out in Note 38 to the Consolidated Financial Statements.

Reserves

Details of movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on page 71 in this Annual Report and Note 57 to the Consolidated Financial Statements.

Bank and Other Loans

Details of bank and other loans of the Group are set out in Note 40 to the Consolidated Financial Statements.

Charitable Donations

Charitable donations made by the Group for 2017 amounted to RMB33.72 million.

Remuneration of Directors and Senior Management

Details of remuneration of Directors and senior management are set out in Note 12 to the Consolidated Financial Statements and the Corporate Governance Report on page 38 to 51 in this Annual Report.

Directors

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

Executive Directors:

Mr. Wang Yusuo
Mr. Cheung Yip Sang
Mr. Sean S J Wang (appointed on 21 March 2017 and resigned on 12 January 2018)
Mr. Han Jishen
Mr. Liu Min (appointed on 12 January 2018)
Mr. Wang Dongzhi

Non-executive Directors:

Mr. Wang Zizheng
Mr. Jin Yongsheng (resigned on 21 March 2017)

Independent Non-executive Directors:

Mr. Ma Zhixiang
Mr. Yuen Po Kwong
Mr. Law Yee Kwan, Quinn

In accordance with article 99 of the Company's Article of Association, Mr. Liu Min shall retire at the forthcoming Annual General Meeting ("AGM") of the Company, while in accordance with article 116 of the Company's Article of Association, Mr. Cheung Yip Sang, Mr. Han Jishen, Mr. Wang Dongzhi and Mr. Law Yee Kwan, Quinn, shall retire by rotation at the forthcoming AGM of the Company. All the above retiring Directors are eligible and offer themselves for re-election. Details of these directors proposed for re-election are set out in the circular sent together with this Annual Report.

Mr. Sean S J Wang was appointed as an Executive Director of the Company on 21 March 2017 and he resigned on 12 January 2018 due to his wish to pursue his own career development. Mr. Jin Yongsheng resigned from his position as a Non-executive Director of the Company on 21 March 2017 due to re-designation of duties. They have confirmed that they have no disagreement with the Board and there are no matters in relation to their resignation that need to be brought to the attention of the shareholders of the Company or The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

As of 31 December 2017, none of the Directors had entered, or proposed to enter, into any service contract any members of with the Group which does not expire or is not determinable by the Group within one year without compensation (other than statutory compensation).

The Company has received an annual confirmation from each Independent Non-executive Director with each confirming his independence pursuant to rule 3.13 of the Listing Rules, and the Company still considers such Directors as independent of the Company.

The biographical details of the Directors of the Company are set out on pages 34 to 37 of this Annual Report.

Permitted Indemnity Provision

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

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

Disclosure of Interests

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

As at 31 December 2017, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), Appendix 10 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, were as follows:

Name of Director	Capacity	Interests in shares-Corporate interests	Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital as at 31 December 2017
Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	329,249,000 (Note 1)	329,249,000	580,000	329,829,000	30.46%
Cheung Yip Sang	Beneficial owner	–	–	399,000	399,000	0.04%
Han Jishen	Beneficial owner	–	–	316,000	316,000	0.03%
Wang Dongzhi	Beneficial owner	–	–	327,000	327,000	0.03%
Wang Zizheng	Beneficial owner	–	–	60,000	60,000	0.01%
Yuen Po Kwong	Beneficial owner	–	–	60,000	60,000	0.01%
Ma Zhixiang	Beneficial owner	–	–	45,000	45,000	0.00%
Law Yee Kwan, Quinn	Beneficial owner	–	–	60,000	60,000	0.01%

Note:

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

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

Save as disclosed above, as at 31 December 2017, there were no other interests or short positions of the Directors and chief executives in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) in the register maintained by the Company pursuant to section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' rights to acquire shares

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

Name of Director	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2017	Reclassified during the year (Note 2)	Exercised during the year (Note 2)	Number of shares subject to outstanding options as at 31 December 2017
Wang Yusuo	09.12.2015	01.04.2017–08.12.2025	40.34	145,000	–	–	145,000
	09.12.2015	01.04.2018–08.12.2025	40.34	145,000	–	–	145,000
	09.12.2015	01.04.2019–08.12.2025	40.34	145,000	–	–	145,000
	09.12.2015	01.04.2020–08.12.2025	40.34	145,000	–	–	145,000
Cheung Yip Sang	09.12.2015	01.04.2017–08.12.2025	40.34	133,000	–	(133,000)	–
(Note 3)	09.12.2015	01.04.2018–08.12.2025	40.34	133,000	–	–	133,000
	09.12.2015	01.04.2019–08.12.2025	40.34	133,000	–	–	133,000
	09.12.2015	01.04.2020–08.12.2025	40.34	133,000	–	–	133,000
Han Jishen	09.12.2015	01.04.2017–08.12.2025	40.34	105,250	–	(105,000)	250
(Note 3)	09.12.2015	01.04.2018–08.12.2025	40.34	105,250	–	–	105,250
	09.12.2015	01.04.2019–08.12.2025	40.34	105,250	–	–	105,250
	09.12.2015	01.04.2020–08.12.2025	40.34	105,250	–	–	105,250
Wang Dongzhi	09.12.2015	01.04.2017–08.12.2025	40.34	95,500	–	(55,000)	40,500
(Note 3)	09.12.2015	01.04.2018–08.12.2025	40.34	95,500	–	–	95,500
	09.12.2015	01.04.2019–08.12.2025	40.34	95,500	–	–	95,500
	09.12.2015	01.04.2020–08.12.2025	40.34	95,500	–	–	95,500
Wang Zizheng	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	15,000
Jin Yongsheng	09.12.2015	01.04.2017–08.12.2025	40.34	35,500	(35,500)	–	–
(Note 4)	09.12.2015	01.04.2018–08.12.2025	40.34	35,500	(35,500)	–	–
	09.12.2015	01.04.2019–08.12.2025	40.34	35,500	(35,500)	–	–
	09.12.2015	01.04.2020–08.12.2025	40.34	35,500	(35,500)	–	–

Name of Director	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2017	Reclassified during the year (Note 2)	Exercised during the year (Note 2)	Number of shares subject to outstanding options as at 31 December 2017
Ma Zhixiang	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	(15,000)	–
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	15,000
Yuen Po Kwong	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	15,000
Law Yee Kwan, Quinn	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	15,000
Total				2,297,000	(142,000)	(308,000)	1,847,000

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. "Year" refers to the period from 1 January 2017 to 31 December 2017.
3. The vesting of share options is subject to the fulfilment of performance target.
4. Mr. Jin Yongsheng resigned from the position as a Non-executive Director of the Company on 21 March 2017. The remaining 142,000 share options held by him have been reclassified as share options held by employees.
5. The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was HK$58.46 per share.

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

Substantial Shareholders

As at 31 December 2017, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of Part XV of the SFO were as follows:

Name of shareholder	Capacity	Total interests in the Company	Respective interests in share according to share options	Total aggregate interests in shares and underlying shares (Note 4)	Approximate percentage of the Company's total issued share capital as at 31 December 2017
Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	329,249,000 (Note 1)	580,000 (Note 2)	329,829,000(L)	30.46%
Zhao Baoju ("Ms. Zhao")	Interest of controlled corporation and interest of spouse	329,249,000 (Note 1)	580,000 (Note 2)	329,829,000(L)	30.46%
EGII	Beneficial owner	329,249,000 (Note 1)	–	329,249,000(L)	30.41%
The Capital Group Companies, Inc.	Interest of controlled corporation	129,829,400 (Note 3)	–	129,829,400(L)	11.99%
Capital Research and Management Company	Investment manager	129,829,400	–	129,829,400(L)	11.99%
Commonwealth Bank of Australia	Interest of controlled corporation	75,541,692	–	75,541,692(L)	6.98%
JPMorgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/approved lending agent	64,904,275	–	64,904,275(L) (including 1,479,280(S) 55,958,847(P))	5.99%

Notes:

1. The three references to 329,249,000 shares relate to the same block of shares. Such shares are held by EGII, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
2. As Mr. Wang's spouse, Ms. Zhao is deemed as holding Mr. Wang's interests in shares.
3. Of these shares, 129,829,400 shares are held by Capital Research and Management Company (a company which is wholly owned by The Capital Group Companies, Inc.).
4. (L) represents Long Position; (S) represents Short Position; (P) represents Lending Pool.

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2017, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Save as disclosed above, as at 31 December 2017, the Company had not been notified of any other person who had interest or short position in the shares or underlying shares of the Company, which are required to be recorded in the register maintained by the Company pursuant to section 336 of Part XV of the SFO and Listing Rules.

Share Option Schemes

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

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

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

Grantee	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2017	Reclassified during the year	Exercised/ Lapsed during the year (Note 2)	Number of shares subject to outstanding options as at 31 December 2017
2002 Scheme							
Directors	14.06.2010	14.12.2010–13.06.2020	16.26	–	–	–	–
	14.06.2010	14.06.2012–13.06.2020	16.26	–	–	–	–
Employees	14.06.2010	14.12.2010–13.06.2020	16.26	100,000	–	–	100,000
	14.06.2010	14.06.2012–13.06.2020	16.26	100,000	–	–	100,000
Total				200,000	–	–	200,000
2012 Scheme							
Directors	09.12.2015	01.04.2017–08.12.2025	40.34	574,250	(35,500)	(308,000)	230,750
	09.12.2015	01.04.2018–08.12.2025	40.34	574,250	(35,500)	–	538,750
	09.12.2015	01.04.2019–08.12.2025	40.34	574,250	(35,500)	–	538,750
	09.12.2015	01.04.2020–08.12.2025	40.34	574,250	(35,500)	–	538,750
Employees	09.12.2015	01.04.2017–08.12.2025	40.34	2,254,000	35,500	(1,309,000)	980,500
	09.12.2015	01.04.2018–08.12.2025	40.34	2,254,000	35,500	(269,500)	2,020,000
	09.12.2015	01.04.2019–08.12.2025	40.34	2,254,000	35,500	(269,500)	2,020,000
	09.12.2015	01.04.2020–08.12.2025	40.34	2,254,000	35,500	(269,500)	2,020,000
Total				11,313,000	–	(2,425,500)	8,887,500

Notes:

1. The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

2. A total number of 200,000 shares, representing 0.02% of the issued share capital of the Company as at the date of this report are available for issue under the 2002 Scheme and a total number of 8,887,500 shares, representing 0.82% of the issued share capital of the Company as at the date of this report are available for issue under the 2012 Scheme. The vesting of certain part of the 8,887,500 share options is subject to the fulfilment of performance target.

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

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

Connected Transactions

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

Continuing Connected Transactions

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

(A) On 17 October 2016, the Company entered into a Master Energy Efficiency Technology Services Agreement with a Wang Family Company for a term commencing from 1 January 2017 and expiring on 31 December 2018, whereby the Wang Family Companies agreed to provide energy efficiency technology services to the Group. For the year ended 31 December 2017, the energy efficiency technology services fee paid by the Group amounted to RMB217,586,000, which is below the annual cap of RMB440,000,000 as set forth in the Company's announcement dated 17 October 2016 about this matter.

Energy Efficiency Technology Services

Service providing party (Note 1)	Service accepting party	Service	Transaction sum (RMB)
(i) ENN Science & Technology Development Company Limited ("ENN Science & Technology Development")	Subsidiaries under ENN Energy Holdings Limited	Energy efficiency technology services	217,586,000
(ii) Xinao Energy Service (Shanghai) Company Limited			
(iii) Xinao Smart Energy Network Technology Company Limited			
(iv) Langfang Xinao Smart Energy Network Technology Company Limited			
(v) Langfang Xinao Smart Energy Equipment Trading Company Limited			
(vi) EnNiuChengFu Public Services Technology Company Limited ("EnNiuChengFu")			

(B) On 17 October 2016, the Company entered into a Master Equipment Purchasing and Modification Services Agreement with a Wang Family Company for a term commencing from 1 January 2017 and expiring on 31 December 2018, whereby the Wang Family Companies agreed to provide equipment as well as equipment modification and enhancement services to the Group. For the year ended 31 December 2017, the equipment purchased and modification and enhancement services fee paid by the Group amounted to RMB25,941,000, which is below the annual cap of RMB150,200,000 as set forth in the Company's announcement dated 17 October 2016 about this matter.

Equipment Purchasing and Modification and Enhancement Services

Seller (Note 1)	**Buyer**	**Transaction**	**Transaction sum** (RMB)
(i) ENN Science & Technology Development	Subsidiaries of ENN Energy Holdings Limited	Purchase of equipment	25,941,000
(ii) Xindi Energy Engineering Technology Company Limited ("Xindi Energy Engineering")			
(iii) EnNiuChengFu			

(C) On 17 October 2016, the Company entered into a Master Construction Services Agreement with a Wang Family Company for a term commencing from 1 January 2017 and expiring on 31 December 2018, whereby the Wang Family Companies agreed to provide the Group with engineering design and construction services. For the year ended 31 December 2017, the construction services fee paid by the Group amounted to RMB860,873,000, which is below the annual cap of RMB1,100,000,000 as set forth in the Company's announcement dated 17 October 2016 about this matter.

Construction Services

Service providing party (Note 1)	**Service accepting party**	**Service**	**Transaction sum** (RMB)
(i) Xindi Energy Engineering	Subsidiaries under ENN Energy Holdings Limited	Construction of pipelines	860,873,000
(ii) Langfang ENN Construction and Installation Engineering Company Limited			

(D) On 17 October 2016, the Company entered into a Master LNG Purchasing Agreement with a Wang Family Company for a term commencing from 1 January 2017 end expiring on 31 December 2018, whereby the Wang Family Companies agreed to provide the Group with LNG supply. For the year ended 31 December 2017, the LNG purchasing cost paid by the Group amounted to RMB11,796,000, which is below the annual cap of RMB172,500,000 as set forth in the Company's announcement dated 17 October 2016 about this matter.

LNG Purchasing

Seller (Note 1)	**Buyer**	**Transaction**	**Transaction sum** (RMB)
Shanxi Qinshai Xinao Gas Company Limited	Haomaiqi E-commerce Company Limited	Purchase of LNG	11,796,000

(E) On 17 October 2016, the Company entered into a Master Information Technology Services Agreement with a Wang Family Company for a term commencing from 17 October 2016 end expiring on 31 December 2018, whereby the Wang Family Companies agreed to provide the Group with information technology services. For the year ended 31 December 2017, the information technology services fee paid by the Group amounted to RMB255,999,000, which is below the annual cap of RMB369,517,000 as set forth in the Company's announcement dated 17 October 2016 about this matter.

Information Technology Services

Service providing party (Note 1)	**Service accepting party**	**Service**	**Transaction sum** (RMB)
(i) XinZhiYun Data Services Company Limited (ii) Xinzhi Energy System Control Company Limited (iii) Beijing Pulai Technology Service Company Limited (iv) Bokang Smart Information Technology Company Limited (v) Ecej Network Technology Company Limited	Subsidiaries under ENN Energy Holdings Limited	Information technology services	255,999,000

Note:

1. Wang Family Companies are companies controlled (entitled to exercise, or control the exercise of 30% or more of the voting power at any general meeting of the relevant company) by Mr. Wang, the Chairman, an Executive Director and a controlling shareholder of the Company, and/or his associates (including Ms. Zhao, a controlling shareholder of the Company and the spouse of Mr. Wang), thereby being connected persons of the Group during the year.
2. Certain subsidiaries, joint ventures and associates of the Company in the PRC, minority equity interest holders and related parties mentioned above have names in Chinese only, and the English names used here are for reference only.

The continuing connected transactions mentioned above have been reviewed by the Independent Non-executive Directors. The Independent Non-executive Directors have confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreements governing such transactions and on terms that are fair and reasonable and in the interests of shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the Auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 59 to 61 of this Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the Auditor's letter has been provided by the Company to the Stock Exchange.

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

Related Party Transactions

Details of the related party transactions undertaken in the normal course of business are set out in Note 55 to the Consolidated Financial Statements. In relation to parts of those related party transactions that also constituted connected transactions under the Listing Rules, they are in compliance with applicable requirements under the Listing Rules and are reported in this Annual Report in accordance with the Listing Rules.

Directors' Rights to Acquire Shares or Debentures

Other than the share options as set out in the section headed "Directors' rights to acquire shares" in this report and the details of share options disclosed in Note 45 to the Consolidated Financial Statements, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2017. At no time during the year was the Company, its parent company, or any of its subsidiaries a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other corporate.

Equity-Linked Agreements

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

Major Customers and Suppliers

Both the percentage of the purchases attributable from the Group's five largest suppliers and the percentage of the revenue attributable from the Group's five largest customers were approximately 32% and 4% respectively during the year.

Pre-emptive Rights

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

Environmental Policies and Performance

The Group's mission is "advocating clean energy, improving living environment, increasing system energy efficiency and creating value for clients". With an aim to meet customers' needs, the Group leverages its clean energy reserve and transportation resources accumulated for a long time and develops the most efficient tailor-made energy solutions for domestic and overseas clients through its system energy efficiency technology platforms. The Group reduced the harm to the environment caused by economic development by promoting clean energy and conducting energy saving and emission reduction projects. In 2017, the Group recorded a volume of 18.22 billion cubic metres of natural gas sales for city-gas and energy trading business, equivalent to reducing 26.57 million tons of standard coals and reducing 30.19 million tons of carbon dioxide. Volume of gas sales for vehicle business amounted to 1.396 billion cubic metres during the year, equivalent to reducing 723,100 tons of gasoline consumption and reducing the emission of 8.37 million tons of carbon dioxide.

Compliance with Laws and Regulations

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

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

Key Financial and Business Performance Indicators

The Group's key financial and business performance indicators comprise revenue growth and gross profit margin. The Group's revenue increased by 41.5% to RMB48,269 million (2016: RMB34,103 million) which was mainly driven by the robust growth of natural gas sales volume. The decrease of the Group's gross profit margin by 4.3 percentage points was mainly due to the increasing share of revenue from natural gas which was a recurring revenue stream, and the increasing procuring costs.

Details of other key performance indicators are discussed in "Operational Highlights", "Financial Highlights" and "Management Discussion and Analysis" sections of this Annual Report.

Relationships with Key Stakeholders

The Group's success also depends on the support from key stakeholders which comprise employees, customers, suppliers, regulators and shareholders.

Employees are valuable assets of the Group. Apart from the compliance with relevant employment laws, the objective of the Group rewards and recognises performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and advancement by appropriate training and providing opportunities within the Group.

Providing quality services to customers is the foundation for sustainable development of the Company. The Group continues to promote the improvement of service quality, creates diversified services and communication channels, and is committed to providing customers with high quality services and safe products.

Suppliers are important partners for the sustainable development of the Company. The Group continues to optimise the supply chain management system, drives partners to grow together.

The Company is listed in Hong Kong under the regulation of the Stock Exchange, Securities and Futures Commission and other relevant authorities. It is the Group's desire to keep up to date and ensure compliance with new rules and regulations.

One of the corporate goals of the Group is to enhance corporate value to shareholders. The Group targets to foster business development for achieving the sustainability of earnings growth and rewarding shareholders by stable dividend payouts, taking into account capital adequacy levels, liquidity positions and business expansion needs of the Group.

Purchase, Sale or Redemption of Listed Securities

During the year, the Company repurchased a total of 7,000 shares on the Stock Exchange at an aggregate consideration of HK$265,750. Details of the repurchase are as follows:

Date	Total number of shares repurchased	Price per share		Aggregate Consideration
		Highest	Lowest	
		HK$	HK$	HK$
16 May 2017	7,000	38.00	37.85	265,750

7,000 ordinary shares repurchased during the year were cancelled on 8 August 2017.

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

Audit Committee

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

A meeting of the Audit Committee was held on 21 March 2018 to review with the management on the Group's annual results and the Audited Consolidated Financial Statements for the year ended 31 December 2017.

Compliance with the Corporate Governance Code

To the knowledge of the Board, the Company has complied with the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules. Details are set out on page 38 to 51 of the Corporate Governance Report in this Annual Report.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

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

Public Float

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

Loan Agreements Imposing Specific Performance Obligations on Controlling Shareholders

The Company issued 10-year senior notes on 13 May 2011 (the "2021 Senior Notes") in an aggregate amount of USD750 million (equivalent to RMB4,863 million) and 5-year zero-coupon convertible bonds on 26 February 2013 (the "Convertible Bonds") in an aggregate amount of USD500 million (equivalent to RMB3,141 million). The terms and conditions of the 2021 Senior Notes and the Convertible Bonds require Mr. Wang, the controlling shareholder of the Company, to retain his interests in the Company of at least 25% of the total issued share capital of the Company throughout the term of the respective agreements. The total balance of the loans outstanding as at 31 December 2017 are USD366 million (equivalent to RMB2,366 million) and USD479 million (equivalent to RMB3,635 million) respectively.

Moreover, the Company issued two 5-year bonds on 23 October 2014 (the "2019 Unsecured Bonds") and on 24 July 2017 (the "2022 Unsecured Bonds") which were due on 2019 and 2022 respectively. The terms and conditions of these two bonds require Mr. Wang, the controlling shareholder of the Company, to retain his interests in the Company of at least 20% of the total issued share capital of the Company throughout the term of the bonds. The principal loan balances of these two bonds are USD400 million (equivalent to RMB2,460 million) and USD600 million (equivalent to RMB4,066 million). As at 31 December 2017, the outstanding balances are USD64.80 million (equivalent to RMB422 million) and USD600 million (equivalent to RMB3,894 million) respectively.

Interests in Competitors

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

Auditor

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

On behalf of the Board
WANG Yusuo
Chairman

Hong Kong, 22 March 2018

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of ENN Energy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 68 to 164, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Capital expenditure of properties under construction	
We identified the capital expenditure of properties under construction as a key audit matter due to the significance of the amount and the judgement of the Group's management whether the expenditure qualifies for the capitalisation. The Group invested in properties under construction with capital expenditure of RMB3,989 million during the year ended 31 December 2017 as detailed in Note 16 to the consolidated financial statements, of which are mainly the construction of underground gas pipelines which is difficult to be observed. It leads us to focus on the judgement of the Group's management on the determination of whether the expenditure met to the capitalisation criteria and is categorised between operating expenditure and capital expenditure appropriately.	Our procedures in relation to capital expenditures of properties under construction included: • Assessing the key controls relating to capital expenditure of properties under construction; • Testing the appropriateness of expenditure capitalised with reference to supporting documents on a sample basis; and • Performing site visit for additions in the year on a sample basis and discussing with the project manager on site regarding the completion status.

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
22 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RMB million	2016 RMB million
Revenue	6	**48,269**	34,103
Cost of sales		**(39,930)**	(26,753)
Gross profit		**8,339**	7,350
Other income	8	**676**	650
Other gains and losses	9	**(895)**	(1,010)
Distribution and selling expenses		**(635)**	(534)
Administrative expenses		**(2,377)**	(2,223)
Share of results of associates		**129**	73
Share of results of joint ventures		**505**	498
Finance costs	10	**(552)**	(609)
Profit before tax	11	**5,190**	4,195
Income tax expense	13	**(1,517)**	(1,307)
Profit for the year		**3,673**	2,888
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Gain on revaluation of properties arising from the transfer to investment properties		**4**	14
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating foreign operations		**(88)**	69
Fair value (loss) gain on available-for-sale ("AFS") financial assets		**(46)**	2
		(134)	71
Other comprehensive (expense) income for the year		**(130)**	85
Total comprehensive income for the year		**3,543**	2,973
Profit for the year attributable to:			
Owners of the Company		**2,802**	2,151
Non-controlling interests		**871**	737
		3,673	2,888
Total comprehensive income for the year attributable to:			
Owners of the Company		**2,672**	2,233
Non-controlling interests		**871**	740
		3,543	2,973

	Notes	RMB	RMB
Earnings per share	15		
– Basic		**2.59**	1.99
– Diluted		**2.59**	1.82

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 RMB million	2016 RMB million
Non-current Assets			
Property, plant and equipment	16	**25,490**	22,297
Prepaid lease payments	17	**1,262**	1,221
Investment properties	18	**246**	208
Goodwill	19	**192**	188
Intangible assets	20	**1,681**	1,487
Interests in associates	21	**1,505**	1,350
Interests in joint ventures	22	**3,929**	3,704
AFS financial assets	23	**4,578**	4,882
Financial assets at fair value through profit or loss ("FVTPL")	24	**5**	154
Other receivables	25	**183**	32
Amounts due from associates	27	**278**	89
Amounts due from joint ventures	28	**674**	407
Deferred tax assets	30	**941**	745
Deposits paid for investments	31	**35**	61
Deposits paid for acquisition of property, plant and equipment, land use rights and right of operation		**104**	227
Restricted bank deposits	34	**486**	489
		41,589	37,541
Current Assets			
Inventories	32	**744**	515
Trade and other receivables	25	**6,068**	4,423
Prepaid lease payments	17	**37**	30
Financial assets at FVTPL	24	**4**	16
Amounts due from customers for contract work	33	**553**	303
Amounts due from associates	27	**367**	185
Amounts due from joint ventures	28	**943**	790
Amounts due from related companies	29	**112**	63
AFS financial assets	23	**528**	–
Restricted bank deposits	34	**241**	352
Cash and cash equivalents	34	**7,972**	7,163
		17,569	13,840
Assets classified as held for sale	35	**57**	–
		17,626	13,840

	Notes	2017 RMB million	2016 RMB million
Current Liabilities			
Trade and other payables	36	**11,217**	8,323
Amounts due to customers for contract work	33	**2,134**	2,149
Amounts due to associates	27	**282**	218
Amounts due to joint ventures	28	**1,677**	1,645
Amounts due to related companies	29	**642**	416
Taxation payables		**982**	732
Bank and other loans – due within one year	40	**1,737**	3,944
Corporate bonds	41	**2,996**	–
Medium-term notes		**–**	700
Convertible bonds at FVTPL	43	**3,635**	–
Financial guarantee liability	39	**5**	22
Financial liabilities at FVTPL	24	**17**	–
Deferred income	37	**243**	192
		25,567	18,341
Liabilities associated with assets classified as held for sale	35	**38**	–
		25,605	18,341
Net Current Liabilities		**(7,979)**	(4,501)
Total Assets less Current Liabilities		**33,610**	33,040
Capital and Reserves			
Share capital	38	**112**	112
Reserves		**16,840**	14,854
Equity attributable to owners of the Company		**16,952**	14,966
Non-controlling interests		**3,265**	2,888
Total Equity		**20,217**	17,854
Non-current Liabilities			
Bank and other loans – due after one year	40	**523**	197
Corporate bonds	41	**2,494**	5,482
Senior notes	42	**2,366**	2,507
Convertible bonds at FVTPL	43	**–**	3,515
Unsecured bonds	44	**4,316**	446
Financial liabilities at FVTPL	24	**81**	–
Deferred tax liabilities	30	**428**	397
Deferred income	37	**3,185**	2,642
		13,393	15,186
		33,610	33,040

The consolidated financial statements on pages 68 to 164 were approved and authorised for issue by the Board of Directors on 22 March 2018 and are signed on its behalf by:

Wang Yusuo
DIRECTOR

Wang Dongzhi
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Equity attributable to owners of the Company											
	Share capital RMB million (Note 38)	**Share premium** RMB million	**Special reserve** RMB million (note a)	**Revaluation reserve** RMB million	**Share options reserve** RMB million	**Exchange reserve** RMB million	**Statutory surplus reserve fund** RMB million (note b)	**Designated safety fund** RMB million (note c)	**Retained earnings** RMB million	**Total** RMB million	**Non-controlling interests** RMB million	**Total equity** RMB million
At 1 January 2016	113	44	(20)	–	4	56	1,616	46	11,609	13,468	2,627	16,095
Profit for the year	–	–	–	–	–	–	–	–	2,151	2,151	737	2,888
Other comprehensive income for the year	–	–	–	13	–	69	–	–	–	82	3	85
Total comprehensive income for the year	–	–	–	13	–	69	–	–	2,151	2,233	740	2,973
Recognition of equity-settled share-based payment (Note 45)	–	–	–	–	51	–	–	–	–	51	–	51
Share repurchase (Note 38)	(1)	(28)	–	–	–	–	–	–	–	(29)	–	(29)
Issue of ordinary shares on exercise of share options (Note 45)	–	4	–	–	(1)	–	–	–	–	3	–	3
Acquisition of subsidiaries and businesses (Notes 47 & 48)	–	–	–	–	–	–	–	–	–	–	38	38
Acquisition of additional interests in subsidiaries	–	–	(74)	–	–	–	–	–	19	(55)	(41)	(96)
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	56	56
Disposal of subsidiaries (Note 49)	–	–	–	–	–	–	–	–	–	–	(3)	(3)
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	–	(6)	(6)
Dividends appropriation (Note 14)	–	–	–	–	–	–	–	–	(705)	(705)	–	(705)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	(523)	(523)
Transfer to statutory surplus reserve fund	–	–	–	–	–	–	253	–	(253)	–	–	–
At 31 December 2016	112	20	(94)	13	54	125	1,869	46	12,821	14,966	2,888	17,854
Profit for the year	–	–	–	–	–	–	–	–	2,802	2,802	871	3,673
Other comprehensive income for the year	–	–	–	(42)	–	(88)	–	–	–	(130)	–	(130)
Total comprehensive income for the year	–	–	–	(42)	–	(88)	–	–	2,802	2,672	871	3,543
Recognition of equity-settled share-based payment (Note 45)	–	–	–	–	34	–	–	–	–	34	–	34
Share repurchase (Note 38)	–	–	–	–	–	–	–	–	–	–	–	–
Issue of ordinary shares on exercise of share options (Note 45)	–	52	–	–	(14)	–	–	–	–	38	–	38
Acquisition of subsidiaries and businesses (Notes 47 & 48)	–	–	–	–	–	–	–	–	–	–	112	112
Acquisition of additional interests in subsidiaries	–	–	2	–	–	–	–	–	15	17	(17)	–
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	79	79
Dividends appropriation (Note 14)	–	–	–	–	–	–	–	–	(775)	(775)	–	(775)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	(668)	(668)
Transfer to statutory surplus reserve fund	–	–	–	–	–	–	213	–	(213)	–	–	–
Transfer to designated safety fund	–	–	–	–	–	–	–	13	(13)	–	–	–
At 31 December 2017	112	72	(92)	(29)	74	37	2,082	59	14,637	16,952	3,265	20,217

Notes:

a. The balance represents the difference between the fair values of consideration paid and the carrying values of net assets attributable to the additional interests of subsidiaries acquired or disposal of with no change in control.

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	**2017** **RMB million**	2016 RMB million
OPERATING ACTIVITIES			
Profit before tax		**5,190**	4,195
Adjustments for:			
Share of results of associates		**(129)**	(73)
Share of results of joint ventures		**(505)**	(498)
Exchange differences		**(358)**	305
Fair value loss (gain) of convertible bonds at FVTPL		**278**	(41)
Fair value loss (gain) of financial assets/liabilities at FVTPL		**314**	(170)
Impairment loss on goodwill		**–**	601
Impairment loss on property, plant and equipment		**478**	–
Impairment loss on trade and other receivables, net		**145**	35
Loss on disposal of property, plant and equipment		**55**	37
Gain on disposal of prepaid lease payments		**(14)**	(2)
Loss (gain) on disposal of subsidiaries/a business	49	**13**	(46)
Gain on disposal of an associate		**(18)**	–
Gain on disposal of an AFS investment		**(1)**	–
Dividends income from AFS investments		**(148)**	(180)
Increase in fair value of investment properties		**(10)**	(4)
Depreciation of property, plant and equipment		**1,016**	969
Amortisation of intangible assets		**102**	95
Release of prepaid lease payments		**38**	36
Share-based payment expenses		**34**	51
Financial guarantee income		**(17)**	(7)
Loss on repurchase and redemption of convertible bonds	43	**4**	–
Loss on repurchase of senior notes	42	**–**	308
Bank interest income		**(222)**	(153)
Finance costs		**552**	609
		6,797	6,067
Movements in working capital:			
Increase in inventories		**(220)**	(105)
Increase in trade and other receivables		**(2,139)**	(871)
Increase in amounts due from customers for contract work		**(250)**	(106)
Increase in amounts due from associates		**(110)**	(51)
(Increase) decrease in amounts due from joint ventures		**(178)**	8
Increase in amounts due from related companies		**(18)**	(12)
Increase in trade and other payables		**2,697**	1,263
Decrease in amounts due to customers for contract work		**(15)**	(99)
Increase in amounts due to joint ventures		**223**	36
(Decrease) increase in amounts due to associates		**(19)**	28
Increase in deferred income		**594**	621
Increase in amounts due to related companies		**202**	39
Cash generated from operations		**7,564**	6,818
PRC enterprise income tax paid		**(1,471)**	(1,452)
Net cash generated from operating activities		**6,093**	5,366

	Notes	**2017 RMB million**	2016 RMB million
INVESTING ACTIVITIES			
Dividends received from joint ventures		**545**	769
Dividends received from associates		**43**	33
Dividends received from AFS investments		**148**	180
Settlement of financial assets/liabilities at FVTPL		**(55)**	–
Interest received		**222**	124
Purchases of property, plant and equipment		**(4,527)**	(3,049)
Increase in prepaid lease payments		**(88)**	(106)
Deposits paid for investments		**(27)**	(53)
Deposits paid for prepaid lease payments		**(11)**	(32)
Deposits paid for acquisition of property, plant and equipment		**(19)**	(77)
Net cash outflow on acquisition of subsidiaries and businesses	47 & 48	**(91)**	(49)
Net cash inflow on disposal of subsidiaries/a business	49	**8**	12
Proceeds from disposal of assets classified as held for sale		**–**	34
Proceed from disposal of an AFS investment		**11**	–
Purchase of an AFS equity investment		**(52)**	(711)
Purchases of wealth management products		**(14,434)**	(8,728)
Release of wealth management products		**14,511**	8,177
Amounts advanced to banks and other financial institutions by Xinao Finance Company Limited ("ENN Finance")		**(1,250)**	(100)
Amounts withdrawn from banks and other financial institutions by ENN Finance		**1,250**	100
Investments in joint ventures		**(186)**	(165)
Investments in associates		**(94)**	(134)
Acquisition of intangible assets		**(74)**	(25)
Proceeds from disposal of property, plant and equipment		**8**	727
Proceeds from disposal of prepaid lease payments		**50**	23
Addition of restricted bank deposits		**(3,419)**	(796)
Release of restricted bank deposits		**3,533**	560
Amounts advanced to associates		**(273)**	(102)
Amounts repaid by associates		**12**	109
Amounts advanced to joint ventures		**(308)**	(941)
Amounts repaid by joint ventures		**66**	387
Amounts advanced to related companies		**(33)**	(13)
Amounts repaid by related companies		**2**	6
Net cash used in investing activities		**(4,532)**	(3,840)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 RMB million	2016 RMB million
FINANCING ACTIVITIES		
Interest paid	**(562)**	(668)
Net proceeds from ordinary shares issued on exercise of share options	**38**	3
Repurchase of shares	**–**	(29)
Proceeds from issuance of corporate bonds	**–**	2,490
Proceeds from issuance of unsecured bonds	**4,037**	–
Proceeds used in repurchase and redemption of convertible bonds	**(162)**	–
Amounts advanced from banks and other financial institutions by ENN Finance	**800**	200
Amounts repaid to banks and other financial institutions by ENN Finance	**(800)**	(200)
Proceeds used in repurchase of senior notes	**–**	(2,706)
Capital contribution from non-controlling shareholders	**79**	56
Acquisition of additional interests in subsidiaries	**–**	(85)
Dividends paid to non-controlling shareholders	**(668)**	(523)
Dividends paid to shareholders	**(775)**	(705)
New bank loans raised	**5,797**	7,339
Repayment of bank loans	**(7,687)**	(6,630)
Repayment of medium-term notes	**(700)**	–
Amounts advanced from associates	**93**	124
Amounts repaid to associates	**(10)**	–
Amounts advanced from joint ventures	**140**	25
Amounts repaid to joint ventures	**(331)**	(404)
Amounts advanced from related companies	**9**	56
Amounts repaid to related companies	**(6)**	(79)
Net cash used in financing activities	**(708)**	(1,736)
Net increase (decrease) in cash and cash equivalents	**853**	(210)
Effect of foreign exchange rate changes	**(41)**	18
Cash and cash equivalents at the beginning of the year	**7,163**	7,355
Cash and cash equivalents at the end of the year	**7,975**	7,163
Represented by:		
Cash and cash equivalents included in assets classified as held for sale	**3**	–
Cash and cash equivalents at the end of the year	**7,972**	7,163
	7,975	7,163

1. General

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

The consolidated financial statements of the Company and its subsidiaries (collectively referred to the "Group") are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 56.

2. Basis of Preparation of Consolidated Financial Statements

In preparing the consolidated financial statements, the directors of the Company (the "Directors") have given careful consideration of the Group in light of its net current liabilities of approximately RMB7,979 million as at 31 December 2017. The Group has unutilised credit facilities of approximately RMB8,851 million as at 31 December 2017. After settling all of the outstanding convertible bonds, of which the carrying amount was RMB3,635 million as at 31 December 2017 as set out in Note 43, the Group has unutilised credit facilities of approximately RMB6,509 million at the date of approval of the consolidated financial statements, among which approximately RMB5,500 million are subject to renewal within twelve months from the end of the reporting period. So the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the consolidated financial statements for the year ended 31 December 2017 have been prepared on a going concern basis.

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

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendment to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 54. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 54, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[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 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[2]

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

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

3 Effective for annual periods beginning on or after 1 January 2021

4 Effective for annual periods beginning on or after a date to be determined

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

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are generally measured at their fair value at 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.
- With regard to the measurement of financial liabilities designated as at FVTPL, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 "Financial Instruments": Recognition and Measurement, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

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

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

HKFRS 9 Financial Instruments (continued)

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

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement:

- Listed equity securities classified as available-for-sale investments carried at fair value as disclosed in Note 23: these securities qualified for designation as measured at FVTOCI under HKFRS 9, however, the Group plans not to elect the option for the designation and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, revaluation reserve of approximately RMB44 million related to these available-for-sale investments will be transferred to retained earnings as at 1 January 2018.
- Certain unlisted equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in Note 23: these securities qualified for designation as measured at FVTOCI under HKFRS 9 and the Group plans to elect the option for designating these securities as measured at FVTOCI. Upon initial application of HKFRS 9, the differences between cost less impairment and fair value related to these securities, which are insignificant, would be adjusted to revaluation reserve as at 1 January 2018.
- The other unlisted equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in Note 23: these securities qualified for designation as measured at FVTOCI under HKFRS 9, however, the Group plans not to elect the option for the designation and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, fair value gains of approximately RMB59 million related to these securities, representing the differences between cost less impairment and fair value would be adjusted to retained earnings as at 1 January 2018.
- Convertible bonds issued by the Group designated as financial liabilities at FVTPL as disclosed in Note 43: these financial liabilities qualified for designation as measured at FVTPL under HKFRS 9, however, the amount of change in the fair value of these financial liabilities that is attributable to changes in the credit risk of those liabilities will be recognised in other comprehensive income with the remaining fair value change recognised in profit or loss. This is different from the current accounting treatment under which the entire change in fair value of the financial liabilities is recognised in profit or loss. The change in fair value attributed to a change in credit risk of these financial liabilities during the current year is insignificant and would not have material impact on other comprehensive income upon initial application of HKFRS 9; and
- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment:

In general, the Directors anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other receivables, amount due from associates, joint ventures and related parties. Such further impairment recognised under expected credit loss model would reduce the retained earnings and increase the deferred tax assets as at 1 January 2018.

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

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

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued to establish 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 have preliminarily assessed the performance obligations in respect of the different types of contracts with customers, in particular, the identification of distinct performance obligations under HKFRS 15 and the allocation of total consideration to the distinct performance obligations based on the relative fair values of piped gas sales and connection construction service. The revenue relevant to sales of piped gas will be recognised when the Group satisfied its performance obligation by providing gas to the customer. The revenue relevant to connection construction service will be recognised over time during the course of construction. The Directors intend to apply the limited retrospective method with cumulative effect of initial application recognised in opening balance of equity at 1 January 2018, and apply this standard retrospectively only to contracts that are not completed at 1 January 2018. Based on the current assessment on existing contracts, the Directors do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods. In addition, the application of HKFRS 15 in the future may result in more disclosure in the consolidated financial statements.

HKFRS 16 Leases

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

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

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

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.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB520 million as disclosed in Note 51. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for short-term leases or leases of low-value assets.

Furthermore, the application of new requirements under HKFRS 16 may result in changes in measurement, presentation and disclosure as indicated above.

4. Significant Accounting Policies

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

Basis of preparation

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

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

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

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

For financial instruments and investment properties which are transferred at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

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 where 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.

4. Significant Accounting Policies *(continued)*

Basis of consolidation *(continued)*

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in 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 and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

4. Significant Accounting Policies *(continued)*

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 liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at 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, 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 been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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

4. Significant Accounting Policies *(continued)*

Acquisition of a subsidiary not constituting a business

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

Goodwill

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

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

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

On disposal of the relevant CGUs, the attributable amount of goodwill is included in the determination of the profit or loss on disposal (or any of the CGU within group of CGUs in which the Group monitors goodwill).

The Group's policy for goodwill arising on the acquisition of an associate and joint venture is described below.

Interests in associates and joint ventures

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

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

4. Significant Accounting Policies *(continued)*

Interests in associates and joint ventures *(continued)*

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

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

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

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 of 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) upon disposal/partial disposal of the relevant associate or joint venture.

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

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

4. Significant Accounting Policies *(continued)*

Non-current assets held for sale

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

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

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

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

Revenue recognition

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

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

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

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Service income is recognised when services are provided.

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

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

4. Significant Accounting Policies *(continued)*

Gas connection contracts

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

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

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Leasehold land and buildings

When the Group makes payments for a property interest which includes both leasehold 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 property is accounted as an operating lease. Specifically, the entire consideration (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 at initial recognition.

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

4. Significant Accounting Policies *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are 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 carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

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

Borrowing costs

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

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

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

Government grants

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

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

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

Retirement benefit scheme contribution

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

4. Significant Accounting Policies *(continued)*

Short-term and other long-term employee benefit

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

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

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

Share-based payment arrangements

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

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

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

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because 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 base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from 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.

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

4. Significant Accounting Policies *(continued)*

Taxation *(continued)*

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

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

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

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

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

Property, plant and equipment

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

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

Depreciation is recognised so as to write off the costs or deemed cost of assets (other than properties under construction) less their residual values over their 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.

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 (including the relevant prepaid lease payments) at the date of transfer is recognised in other comprehensive income and accumulated in revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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 the profit or loss.

Investment properties

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

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

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

4. Significant Accounting Policies *(continued)*

Investment properties *(continued)*

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

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

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets – research and development expenditure

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

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets that are 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 costs less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

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

4. Significant Accounting Policies *(continued)*

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets 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 relevant asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

Inventories

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

Financial instruments

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

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

Financial assets

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

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

Loans and receivables

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

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

AFS financial assets

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

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

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

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity instruments

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

Equity instruments

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

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

Effective interest method

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

Convertible bonds

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

Financial liabilities at amortised cost

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

Financial guarantee contracts

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

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

4. Significant Accounting Policies *(continued)*

Financial instruments *(continued)*

Derivative financial instruments

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

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

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

Derecognition

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

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

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or 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.

5. Key Sources of Estimation Uncertainty

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

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

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated which is the higher of fair value less costs of disposal and its value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which results in downward revision of future cash inflows, further impairment loss may arise. As at 31 December 2017, impairment losses of the carrying amount of goodwill less impairment losses is RMB192 million (2016: RMB188 million). Details of the calculation of the recoverable amount are set out in Note 19.

5. Key Sources of Estimation Uncertainty *(continued)*

Estimated impairment of intangible assets

Determining whether intangible assets are impaired requires the estimation of the recoverable amount of the CGUs to which intangible assets have been allocated which is the higher of the fair value less costs of disposal and its value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which results in downward revision of future cash, a material impairment loss may arise. As at 31 December 2017, the carrying amount of intangible assets less accumulated amortisation is RMB1,681 million (2016: RMB1,487 million).

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will impact the depreciation charges in the year in which the estimates change. As at 31 December 2017, the carrying amount of property, plant and equipment less accumulated depreciation and accumulated impairment losses is RMB25,490 million (2016: RMB22,297 million).

6. Revenue

	2017 **RMB million**	2016 RMB million
Revenue comprises the following:		
Sales of goods		
Sales of piped gas	**23,948**	17,900
Vehicle gas refuelling stations	**3,102**	3,169
Wholesale of gas	**11,878**	6,153
Sales of integrated energy	**234**	153
Sales of gas appliances	**320**	238
Sales of material	**2,773**	879
	42,255	28,492
Provision of services		
Gas connection	**5,954**	5,611
Integrated energy	**60**	–
	48,269	34,103

7. Segment Information

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

Segment revenue and results

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

Inter-segment sales are charged at prevailing market rates.

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

2017	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Sales of integrated energy and services RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Segment turnover	7,133	31,540	3,187	18,153	308	882	4,744	65,947
Inter segment sales	(1,179)	(7,592)	(85)	(6,275)	(14)	(562)	(1,971)	(17,678)
Revenue from external customers	5,954	23,948	3,102	11,878	294	320	2,773	48,269
Segment profit before depreciation and amortisation	3,931	4,628	301	221	31	124	35	9,271
Depreciation and amortisation	(196)	(590)	(124)	(4)	(16)	(2)	–	(932)
Segment profit	3,735	4,038	177	217	15	122	35	8,339

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

7. Segment Information *(continued)*

Segment assets and liabilities

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

2017	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Sales of integrated energy and services RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Assets:								
Segment assets	4,137	21,331	3,306	817	1,738	705	331	32,365
Interests in associates								1,505
Interests in joint ventures								3,929
Unallocated corporate assets								21,416
Consolidated total assets								59,215
Liabilities:								
Segment liabilities	9,307	4,816	414	368	954	240	405	16,504
Bank and other loans								2,260
Corporate bonds								5,490
Senior notes								2,366
Convertible bonds at FVTPL								3,635
Unsecured bonds								4,316
Unallocated corporate liabilities								4,427
Consolidated total liabilities								38,998

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

7. Segment Information *(continued)*

Segment assets and liabilities *(continued)*

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

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

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

Other segment information

	Gas connection RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Sales of integrated energy and services RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Amounts included in the measurement of segment profit and segment assets:								
2017								
Additions to non-current assets (note b)	**708**	**3,225**	**302**	**45**	**83**	**5**	**1**	**4,369**
Depreciation and amortisation	**196**	**590**	**124**	**4**	**16**	**2**	**–**	**932**
Impairment loss on property, plant and equipment	**–**	**–**	**478**	**–**	**–**	**–**	**–**	**478**
Impairment loss on trade and other receivables recognised (reversed)	**65**	**16**	**69**	**(6)**	**3**	**(2)**	**–**	**145**
2016								
Additions to non-current assets (note b)	479	2,161	377	73	77	30	8	3,205
Depreciation and amortisation	176	562	124	2	14	2	–	880
Impairment loss on trade and other receivables recognised (reversed)	7	14	(4)	12	–	4	2	35

	Additions to non-current assets (note b)		Depreciation and amortisation	
	2017 RMB million	2016 RMB million	**2017 RMB million**	2016 RMB million
Segment total	**4,369**	3,205	**932**	880
Adjustments (note a)	**909**	244	**186**	184
Total	**5,278**	3,449	**1,118**	1,064

Notes:

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

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

7. Segment Information *(continued)*

Other segment information *(continued)*

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

Substantially all of the Group's revenue and non-current assets are located in the PRC. For the year ended 31 December 2017, the revenues from the PRC and overseas were RMB48,056 million (2016: RMB33,946 million) and RMB213 million (2016: RMB157 million), respectively. As of 31 December 2017, the non-current assets located in the PRC were RMB28,520 million (2016: RMB24,629 million) and overseas were RMB74 million (2016: RMB564 million).

8. Other Income

	2017 **RMB million**	2016 RMB million
Other income mainly includes:		
Incentive subsidies (note)	**132**	211
Dividends income from AFS investments	**148**	180
Bank interest income	**222**	153
Rental income from equipment, net	**31**	22
Financial guarantee income	**17**	7
Sale of proprietary technology	**27**	–

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

9. Other Gains and Losses

	2017 **RMB million**	2016 RMB million
Impairment loss on trade and other receivables, net (Note 25)	**(145)**	(35)
(Loss) gain on disposal of:		
– Property, plant and equipment	**(55)**	(37)
– Prepaid lease payments	**14**	2
– Subsidiaries/a business (Note 49)	**(13)**	46
– An associate	**18**	–
– An AFS investment	**1**	–
Increase in fair value of investment properties (Note 18)	**10**	4
Loss on repurchase and redemption of convertible bonds (Note 43)	**(4)**	–
Loss on repurchase of senior notes (Note 42)	**–**	(308)
Fair value (loss) gain of:		
– Convertible bonds at FVTPL (Note 43)	**(278)**	41
– Financial assets/liabilities at FVTPL (Note 24)	**(314)**	170
Impairment loss on goodwill (Note 19)	**–**	(601)
Impairment losses on property, plant and equipment (Note 16)	**(478)**	–
Gain (loss) on foreign exchange, net (note)	**349**	(292)
	(895)	(1,010)

Note: Included in the amount for the year ended 31 December 2017 is an exchange gain of approximately RMB316 million (2016: exchange loss of approximately RMB327 million) arising from the translation of senior notes and unsecured bonds denominated in United States dollar ("USD") to RMB.

10. Finance Costs

	2017 RMB million	2016 RMB million
Interest on:		
Bank and other loans	148	207
Medium-term notes	31	39
Senior notes	153	280
Corporate bonds	221	131
Unsecured bonds	75	15
	628	672
Less: Amount capitalised under construction in progress (note)	(76)	(63)
	552	609

Note: During the years ended 31 December 2017 and 2016, borrowing costs capitalised were incurred on funds borrowed specifically and generally for the purpose of expenditure on qualifying assets. In respect of funds borrowed generally for the purpose of expenditure on qualifying assets, the amount of borrowing costs capitalised during the year was calculated by applying a capitalisation rate of 3.38% (2016: 3.79%) per annum.

11. Profit Before Tax

	2017 RMB million	2016 RMB million
Profit before tax has been arrived at after (crediting) charging:		
Staff costs:		
Share-based payment expenses, including directors' emoluments (included in administrative expenses)	34	51
Other staff costs, including directors' emoluments	2,367	2,236
Less: Amount of other staff costs capitalised under construction in progress	(30)	(63)
Total staff costs (note)	2,371	2,224
Depreciation and amortisation:		
Property, plant and equipment	1,016	969
Intangible assets	102	95
Total depreciation and amortisation (note)	1,118	1,064
Release of prepaid lease payments	38	36
Auditors' remuneration	14	13
Minimum lease payments under operating leases in respect of premises and equipment recognised in profit or loss	129	112

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

	2017 RMB million	2016 RMB million
Staff costs included in:		
Cost of sales	915	884
Distribution and selling expenses	464	400
Administrative expenses	992	940
	2,371	2,224
Depreciation and amortisation included in:		
Cost of sales	932	880
Distribution and selling expenses	12	6
Administrative expenses	174	178
	1,118	1,064

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

a. Directors' emoluments

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

	2017					
Name of director	Fee RMB'000	Salaries and allowance RMB'000	Discretionary performance bonus RMB'000	Share-based payment RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Executive Directors: (note a)						
Wang Yusuo	–	2,671	1,400	1,634	–	5,705
Cheung Yip Sang	–	1,644	2,550	1,499	16	5,709
Han Jishen	–	2,730	1,930	1,186	86	5,932
Sean S J Wang*	–	2,940	1,826	–	16	4,782
Wang Dongzhi	–	1,225	–	1,076	16	2,317
Sub-total	–	11,210	7,706	5,395	134	24,445
Non-executive Directors: (note b)						
Wang Zizheng	200	–	–	169	–	369
Jin Yongsheng**	48	–	–	100	–	148
Sub-total	248	–	–	269	–	517
Independent Non-executive Directors: (note c)						
Ma Zhixiang	200	–	–	169	–	369
Yuen Po Kwong	200	–	–	169	–	369
Law Yee Kwan, Quinn	200	–	–	169	–	369
Sub-total	600	–	–	507	–	1,107
Total	848	11,210	7,706	6,171	134	26,069

* Mr. Sean S J Wang was appointed as executive director of the Company on 21 March 2017 and he resigned subsequently on 12 January 2018.

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

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

a. Directors' emoluments *(continued)*

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

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

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

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

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

Notes:

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

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

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

The amounts disclosed above include directors' fees of RMB600,000 (2016: RMB683,000) paid or payable to independent non-executive directors. None of the Directors waived any emoluments during both years.

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

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

b. Five highest paid individuals

The five highest paid employees of the Group during the year included four (2016: four) directors, details of whose remuneration are set out in Note 12(a) above. Details of the remuneration for the year of the remaining one (2016: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2017 **RMB'000**	2016 RMB'000
Salaries and allowance	**1,963**	1,147
Discretionary performance bonus	**2,200**	1,665
Share-based payment	**479**	760
Retirement benefits scheme	**101**	93
	4,743	3,665

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

	2017 **Number of employees**	2016 Number of employees
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$4,000,000	**–**	–
HK$4,000,001 to HK$5,000,000	**–**	3
HK$5,000,001 to HK$6,000,000	**2**	–
HK$6,000,001 to HK$7,000,000	**3**	2
	5	5

13. Income Tax Expense

	2017 **RMB million**	2016 RMB million
Current tax	**1,576**	1,370
Underprovision in prior years	**44**	19
Withholding tax	**101**	90
	1,721	1,479
Deferred tax (Note 30)	**(204)**	(172)
	1,517	1,307

The charge represents PRC Enterprise Income Tax for both years.

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

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

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

13. Income Tax Expense *(continued)*

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

	2017 **RMB million**	2016 RMB million
Profit before tax	**5,190**	4,195
Tax at the PRC Enterprise Income Tax rate of 25% (2016: 25%)	**1,298**	1,049
Tax effects of share of results of associates	**(32)**	(18)
Tax effects of share of results of joint ventures	**(126)**	(124)
Tax effects of income not taxable for tax purpose	**(217)**	(191)
Tax effects of expenses not deductible for tax purpose	**417**	577
Tax effects of tax losses not recognised	**78**	64
Utilisation of tax losses previously not recognised	**(119)**	(140)
Tax effects of deductible temporary differences not recognised	**132**	11
Tax concession and exemption granted to certain PRC subsidiaries	**(62)**	(37)
Underprovision in respect of prior years	**44**	19
Withholding tax on undistributed profit of PRC entities	**104**	97
Income tax charge for the year	**1,517**	1,307

14. Dividends

	2017 **RMB million**	2016 RMB million
Final dividend paid in respect of previous financial year	**775**	705

Notes:

a. 2016 final dividend of HK$0.83 (equivalent to approximately RMB0.74) per ordinary share or approximately RMB775 million in aggregate was paid during the year ended 31 December 2017.

b. The proposed final dividend in respect of 2017 of HK$1.08 (equivalent to approximately RMB0.90) per ordinary share with total amount of HK$1,177 million (2016: HK$898 million) has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

15. Earnings Per Share

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

Basic earnings per share

Basic earnings per share for the years ended 31 December 2017 and 2016 are calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2017	2016
Profit for the year attributable to the owners of the Company (RMB million)	**2,802**	2,151
Weighted average number of ordinary shares	**1,081,956,725**	1,082,384,883
Basic earnings per share (RMB)	**2.59**	1.99

Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2017 is calculated assuming all dilutive potential ordinary shares were converted, except for the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share.

Diluted earnings per share for the year ended 31 December 2016 was calculated through dividing the profit attributable to the owners of the Company after eliminating the fair value gain of the convertible bonds at FVTPL by the weighted average number of ordinary shares outstanding which assumes all dilutive potential ordinary shares were converted.

	2017	2016
Earnings		
Earnings for the purpose of basic earnings per share (RMB million)	**2,802**	2,151
Effect of dilutive potential ordinary shares:		
– Fair value gain of convertible bonds (RMB million)	–	(41)
Earnings for the purpose of diluted earnings per share (RMB million)	**2,802**	2,110
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,081,956,725**	1,082,384,883
Effect of dilutive potential ordinary shares:		
– share options	**878,186**	188,083
– convertible bonds	–	79,778,897
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,082,834,911**	1,162,351,863
Diluted earnings per share (RMB)	**2.59**	1.82

16. Property, Plant and Equipment

	Leasehold land and buildings RMB million	Pipelines RMB million	Machinery and equipment RMB million	Motor vehicles RMB million	Office equipment RMB million	Properties under construction RMB million	Total RMB million
COST							
At 1 January 2016	3,343	16,609	1,682	469	1,177	2,201	25,481
Exchange adjustments	15	–	17	1	2	14	49
Acquisition of subsidiaries	–	15	3	–	–	81	99
Additions	354	280	165	38	164	2,099	3,100
Revaluation surplus before the transfer to investment property	14	–	–	–	–	–	14
Transfer from investment property	16	–	–	–	–	–	16
Reclassification	220	1,595	176	–	–	(1,991)	–
Transfer to investment property	(111)	–	–	–	–	–	(111)
Disposal of subsidiaries/a business	(98)	(119)	(70)	(2)	(1)	(26)	(316)
Disposals	(376)	(383)	(100)	(44)	(16)	–	(919)
At 31 December 2016	3,377	17,997	1,873	462	1,326	2,378	27,413
Exchange adjustments	(8)	–	(10)	–	(1)	(12)	(31)
Acquisition of subsidiaries and businesses	21	71	52	2	2	101	249
Additions	136	141	160	17	169	3,989	4,612
Revaluation surplus before the transfer to investment property	4	–	–	–	–	–	4
Transfer to assets classified as held for sale	(184)	–	(194)	(7)	(18)	(243)	(646)
Reclassification	342	2,178	184	–	36	(2,740)	–
Transfer to investment property	(31)	–	–	–	–	–	(31)
Disposal of a subsidiary	–	–	(11)	(4)	–	–	(15)
Disposals	(7)	(49)	(26)	(53)	(34)	(12)	(181)
At 31 December 2017	3,650	20,338	2,028	417	1,480	3,461	31,374
DEPRECIATION AND IMPAIRMENT							
At 1 January 2016	390	2,677	441	239	607	6	4,360
Exchange adjustments	1	–	3	–	1	–	5
Provided for the year	110	556	143	54	112	(6)	969
Transfer to investment property	(5)	–	–	–	–	–	(5)
Eliminated on disposal of subsidiaries/a business	(14)	(20)	(22)	(1)	(1)	–	(58)
Eliminated on disposals	(19)	(60)	(31)	(36)	(9)	–	(155)
At 31 December 2016	463	3,153	534	256	710	–	5,116
Exchange adjustments	(2)	–	(3)	–	–	–	(5)
Provided for the year	119	562	168	51	116	–	1,016
Eliminated on transfer to investment property	(2)	–	–	–	–	–	(2)
Eliminated on transfer to assets classified as held for sale	(179)	–	(189)	(6)	(17)	(207)	(598)
Impairment losses recognised during the year	147	–	119	–	5	207	478
Eliminated on disposal of a subsidiary	–	–	(2)	(1)	–	–	(3)
Eliminated on disposals	(2)	(23)	(18)	(46)	(29)	–	(118)
At 31 December 2017	544	3,692	609	254	785	–	5,884
CARRYING VALUES							
At 31 December 2017	3,106	16,646	1,419	163	695	3,461	25,490
At 31 December 2016	2,914	14,844	1,339	206	616	2,378	22,297

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

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

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

The Group identified the indications that the property, plant and equipment of the two wholly-owned subsidiaries located in the United States and Canada had suffered impairment losses due to loss of key customers in last quarter of 2017. The recoverable amounts of these assets amounting to approximately RMB48 million were determined to be their fair values less costs of disposal and have been arrived at on the basis of a valuation, which was carried out by Duff & Phelps, LLC, a firm of independent valuers, adopting the cost and market approaches and assuming those assets to be sold within a short period. Accordingly, impairment losses of RMB478 million have been recognised in respect of these assets and the Group decided to dispose of the two subsidiaries by 31 December 2017 as set out in Note 35.

At the end of the reporting period, except for certain land and buildings with the carrying value of RMB39 million (2016: RMB40 million) which are located in Hong Kong under long-term lease, the remaining land and buildings are located in the PRC under medium-term lease.

At the end of the reporting period, the Group is in the process of applying for ownership certificates for its buildings in the PRC amounting to approximately RMB291 million (2016: RMB339 million).

17. Prepaid Lease Payments

	2017 RMB million	2016 RMB million
The Group's prepaid lease payments comprise land in the PRC under medium-term lease	**1,299**	1,251
Analysed for reporting purposes as:		
Current portion	**37**	30
Non-current portion	**1,262**	1,221

At the end of the reporting period, the Group is in the process of applying for the land use right certificates for the land in the PRC amounting to approximately RMB132 million (2016: RMB125 million). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the land use right certificates for the land in the PRC.

18. Investment Properties

	RMB million
FAIR VALUE	
At 1 January 2016	114
Net increase in fair value recognised in profit or loss	4
Transfers from property, plant and equipment	106
Transfers to property, plant and equipment	(16)
At 31 December 2016	208
Exchange adjustment	(1)
Net increase in fair value recognised in profit or loss	10
Transfers from property, plant and equipment	29
At 31 December 2017	246
Unrealised gains on property revaluation included in profit or loss, as at 31 December 2017	61

18. Investment Properties *(continued)*

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

The fair value of the Group's investment properties at 31 December 2017 and 2016 has been arrived at on the basis of a valuation carried out on those dates by Knight Frank Petty, a firm of independent valuers. The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. A significant increase in the market rent used would result in a significant increase in fair value, and vice versa. The Group's investment properties were classified in the Level 3 of fair value hierarchy as at 31 December 2017 and 2016.

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

19. Goodwill

	2017 **RMB million**	2016 RMB million
COST		
At 1 January	**840**	803
Arising on acquisition of businesses (Note 47)	**13**	–
Disposal of a subsidiary (Note 49)	**(9)**	(3)
Exchange adjustments	**(31)**	40
At 31 December	**813**	840
IMPAIRMENT		
At 1 January	**(652)**	(51)
Impairment loss recognised during the year	**–**	(601)
Exchange adjustments	**31**	–
At 31 December	**(621)**	(652)
CARRYING VALUES		
At 31 December	**192**	188

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

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

	2017 **RMB million**	2016 RMB million
Gas refuelling business located in the United States	**–**	–
Gas refuelling business located in Canada	**–**	–
Sale of piped gas business located in Lianyungang, the PRC	**18**	18
Sale of piped gas business located in Kaifeng, the PRC	**16**	16
Sale of piped gas business located in Hangzhou, the PRC	**37**	37
Sale of piped gas business located in Guangdong, the PRC	**21**	21
Other CGUs, the PRC	**100**	96
	192	188

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

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

19. Goodwill *(continued)*

CGUs in the PRC

For CGUs in the PRC, the Group prepares cash flow projection covering a 10-year period which is shorter than the contractual operating period. The cash flow projections for the first three years are based on financial budgets approved by management. The 3-year period financial budgets are prepared based on the pattern consistent with the track record of the respective entities taking into account the stage of the development of the respective gas projects. The cash flow beyond the 3-year period are extrapolated using an estimated growth pattern at an annualised growth rates of revenue for each CGU ranging from 4.88% to 10.94% (2016: 4.07% to 9.46%) and assuming the gross profit margin will be the same throughout the 10-year period.

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

The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs and determined the discount rate to be from 11.25% to 11.89% (2016: 10.95% to 11.76%).

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

The United States CGU

As of 31 December 2016, the Group prepared cash flow projection for gas refuelling business in the United States covering a 10-year period and the cash flow beyond the 10-year period was extrapolated using a steady 2% growth rate. For the 10-year period, the first three years were based on financial budgets approved by management and based on the pattern consistent with the track record of the respective entity taking into account the stage of the development of the respective gas projects. The revenues beyond the 3-year period but within the tenth year were estimated using a growth rate of 12.51%. The growth rates were based on the management's estimation on the respective entity's projected market share and did not exceed average long-term growth rate for the relevant industry. The gross profit margin was assumed to be the same throughout the 10-year period.

The Directors estimated discount rate using pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the CGU and determined the discount rate to be 11.31%.

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

The Canada CGU

As of 31 December 2016, the Group prepared cash flow projection for gas refuelling business in Canada covering a 10-year period and the cash flow beyond the 10-year period was extrapolated using a steady 2% growth rate. For the 10-year period, the first three years were based on financial budgets approved by management and based on the pattern consistent with the track record of the respective entity taking into account the stage of the development of the respective gas projects. The revenues beyond the 3-year period but within the tenth year were estimated using a growth rate of 8.10%. The growth rates were based on the management's estimation on the respective entity's projected market share and did not exceed average long-term growth rate for the relevant industry. The gross profit margin was assumed to be the same throughout the 10-year period.

The Directors estimated discount rate using pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the CGU and determined the discount rate to be 11.37%.

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

20. Intangible Assets

	Right of operation RMB million	Customer base RMB million	Development expenses RMB million	Software RMB million	Total RMB million
COST					
At 1 January 2016	1,854	50	–	–	1,904
Arising on acquisition of subsidiaries and businesses (Notes 47 and 48)	103	–	–	–	103
Additions	–	–	25	–	25
Disposal of subsidiaries	(2)	–	–	–	(2)
At 31 December 2016	1,955	50	25	–	2,030
Arising on acquisition of subsidiaries and businesses (Notes 47 and 48)	157	–	–	–	157
Additions	53	–	60	26	139
At 31 December 2017	2,165	50	85	26	2,326
AMORTISATION					
At 1 January 2016	434	16	–	–	450
Charge for the year	93	2	–	–	95
Eliminated on disposal of subsidiaries	(2)	–	–	–	(2)
At 31 December 2016	525	18	–	–	543
Charge for the year	96	2	–	4	102
At 31 December 2017	621	20	–	4	645
CARRYING VALUES					
At 31 December 2017	1,544	30	85	22	1,681
At 31 December 2016	1,430	32	25	–	1,487

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

Software is amortised on a straight-line method over the periods ranging from 3 to 10 years.

Development expenses mainly represent expenditure incurred during the development phase of the Group's integrated energy service technologies and online liquefied natural gas ("LNG") data platform.

21. Interests in Associates

	2017 RMB million	2016 RMB million
Cost of investments	**1,109**	1,045
Share of post-acquisition profits, net of dividends received	**370**	279
	1,479	1,324
Deemed capital contribution		
Financial guarantee	**26**	26
	1,505	1,350

Included in the interests in associates is goodwill of approximately RMB49 million (2016: RMB49 million) arising on acquisitions of associates.

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

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

21. Interests in Associates *(continued)*

Aggregate information of associates:

	2017 RMB million	2016 RMB million
Profit and total comprehensive income for the year	**472**	353
Group's share of profit and total income from associates for the year	**129**	73
Aggregate carrying amount of the Group's interests in these associates	**1,505**	1,350

22. Interests in Joint Ventures

	2017 RMB million	2016 RMB million
Cost of investments	**2,568**	2,304
Shares of post-acquisition profits, net of dividends received	**1,304**	1,343
	3,872	3,647
Deemed capital contribution		
Financial guarantee	**53**	53
Fair value adjustments on interest-free advances	**4**	4
	57	57
	3,929	3,704

Included in the interests in joint ventures is goodwill of approximately RMB192 million (2016: RMB192 million) arising on acquisitions of joint ventures.

The fair value adjustments on the interest-free advances are calculated by using an effective interest rate of 4.75% (2016: 4.75%) per annum and average terms of two years.

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

Details of the Group's principal joint ventures as at 31 December 2017 and 2016 are as follows:

Name of company	Form of business structure	Place of establishment/ operation	Proportion of nominal value of registered capital held by the Group 2017	2016	Principal activities
東莞新奧燃氣有限公司 ("Dongguan Xinao") (note)	Incorporated	The PRC	**55%**	55%	Investment in gas pipeline infrastructure and sales of piped gas and gas appliances
長沙新奧燃氣發展有限公司 ("Changsha Xinao") (note)	Incorporated	The PRC	**55%**	55%	Sales of piped gas

Note: The Group holds more than 50% of the registered capital of these entities but it does not have the power to appoint sufficient number of directors to control these entities and the joint venture partners in each entity control jointly on the operational and financial policies of each entity. Accordingly, these entities are classified as joint ventures of the Group.

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

22. Interests in Joint Ventures *(continued)*

Summarised financial information of material joint ventures

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

Dongguan Xinao

	2017 **RMB million**	2016 RMB million
Current assets	**1,079**	917
Non-current assets	**2,616**	2,556
Current liabilities	**2,003**	1,679
Non-current liabilities	**2**	2
Non-controlling interests	**161**	156

The above amounts of assets and liabilities include the following:

	2017 **RMB million**	2016 RMB million
Cash and cash equivalents	**543**	500
Current financial liabilities (excluding trade and other payables and provisions)	**397**	299

	2017 **RMB million**	2016 RMB million
Revenue	**3,524**	3,094
Profit and total comprehensive income for the year	**493**	488
Dividends received from Dongguan Xinao during the year	**330**	353

The above profit for the year include the following:

	2017 **RMB million**	2016 RMB million
Depreciation and amortisation	**95**	86
Interest income	**22**	16
Interest expense	**30**	26
Income tax expense	**111**	180

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

	2017 **RMB million**	2016 RMB million
Net assets of Dongguan Xinao	**1,529**	1,636
Proportion of the Group's ownership interest in Dongguan Xinao	**841**	900
Goodwill	**31**	31
Carrying amount of the Group's interest in Dongguan Xinao	**872**	931

22. Interests in Joint Ventures *(continued)*

Summarised financial information of material joint ventures *(continued)*

Changsha Xinao

	2017 RMB million	2016 RMB million
Current assets	1,318	1,101
Non-current assets	223	230
Current liabilities	747	657

The above amounts of assets and liabilities include the following:

	2017 RMB million	2016 RMB million
Cash and cash equivalents	15	95
Current financial liabilities (excluding trade and other payables and provisions)	230	250

	2017 RMB million	2016 RMB million
Revenue	2,374	2,150
Profit and total comprehensive income for the year	119	279
Dividends received from Changsha Xinao during the year	–	185

The above profit for the year include the following:

	2017 RMB million	2016 RMB million
Depreciation and amortisation	9	8
Interest income	29	26
Interest expense	15	3
Income tax expense	46	72

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

	2017 RMB million	2016 RMB million
Net assets of Changsha Xinao	794	674
Proportion of the Group's ownership interest in Changsha Xinao	437	371
Capitalisation of financial guarantee	4	4
Carrying amount of the Group's interest in Changsha Xinao	441	375

Aggregate information of joint ventures that are not individually material:

	2017 RMB million	2016 RMB million
Profit and total comprehensive income for the year	377	157
Group's share of profit and total income from joint ventures for the year	169	77
Aggregate carrying amount of the Group's interests in these joint ventures	2,616	2,398

23. AFS Financial Assets

	2017 RMB million	2016 RMB million
Unlisted equity securities, at cost less impairment (note a)		
1.13% equity interest in Sinopec Marketing Co., Ltd	**4,003**	4,003
Other unlisted equity securities	**208**	166
	4,211	4,169
Listed equity securities, at fair value (note b)		
4.45% equity interest in Shanghai Dazhong Public Utilities (Group) Co., Ltd ("Shanghai Utilities")	**367**	413
Unlisted wealth management products, at fair value (note c)	**528**	300
Total	**5,106**	4,882
Analysed for reporting purpose as:		
Current portion	**528**	–
Non-current portion	**4,578**	4,882

Notes:

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

b. During the year ended 31 December 2016, the Group subscribed for 4.45% of the total issued share capital of Shanghai Utilities (1635.HK) with an investment of USD60 million (equivalent to approximately RMB411 million) and became one of the cornerstone investors through its initial public offering in Hong Kong, Shanghai Utilities is one of the largest city-gas operators in Shanghai and engaged in taxi operation as well as passenger and logistics vehicle business. During the year, the gross loss in respect of the Group's AFS investments recognised in other comprehensive income before tax amounted to RMB46 million (2016: gross gain of RMB2 million).

c. During the years ended 31 December 2017 and 2016, the Group purchased certain wealth management products from financial institutions, which mainly invested in a portfolio of domestic debt instruments. As at 31 December 2017, the fair value of the products was approximately RMB528 million (2016: RMB300 million).

24. Financial Assets/Liabilities at FVTPL

The Group is exposed to foreign currency risk mainly arising from various bonds and bank loans denominated in USD. To mitigate the foreign exchange exposure, the Group entered into various foreign currency derivative contracts with certain financial institutions.

In addition, the Group is exposed to commodity price risk mainly arising from various long-term sale and purchase contracts on LNG, of which the pricing of LNG is tied to crude oil prices. To mitigate the commodity price risk, the Group entered into various commodity derivative contracts against the underlying contracts with certain financial institutions during the current year.

	2017 **RMB million**	2016 RMB million
Financial assets		
Current portion		
Foreign currency derivative contracts	**4**	16
Non-current portion		
Foreign currency derivative contracts	**–**	154
Commodity derivative contracts	**5**	–
	9	170
Financial liabilities		
Current portion		
Foreign currency derivative contracts	**(17)**	–
Non-current portion		
Foreign currency derivative contracts	**(78)**	–
Commodity derivative contracts	**(3)**	–
	(98)	–

Note: The Foreign Currency Derivatives have a total notional amount of USD1,000 million, of which the maturity dates match to the maturity dates of certain debts denominated in USD. The Foreign Currency Derivatives will enable the Group to buy USD at the predetermined RMB/USD exchange rates on the maturity dates.

The commodity derivative contracts have a total quantity of 428,000 barrels of crude oil, of which the contracts expire by January 2021. The commodity derivative contracts will enable the Group to buy or sell crude oil at the predetermined prices on the expiry dates.

Both the foreign currency derivative contracts and commodity derivative contracts are not designated as hedging instruments. Accordingly, they are accounted for as financial instruments at FVTPL and classified as the current portion and non-current portion based on the terms of the contracts.

The fair value loss of the foreign currency derivative contracts amounting to approximately RMB326 million (2016: fair value gain of RMB170 million) is included in the other gains and losses during the year.

The fair value gain of the commodity derivative contracts amounting to approximately RMB12 million (2016: nil) is included in the other gains and losses during the year.

25. Trade and Other Receivables

	2017 **RMB million**	2016 RMB million
Trade receivables	**2,651**	1,631
Less: Impairment	**(201)**	(121)
	2,450	1,510
Other receivables		
Current portion	**1,392**	1,030
Non-current portion (note a)	**183**	32
	1,575	1,062
Less: Impairment	**(74)**	(9)
	1,501	1,053
Notes receivable (note b)	**552**	388
Investment in wealth management products (note c)	**275**	580
Advances to suppliers and prepayments	**1,473**	924
Total trade and other receivables	**6,251**	4,455
Analysed for reporting purpose as:		
Current portion	**6,068**	4,423
Non-current portion	**183**	32

Notes:

a. The balance that the Directors expect to recover after one year from the end of the reporting period is initially recognised by using an effective interest rate at 4.75% (2016: 4.75%) per annum.

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

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

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

	2017 **RMB million**	2016 RMB million
Within three months	**2,120**	1,388
4 to 6 months	**140**	57
7 to 9 months	**167**	56
10 to 12 months	**23**	9
	2,450	1,510

The following is an aged analysis of notes receivable, presented based on the date of notes receivable received at the end of the reporting period:

	2017 **RMB million**	2016 RMB million
Within three months	**322**	249
4 to 6 months	**230**	139
	552	388

25. Trade and Other Receivables *(continued)*

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. The Directors are of the opinion that the credit quality of the trade receivable balances that are neither past due nor impaired as at the end of the reporting period is good as the repayment history of the debtors is satisfactory.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of approximately RMB214 million (2016: RMB122 million) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 194 days (2016: 220 days).

Aged analysis of trade receivables which are past due but not impaired

The Group's trade receivables are assessed not to be impaired individually. Except for certain trade receivables past due beyond one year, which the Group has fully provided impairment, no impairment has been made to the remaining receivables past due as the Group is satisfied with the subsequent settlements from the debtors and the credit quality of these customers.

	2017 RMB million	2016 RMB million
Past due within one year	**214**	122

Movements in the impairment on trade receivables

	2017 RMB million	2016 RMB million
Balance at beginning of the year	**121**	86
Impairment losses recognised during the year	**126**	79
Amounts recovered during the year	**(46)**	(44)
Balance at end of the year	**201**	121

The Group does not hold any collateral over these balances.

Movements in the impairment on other receivables

	2017 RMB million	2016 RMB million
Balance at beginning of the year	**9**	9
Impairment losses recognised during the year	**65**	–
Balance at end of the year	**74**	9

The Directors are of the opinion that except for those other receivables that are impaired, the remaining other receivables are not impaired as the counterparties are either companies controlled by non-controlling interests or companies with satisfactory repayment history.

26. Transfer of Financial Assets

The following were the Group's financial assets as at 31 December 2017 and 2016 that were transferred to banks or suppliers by discounting, pledging to banks or endorsing those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and the corresponding liabilities included in secured borrowings or trade payables respectively. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

At 31 December 2017

	Bills receivable discounted or pledged to banks RMB million	**Bills receivable endorsed to suppliers RMB million**	**Total RMB million**
Carrying amount of transferred assets	**719**	**538**	**1,257**
Carrying amount of associated liabilities	**(719)**	**(538)**	**(1,257)**
	–	**–**	**–**

At 31 December 2016

	Bills receivable discounted or pledged to banks RMB million	Bills receivable endorsed to suppliers RMB million	Total RMB million
Carrying amount of transferred assets	463	245	708
Carrying amount of associated liabilities	(463)	(245)	(708)
	–	–	–

27. Amounts Due from/to Associates

	2017 RMB million	2016 RMB million
Amounts due from associates:		
Current portion	**367**	185
Non-current portion	**278**	89
	645	274
Amounts due to associates:		
Current portion	**282**	218

Included in the amounts due from/to associates are trade receivables amounting to approximately RMB235 million (2016: RMB125 million) and trade payables amounting to approximately RMB40 million (2016: RMB38 million) and the aged analysis presented based on the invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follows:

	2017 RMB million	2016 RMB million
Trade receivables due from associates		
Within three months	**143**	57
4 to 6 months	**44**	8
7 to 9 months	**33**	9
10 to 12 months	**6**	4
More than one year	**9**	47
	235	125

	2017 RMB million	2016 RMB million
Trade payables due to associates		
Within three months	**26**	36
4 to 6 months	**11**	–
7 to 9 months	**1**	–
More than one year	**2**	2
	40	38

Owing the strategic relationship with the associates, there is no formal credit period applied to above balances by the Group and in the opinion of the Directors, the above balances are not overdue.

27. Amounts Due from/to Associates *(continued)*

The amounts due from/to associates are unsecured, interest-free and repayable on demand except for the amounts due from/to associates detailed in the following table.

At 31 December 2017

	Maturity date	Effective interest rate per annum	2017 RMB million
Loan receivables from associates			
Secured	09/05/2022–30/11/2022	5.23%	**22**
Unsecured	28/02/2018–03/09/2020	4.35%–5.47%	**264**
			286
Loan payables to associates			
Savings in ENN Finance		0.35%	**163**
Unsecured loan	26/05/2018	3.92%	**61**
			224

At 31 December 2016

	Maturity date	Effective interest rate per annum	2016 RMB million
Loan receivables from associates			
Secured	29/06/2017–28/07/2017	4.79%	27
Unsecured	18/01/2017–22/05/2019	4.35%–5.47%	90
			117
Loan payables to associates			
Savings in ENN Finance		0.35%	94
Unsecured loan	07/06/2017	3.92%	61
			155

For interest-free amounts due from associates amounting to RMB98 million (2016: RMB81 million), the Group expects to recover after one year from the end of the reporting period and the balance is initially recognised by using an effective interest rate of 4.75% (2016: 4.75%) per annum. For the remaining amounts due from associates, the Directors expect the amounts will be recoverable within one year from the end of the reporting period.

The Directors are of the opinion that the amounts due from associates are not impaired as the counterparties are associates that are financially sound.

28. Amounts Due from/to Joint Ventures

	2017 RMB million	2016 RMB million
Amounts due from joint ventures:		
Current portion	**943**	790
Non-current portion	**674**	407
	1,617	1,197
Amounts due to joint ventures:		
Current portion	**1,677**	1,645

Included in the amounts due from joint ventures was approximately RMB28 million (2016: RMB74 million) arising from the deposits placed for purchases of gas by the Group from the joint ventures, which the Directors consider, are not impaired. The balance approximates its fair value and is repayable on demand.

Included in the amounts due from/to joint ventures are trade receivables amounting to approximately RMB379 million (2016: RMB202 million) and trade payables amounting to approximately RMB343 million (2016: RMB134 million) and the aged analysis presented based on invoice date, which approximated the respective revenue recognition date, is as follows:

	2017 RMB million	2016 RMB million
Trade receivables due from joint ventures		
Within three months	**287**	131
4 to 6 months	**49**	12
7 to 9 months	**9**	28
10 to 12 months	**18**	10
More than one year	**16**	21
	379	202
Trade payables due to joint ventures		
Within three months	**273**	115
4 to 6 months	**16**	–
7 to 9 months	**2**	–
10 to 12 months	**4**	1
More than one year	**48**	18
	343	134

28. Amounts Due from/to Joint Ventures *(continued)*

Owing the strategic relationship with the joint ventures, there is no formal credit period applied to above balances by the Group and the joint ventures and in the opinion of the Directors, the above balances are not overdue.

The amounts due from/to joint ventures are unsecured, interest-free and repayable on demand except for the amounts due from/to joint ventures detailed in the following table:

At 31 December 2017

	Maturity date	Effective interest rate per annum	2017 RMB million
Loan receivables from joint ventures			
Unsecured	16/01/2018–26/09/2022	2.61%–8%	**884**
Secured	21/04/2019–22/01/2020	6%–6.24%	**250**
			1,134
Loan payables to joint ventures			
Unsecured	01/01/2018–13/08/2020	0.35%–4.35%	**839**
Savings in the ENN Finance		0.35%	**480**
			1,319

At 31 December 2016

	Maturity date	Effective interest rate per annum	2016 RMB million
Loan receivables from joint ventures			
Unsecured	12/01/2017–28/01/2022	2.61%–7%	713
Secured	21/04/2019	6.24%	180
			893
Loan payables to joint ventures			
Unsecured	26/05/2017–15/07/2018	3.92%–6.15%	1,029
Savings in the ENN Finance		0.35%	432
			1,461

For interest-free amounts due from joint ventures amounting to RMB12 million (2016: RMB10 million), that the Group expects to recover after one year from the end of the reporting period and the balance is initially recognised by using an effective interest rate of 4.75% (2016: 4.75%) per annum. For the remaining amounts due from joint ventures, the Directors expect the amounts will be recoverable within one year from the end of the reporting period.

The Directors are of the opinion that the amounts due from joint ventures are not impaired as the counterparties are financially sound.

29. Amounts Due from/to Related Companies

	2017 RMB million	2016 RMB million
Amounts due from companies controlled by a director and shareholder with significant influence	112	63
Amounts due to companies controlled by a director and shareholder with significant influence	642	416

The related companies are controlled by Mr. Wang Yusuo ("Mr. Wang") who is a director and shareholder of the Company with significant influence. The maximum amount outstanding during the year in respect of the amounts due from companies controlled by Mr. Wang is RMB358 million (2016: RMB148 million).

The amounts due to related companies of RMB642 million (2016: RMB388 million) are unsecured, interest-free and repayable on demand. The remaining balance of RMB28 million as at 31 December 2016 was unsecured and carried a floating interest rate of 0.35% per annum.

Included in the amounts due from related companies are trade receivables amounting to RMB69 million (2016: RMB51 million) and the aged analysis presented based on invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follow:

	2017 RMB million	2016 RMB million
Within three months	14	33
4 to 6 months	31	6
7 to 9 months	10	4
10 to 12 months	4	1
More than one year	10	7
	69	51

Owing the strategic relationship with the related companies, there is no formal credit period applied to above balances by the Group and in the opinion of the Directors, the above balances are not overdue.

For the amounts due from companies controlled by a director and shareholder of the Company with significant influence, the counterparties are related companies that are financially sound. Therefore, the Directors are of the opinion that the amounts due from related companies are not impaired.

Included in the amounts due to related companies are trade payables amounting to approximately RMB630 million (2016: RMB379 million) and the aged analysis presented based on invoice date at the end of the reporting period is as follows:

	2017 RMB million	2016 RMB million
Within three months	447	220
4 to 6 months	55	66
7 to 9 months	42	47
10 to 12 months	14	9
More than one year	72	37
	630	379

30. Deferred Taxation

	2017 RMB million	2016 RMB million
Deferred tax assets	**941**	745
Deferred tax liabilities	**(428)**	(397)
	513	348

The following are the major deferred tax assets and liabilities recognised and movements thereon during the years ended 31 December 2017 and 2016:

	Intangible assets RMB million	Capitalisation of interest in property, plant and equipment RMB million	Undistributed retained profits of PRC entities from 1 January 2008 RMB million (note)	Deferred income RMB million	Unrealised profits RMB million	Others RMB million	Total RMB million
At 1 January 2016	230	135	101	(564)	(104)	13	(189)
Acquisition of businesses (Note 47)	13	–	–	–	–	–	13
Charge to profit or loss	–	16	67	42	3	5	133
Credit charge to profit or loss	(15)	(6)	(60)	(188)	(31)	(5)	(305)
At 31 December 2016	228	145	108	(710)	(132)	13	(348)
Acquisition of businesses (Note 47)	39	–	–	–	–	–	39
Charge to profit or loss	–	19	58	54	5	6	142
Credit charge to profit or loss	(15)	(6)	(55)	(201)	(49)	(20)	(346)
At 31 December 2017	252	158	111	(857)	(176)	(1)	(513)

Note: The amount represents deferred taxation in respect of the temporary differences attributable to the undistributed retained profits earned after 1 January 2008 by the group entities registered in the PRC. The amount has been provided based on the amount of undistributed retained profit of certain PRC entities from 1 January 2008 attributable to non-PRC parent entities at a withholding tax rate of 10% or 5% as the Directors consider the amount will be probably reversed in the foreseeable future upon distribution of profit by the respective group entities.

Deferred taxation of approximately RMB604 million (2016: RMB464 million) has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed retained profit of certain PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

As at 31 December 2017, the Group has unused tax losses of approximately RMB1,096 million (2016: RMB1,356 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the uncertainty of future profit streams. The unrecognised tax losses will be expired in the following year ending 31 December:

	2017 RMB million	2016 RMB million
2017	**–**	195
2018	**126**	358
2019	**164**	177
2020	**278**	364
2021	**214**	262
2022	**314**	–
	1,096	1,356

As at 31 December 2017, the Group has other deductible temporary differences of approximately RMB550 million (2016: RMB569 million), which are mainly arising from impairment of trade and other receivables and unrealised profits within the Group. No deferred tax asset has been recognised by the Group in relation to such other deductible temporary differences as it is not probable that taxable profit will be available for offset against which the deductible temporary differences can be utilised.

31. Deposits Paid for Investments

The balance as at 31 December 2017 of RMB35 million (2016: RMB61 million) represented the deposits paid for the equity investments in the PRC which have not been completed at the end of the reporting period.

32. Inventories

	2017 RMB million	2016 RMB million
Construction materials	459	321
Gas appliances	145	90
Natural gas	132	89
Other energy inventories	6	2
Spare parts and consumables	2	13
	744	515

The cost of inventories recognised as an expense during the year was approximately RMB33,506 million (2016: RMB21,221 million).

33. Amounts Due from/to Customers for Contract Work

	2017 RMB million	2016 RMB million
Contract costs incurred plus recognised profits	899	739
Less: Progress billings	(2,480)	(2,585)
	(1,581)	(1,846)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	553	303
Amounts due to customers for contract work	(2,134)	(2,149)
	(1,581)	(1,846)

34. Cash and Cash Equivalents/Restricted Bank Deposits

	2017 RMB million	2016 RMB million
Cash and cash equivalents	7,972	7,163
Restricted bank deposits		
Current portion	241	352
Non-current portion	486	489
	727	841
Bank deposits secured for:		
Letter of credit	6	–
Right of operation	19	17
Secured bank loans denominated in USD	–	325
Mandatory reserves in the People's Bank of China (the "PBOC")	473	467
Energy supplies	145	32
Bills payable	84	–
	727	841

Cash and cash equivalents include bank balances with original maturities less than three months carrying interest at market rates which range from 0.3% to 5.25% (2016: 0.3% to 5%) per annum as at 31 December 2017. The bank balances denominated in RMB are deposited with banks in the PRC.

34. Cash and Cash Equivalents/Restricted Bank Deposits *(continued)*

At the end of the reporting period, the cash and cash equivalents denominated in foreign currencies other than the functional currency of respective group entities is RMB2,116 million (2016: RMB335 million), of which approximately RMB1,988 million (2016: RMB300 million), approximately RMB116 million (2016: RMB17 million) and approximately RMB1 million (2016: RMB17 million) are denominated in USD, Hong Kong dollar ("HK$") and Great British Pound ("GBP") respectively.

As at 31 December 2017, the restricted bank deposits carry fixed interest rate ranging from 0.3% to 5.25% (2016: from 0.35% to 5.25%) per annum. Except for the amount of mandatory reserves in the PBOC, other restricted bank deposits will be released upon the settlement of bank loans, the expiry of purchase contracts or right of operation. The mandatory reserves in the PBOC classified as non-current assets are deposits placed by the ENN Finance and the reserves amount is subject to change with respect to the savings accepted by the ENN Finance and the PBOC reserve rate is adjusted from time to time.

35. Assets/Liabilities Classified as Held for Sale

The Group decided to dispose of two wholly-owned subsidiaries located in the United States and Canada on 12 December 2017 and therefore the relevant assets and liabilities are accounted for as held for sale and measured at the lower of carrying amount and fair value less costs to sell as at 31 December 2017.

The major classes of assets and liabilities classified as held for sale as at 31 December 2017 are as follows:

	2017 **RMB million**
Property, plant and equipment (after provisions for impairment)	**48**
Trade and other receivables	**6**
Cash and cash equivalents	**3**
Total assets classified as held for sale	**57**
Trade and other payables	**38**
Total liabilities associated with assets classified as held for sale	**38**

Subsequent to the end of the reporting period, the Group disposed of the entire equity interests of the two subsidiaries at arm's length to an independent third party on 31 January 2018, at an aggregate consideration of USD3 million (equivalent to approximately RMB19 million).

36. Trade and Other Payables

	2017 **RMB million**	2016 RMB million
Trade payables	**3,182**	2,237
Advances received from customers	**6,569**	4,980
Accrued charges and other payables	**1,466**	1,106
	11,217	8,323

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

	2017 **RMB million**	2016 RMB million
Within three months	**2,678**	1,822
4 to 6 months	**174**	161
7 to 9 months	**72**	82
10 to 12 months	**38**	26
More than one year	**220**	146
	3,182	2,237

The average credit period on purchases of goods is 30 to 90 days.

37. Deferred Income

	Government grants RMB million	Subsidies received from customers RMB million (note a)	Connection fee received from customers RMB million (note b)	Total RMB million
GROSS				
At 1 January 2016	169	71	2,415	2,655
Additions	86	4	698	788
Disposal of subsidiaries	(34)	–	–	(34)
At 31 December 2016	221	75	3,113	3,409
Additions	137	11	662	810
At 31 December 2017	358	86	3,775	4,219
RECOGNITION				
At 1 January 2016	6	20	382	408
Release to profit or loss	8	2	157	167
At 31 December 2016	14	22	539	575
Release to profit or loss	11	2	203	216
At 31 December 2017	25	24	742	791
CARRYING VALUES				
At 31 December 2017	333	62	3,033	3,428
At 31 December 2016	207	53	2,574	2,834

	2017 RMB million	2016 RMB million
Analysed for reporting purposes as:		
Current liabilities	**243**	192
Non-current liabilities	**3,185**	2,642
	3,428	2,834

Notes:

a. The balance represented the subsidies received from the customers to subsidise the construction cost of the main gas pipelines to the gas provision site and the gas storage. These customers do not restrict the Group to use the assets constructed for the use of other customers but the Group are committed to provide the gas to these customers for a period from 6 to 50 years. Accordingly, the Group has deferred the subsidies received and released to the profit or loss upon the completion of the assets over the shorter of the committed gas supply period and the useful lives of the related assets.

b. Since 2009, the local governments in certain provinces in the PRC have issued relevant notice to the Group's subsidiaries governing the subsidiaries that an amount of the connection fee received by the Group's subsidiaries from its customers are for the construction cost of their main gas pipelines. The Directors consider that the arrangement indicates that the subsidiaries are required to provide the customer with ongoing access to a supply of gas. As the agreement under such arrangement does not specify a period for provision of the ongoing access to a supply of gas, fees received are deferred and released to the profit or loss over the estimated useful lives of the assets used to provide the ongoing service.

38. Share Capital

	2017 Number of shares	2016 Number of shares	2017 HK$ million	2016 HK$ million
Shares of HK$0.10 each				
Authorised:				
At beginning and end of the year	**3,000,000,000**	3,000,000,000	**300**	300
Issued and fully paid:				
At beginning of the year	**1,081,727,397**	1,082,559,397	**108**	108
Issue of shares on exercise of share options (note a)	**1,124,500**	200,000	**–**	–
Share repurchase (notes b & c)	**(7,000)**	(1,032,000)	**–**	–
At end of the year	**1,082,844,897**	1,081,727,397	**108**	108

	2017 RMB million	2016 RMB million
Presented in consolidated financial statements as:		
At beginning of the year	**112**	113
Share repurchase (notes b & c)	**–**	(1)
At end of the year	**112**	112

Notes:

a. During the year ended 31 December 2017, 1,124,500 shares (2016: 200,000 shares) were issued at the exercise price of HK$40.34 (2016: HK$16.26) per ordinary share in relation to the exercise of outstanding share options. These shares rank pari passu with the then existing shares in all respects.

b. On 16 May 2017, the Company repurchased 7,000 of its own ordinary shares through the Stock Exchange. The highest price was HK$38.00 and the lowest price was HK$37.85. The aggregate consideration paid was HK$265,750 (equivalent to approximately RMB236,000). The above ordinary shares were cancelled on 8 August 2017. None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities up to 31 December 2017.

c. On 11 January 2016, 21 January 2016, 22 December 2016 and 23 December 2016, the Company repurchased 200,000, 32,000, 400,000 and 400,000 of its own ordinary shares through the Stock Exchange respectively. The highest price was HK$34.00 and the lowest price was HK$30.60. The aggregate consideration paid was approximately HK$33 million (equivalent to approximately RMB29 million), 232,000 and 800,000 ordinary shares repurchased during the year ended 31 December 2016 were cancelled on 28 April 2016 and on 14 March 2017, respectively.

39. Financial Guarantee Liability

As at 31 December 2017, the Group had outstanding guarantees issued to banks to secure loan facilities granted to joint ventures and an associate to the extent of approximately RMB126 million (2016: RMB230 million) for loans with maturity from two to three years, of which the amounts have been utilised at the end of the reporting period. The carrying amount of financial guarantee contracts as at 31 December 2017 is approximately RMB5 million (2016: RMB22 million).

40. Bank and Other Loans

	2017 **RMB million**	2016 RMB million
Bank loans		
Secured	**405**	609
Unsecured	**1,759**	3,433
	2,164	4,042
Other loans		
Secured	**–**	3
Unsecured	**96**	96
	96	99
	2,260	4,141
The bank and other loans are repayable:		
Within one year	**1,737**	3,944
More than one year, but not exceeding two years	**257**	89
More than two years, but not exceeding five years	**184**	108
More than five years	**82**	–
	2,260	4,141
Less: Amounts due within one year shown under current liabilities	**(1,737)**	(3,944)
Amounts shown under non-current liabilities	**523**	197

All the bank and other loans are denominated in the functional currency of respective group entities except for approximately RMB262 million which is denominated in USD (2016: approximately RMB1,276 million and RMB347 million which were denominated in USD and HK$ respectively).

40. Bank and Other Loans *(continued)*

The secured bank and other loans are secured by property, plant and equipment and rights to receive fee income of certain subsidiaries and joint ventures as set out in Note 52.

Details of the terms of the Group's borrowings are set out below:

At 31 December 2017

	Maturity date	Effective interest rate per annum	Carrying amount RMB million
Fixed-rate borrowings			
Unsecured RMB bank loans	03/01/2018–11/09/2018	4.35%–7.83%	**929**
Unsecured RMB other loan	12/06/2018	3.79%	**96**
Secured RMB bank loan	15/04/2019–27/04/2019	4.28%	**200**
Total fixed-rate borrowings			**1,225**
Floating-rate borrowings			
Secured RMB bank loans at PBOC base rate	01/06/2018–28/12/2020	4.56%–4.99%	**205**
Unsecured RMB bank loans at PBOC base rate	16/08/2018–20/10/2024	5.00%–5.88%	**208**
Unsecured RMB bank loans at Loan Prime Rate ("LPR")	19/01/2018–28/11/2018	4.13%–4.35%	**360**
Unsecured USD bank loan at London Inter Bank Offer Rate ("LIBOR") plus 2.9%	25/12/2018	4.59%	**262**
Total floating-rate borrowings			**1,035**
Total borrowings			**2,260**

At 31 December 2016

	Maturity date	Effective interest rate per annum	Carrying amount RMB million
Fixed-rate borrowings			
Unsecured RMB bank loans	05/01/2017–01/12/2017	2.93%–5.67%	1,863
Unsecured RMB other loan	12/06/2017	3.25%	96
Unsecured USD bank loan	13/01/2017	1.18%	971
Secured USD bank loan	09/06/2017	1.55%	305
Total fixed-rate borrowings			3,235
Floating-rate borrowings			
Secured RMB bank loans at PBOC base rate	07/02/2017–20/12/2020	4.90%–6.77%	304
Unsecured RMB bank loan at PBOC base rate	01/04/2020	6.33%	2
Unsecured RMB bank loans at LPR	17/03/2017–23/11/2017	4.13%–4.35%	250
Unsecured HK$ bank loan at Hong Kong Inter Bank Offer Rate ("HIBOR") plus 1.2%	13/03/2017	2.02%	347
Secured RMB other loan at PRC government bond rate	12/06/2017	2.55%	3
Total floating-rate borrowings			906
Total borrowings			4,141

41. Corporate Bonds

a. Corporate bonds issued in 2011 (the "2011 Corporate Bonds")

On 16 February 2011, a subsidiary of the Group, Xinao (China) Gas Investment Company Limited ("Xinao (China)"), issued the 2011 Corporate Bonds of RMB500 million. The amount is unsecured and carries a fixed interest rate of 6.45% per annum and is repayable on 16 February 2018. The interest is payable to the holders of the bond on yearly basis. The net proceeds, after deducting the issuance costs, amounted to RMB496 million. The 2011 Corporate Bonds was listed on the Shanghai Stock Exchange on 25 March 2011.

According to the terms and conditions of the 2011 Corporate Bonds, Xinao (China) may at its option to increase the coupon rate by 0% to 1% at the end of year five, which is the 10th trading day before 16 February 2016 by giving a notice to the bondholders. And the bondholders may accordingly at their option to require Xinao (China) to redeem the bonds at a redemption price equaled to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bonds will be subject to the increased interest rate until the maturity date. Before 16 February 2016 the effective interest rate of the 2011 Corporate Bonds is approximately 6.62% per annum after the adjustment for transaction costs.

Xinao (China) decided not to adjust the coupon rate and no bondholder required Xinao (China) to redeem the 2011 Corporate Bonds in February 2016. Up to 16 February 2018, the 2011 Corporate bonds had been fully repaid by Xinao (China).

The 2011 Corporate Bonds recognised in the consolidated statement of financial position are calculated cumulatively as follows:

	2017 **RMB million**	2016 RMB million
Principal amount	**500**	500
Issue costs	**(4)**	(4)
	496	496
Effective interest recognised	**226**	193
Interest paid/payable	**(222)**	(190)
Carrying amount as at end of the year	**500**	499
Analysed for reporting purposes as:		
Current liabilities	**500**	–
Non-current liabilities	**–**	499

41. Corporate Bonds *(continued)*

b. Corporate bonds issued in 2015 (the "2015 Corporate Bonds")

On 18 December 2015, Xinao (China) issued the 2015 Corporate Bonds of RMB2,500 million. The amount is unsecured and carries a fixed interest rate of 3.68% per annum and is repayable on 17 December 2020. The interest is payable to the holders of the bond on yearly basis. The net proceeds, after deducting the issuance costs, amounted to RMB2,489 million. The 2015 Corporate Bonds was listed on the Shanghai Stock Exchange on 2 February 2016.

According to the terms and conditions of the 2015 Corporate Bonds, Xinao (China) has the right to adjust the coupon rate for the fourth and fifth year at the end of the third year, which is the 30th trading day before 18 December 2018 by giving a notice to the bondholder. The bondholders may accordingly at their option to require Xinao (China) to redeem the bonds at a redemption price equaled to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bonds will be subject to the interest rate offered by Xinao (China) at the end of the third year until the maturity date. As at 31 December 2017, the 2015 Corporate Bonds were classified as current liabilities in the Group's consolidated financial statements as it is at the discretion of the holders to exercise their put option in December 2018. The effective interest rate of the 2015 Corporate Bonds is approximately 3.83% per annum after the adjustment for transaction costs.

The 2015 Corporate Bonds recognised in the consolidated statement of financial position are calculated cumulatively as follows:

	2017 **RMB million**	2016 RMB million
Principal amount	**2,500**	2,500
Issue costs	**(11)**	(11)
	2,489	2,489
Effective interest recognised	**195**	99
Interest paid/payable	**(188)**	(95)
Carrying amount as at end of the year	**2,496**	2,493
Analysed for reporting purposes as:		
Current liabilities	**2,496**	–
Non-current liabilities	**–**	2,493

c. Corporate bonds issued in 2016 (the "2016 Corporate Bonds")

On 30 November 2016, Xinao (China) issued the 2016 Corporate Bonds of RMB2,500 million. The amount is unsecured and carries a fixed interest rate of 3.55% per annum and is repayable on 2 December 2019. The interest is payable to the holders of the bond on yearly basis. The net proceeds, after deducting the issuance costs, amounted to RMB2,490 million. The 2016 Corporate Bonds was listed on the Shanghai Stock Exchange on 13 December 2016. The effective interest rate of the 2016 Corporate Bonds is approximately 3.70% per annum after the adjustment for transaction costs.

The 2016 Corporate Bonds recognised in the consolidated statement of financial position were as follows:

	2017 **RMB million**	2016 RMB million
Principal amount	**2,500**	2,500
Issue costs	**(10)**	(10)
	2,490	2,490
Effective interest recognised	**100**	8
Interest paid/payable	**(96)**	(8)
Carrying amount as at end of the year	**2,494**	2,490

42. Senior Notes

On 13 May 2011, the Company issued 6% senior notes with an aggregated nominal value of USD750 million (equivalent to approximately RMB4,863 million) (the "2021 Senior Notes") at face value. The net proceeds, after deducting the issuance costs, amounted to USD735 million (equivalent to approximately RMB4,765 million). The 2021 Senior Notes will be matured on 13 May 2021. The 2021 Senior Notes are listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST") and dealt in over-the-counter market though a financial institution as the principal agent.

According to the terms and conditions of the 2021 Senior Notes, at any time or from time to time prior to the maturity date, the Company may at its option to redeem the notes at a redemption price equaled to 100% of the principal amount thereof plus applicable premium and accrued and unpaid interest to such redemption date. The applicable premiums are the greater of (1) 1.0% of the principal amount and (2) the excess of (A) the present value at such redemption date of 100% of the principal amount, plus all required remaining scheduled interest payments due on the 2021 Senior Notes through the maturity date (but excluding accrued and unpaid interest to redemption date), computed using a discount rate equaled to the United States treasury rate plus 25 basis points, over (B) the principal amount on redemption date.

The fair value of the early redemption right is insignificant at initial recognition and at the end of the reporting periods. The effective interest rate is approximately 6.28% per annum after the adjustment for transaction costs.

The 2021 Senior Notes recognised in the consolidated statement of financial position are calculated cumulatively as follows:

	2017 **RMB million**	2016 RMB million
Nominal value of 2021 Senior Notes	**4,863**	4,863
Issue costs	**(98)**	(98)
Fair value at date of issuance	**4,765**	4,765
Repurchased (note)	**(2,603)**	(2,603)
Effective interest recognised	**1,775**	1,622
Interest paid/payable	**(1,727)**	(1,579)
Exchange loss	**156**	302
Carrying amount at 31 December	**2,366**	2,507

Note: In September 2015, the Company repurchased in aggregate of principal amount of USD35,000,000 (equivalent to approximately RMB222 million) in the open market and the aggregate amount of consideration paid by the Company was RMB247 million (included the applicable premium and accrued interests).

In December 2016, the Company repurchased in aggregate of principal amount of USD349,457,000 (equivalent to approximately RMB2,410 million) in the open market and the aggregate amount of consideration paid by the Company was RMB2,706 million (included the applicable premium and accrued interests). As a result, a loss on repurchase of RMB308 million was recognised and included in other gains and losses as set out in Note 9. The senior notes repurchased in 2015 and 2016 were cancelled on 16 December 2016.

The principle amount of 2021 Senior Notes remaining outstanding was USD365,543,000 as at 31 December 2017 and 2016.

43. Convertible Bonds at FVTPL

On 26 February 2013, the Company issued zero coupon USD denominated convertible bonds with the aggregate principal amount of USD500 million (approximately RMB3,141 million) (the "Convertible Bonds"). Each bond will, at the option of the holder, be convertible into fully paid ordinary shares with a par value of HK$0.10 each in the issued and paid up capital of the Company at an initial conversion price of HK$48.62 per share. The conversion price is subject to adjustments in the manner set out in the Convertible Bonds agreement. Conversion may occur at any time on or after 8 April 2013 and up to 16 February 2018. If the Convertible Bonds have not been converted, they will be redeemed on 26 February 2018 at 102.53 per cent of their principal amount.

In accordance with the terms and conditions of the Convertible Bonds, the holder of each Convertible Bond will have the right, at such holder's option, to require the Company to redeem all or only some of the Convertible Bonds of such holder on 26 February 2016 (the "Put Option Date") at 101.51 per cent of their principal amount. And the Company (i) may at any time after Put Option Date and prior to the maturity date redeem in whole, but not in part, the Convertible Bonds for the time being outstanding at the early redemption amount, provided that (a) the closing price of the shares (translated into USD at the prevailing rate defined in the terms and conditions of the Convertible Bonds) for each of any 20 trading days within a period of 30 consecutive trading days, the last of which occurs not more than five trading days prior to the date upon which notice of such redemption is published, was at least 130 per cent of the early redemption amount divided by the then prevailing conversion ratio (as defined in the terms and conditions of the Convertible Bonds agreement) and (b) the applicable redemption date does not fall within a closed period; or (ii) may at any time prior to the maturity date of the Convertible Bonds redeem in whole, but not in part, the Convertible Bonds for the time being outstanding at the early redemption amount provided that prior to the date of such notice at least 90 per cent in principal amount of the Convertible Bonds originally issued has already been converted, redeemed or purchased and cancelled.

The Convertible Bonds, which were listed on SGX-ST and dealt in over-the-counter market through a financial institution as the principal agent, were designated as financial instrument at fair value through profit or loss and the over-the-counter market price represents the fair value of the Convertible Bonds.

The Company had repurchased in aggregate principal amount of USD20,000,000 Convertible Bonds at the market price in over-the-counter market on 13 December 2017. The consideration paid by the Company was USD24 million (equivalent to approximately RMB156 million).

In December 2017, the Company, through its conversion agent, had received conversion notices from the holders in respect of their exercise of conversion rights attaching to the Convertible Bonds in an aggregate principal amount of USD750,000. The Company had exercised its cash settlement option to satisfy the conversion rights thereof. The consideration paid by the Company was approximately USD875,000 (equivalent to approximately RMB6 million). As a result, a loss on repurchase and redemption of RMB4 million was recognised and included in other gains and losses as set out in Note 9.

The Convertible Bonds repurchased were cancelled by the Company on 21 December 2017, thus the principal amount of the Convertible Bonds remaining outstanding was USD479,250,000 as of 31 December 2017.

As at 31 December 2017, the over-the-counter market price of the Convertible Bonds was USD556 million (2016: USD507 million) (approximately RMB3,635 million (2016: RMB 3,515 million)). A fair value loss of approximately RMB278 million (2016: fair value gain of approximately RMB41 million) is recognised during the year ended 31 December 2017.

During the period from 1 January 2018 to 13 February 2018, the Company, through its conversion agent, had received conversion notices from the holders in respect of their exercise of conversion rights attaching to the Convertible Bonds in the aggregate principal amount of USD479,250,000, representing all of the remaining outstanding Convertible Bonds as at 31 December 2017. The Company had exercised its cash settlement option to satisfy the conversion rights of the Convertible Bonds in aggregate principal amount of USD469,250,000 and satisfied the conversion rights of the Converted Bonds in aggregate principal amount of USD10,000,000 by delivery of the Company's ordinary shares of 1,625,327, in each case pursuant to the terms and conditions governing the Convertible Bonds. All of the outstanding Convertible Bonds were delisted on SGX-ST on 20 February 2018.

44. Unsecured Bonds

On 23 October 2014, the Company issued 3.25% bonds with an aggregate nominal value of USD400 million (equivalent to approximately RMB2,460 million) (the "2019 Unsecured Bonds"). The net proceeds after discounting and deducting the issuance costs amounted to USD395 million (equivalent to approximately RMB2,429 million). The 2019 Unsecured Bonds is unsecured and will mature on 23 October 2019. The 2019 Unsecured Bonds are listed on the Stock Exchange and dealt in over-the-counter market through a financial institution as the principal agent.

44. Unsecured Bonds *(continued)*

On 24 July 2017, the Company issued 3.25% bonds with an aggregate nominal value of USD600 million (equivalent to approximately RMB4,066 million) (the "2022 Unsecured Bonds"). The net proceeds after discounting and deducting the issuance costs amounted to USD596 million (equivalent to approximately RMB4,037 million). The 2022 Unsecured Bonds are unsecured and will mature on 24 July 2022. The 2022 Unsecured Bonds are listed on the Stock Exchange and dealt in over-the-counter market through a financial institution as the principal agent.

According to the terms and conditions of the 2019 Unsecured Bonds and 2022 Unsecured Bonds (the "Unsecured Bonds"), the Company may at any time and from time to time, on giving not less than 30 nor more than 60 days' notice to the holders of the Unsecured Bonds, redeem the Unsecured Bonds, in whole but not in part, at a make whole price as of, with an accrued and unpaid interest, if any, to (but excluding), the redemption date. The make whole price means, with respect to a bond at the option redemption date, the amount calculated by the quotation agent that is the greater of (1) the present value of the principal amount of the Unsecured Bonds, assuming a scheduled repayment thereof on the maturity date plus all required remaining scheduled interest repayments due on such bond through the maturity date (but excluding accrued and unpaid interest to the option redemption date), computed using a discount rate equaled to the adjusted treasury rate plus 50 basis points, and (2) the principal amount of such bonds.

The estimated fair value of the early redemption right is insignificant at initial recognition and at the end of the reporting periods. The effective interest rate is approximately 3.56% per annum after deducting the adjustment for transaction costs for 2019 Unsecured Bonds and approximately 3.44% for 2022 Unsecured Bonds.

The Unsecured Bonds recognised in the consolidated statement of financial position are calculated cumulatively as follows:

	2017 **RMB million**	2016 RMB million
Nominal value of Unsecured Bonds	**6,526**	2,460
Discount cost	**(17)**	(12)
Issue costs	**(43)**	(19)
Fair value at date of issuance	**6,466**	2,429
Repurchased and cancelled in 2015	**(2,107)**	(2,107)
Effective interest recognised	**179**	104
Interest paid/payable	**(169)**	(97)
Exchange (gain) loss	**(53)**	117
Carrying amount at 31 December	**4,316**	446

45. Share Options

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

The purpose of the share option schemes is to provide incentives for participants to perform their best in achieving the goals of the Group and allow them to enjoy the results of the Company attained through their efforts and contribution. Pursuant to the share option schemes, the Directors may, at its absolute discretion, invite any employee or executive director or any member of the Group, or any employee, partner or director of any business consultant, joint venture partner, financial adviser and legal adviser of and to any member of the Group, to take up options at HK$1 on each grant to subscribe for shares at an exercise price equal to at least the highest of (a) the closing price of the shares on the Stock Exchange on the date of grant; (b) the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant; and (c) the nominal value of a share.

The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 30% of the issued share capital of the Company from time to time. Unless approved by shareholders of the Company, the total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue. Where any further grant of options to a participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

45. Share Options *(continued)*

a. Scheme 2012

On 9 December 2015, the Company granted share options to the Directors and certain employees ("Grantees") to subscribe for a total of 12,000,000 ordinary shares of HK$0.1 each in the share capital of the Company under the share option scheme adopted by the Company on 26 June 2012, subject to acceptance by the Grantees.

Among the share options granted above, 2,659,000 share options were granted to the Directors to subscribe for a total of 2,659,000 shares in the Company and 9,341,000 share options were granted to certain employees of the Group to subscribe for 9,341,000 shares in the Company. Vesting of the share options is conditional upon the fulfilment of certain vesting conditions as set out in the respective offer letters of the Grantees, which may involve fulfilment of performance rating.

The following tables disclose details of the Company's share options held by the employees (including the Directors) and movements in such holdings under the share option schemes during the year:

					Number of options				
	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1.2017	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2017
Tranche 1	09.12.2015	09.12.2015 to 01.04.2017	01.04.2017 to 08.12.2025	HK$40.34	2,828,250	–	(1,124,500)	(492,500)	1,211,250
Tranche 2	09.12.2015	09.12.2015 to 01.04.2018	01.04.2018 to 08.12.2025	HK$40.34	2,828,250	–	–	(269,500)	2,558,750
Tranche 3	09.12.2015	09.12.2015 to 01.04.2019	01.04.2019 to 08.12.2025	HK$40.34	2,828,250	–	–	(269,500)	2,558,750
Tranche 4	09.12.2015	09.12.2015 to 01.04.2020	01.04.2020 to 08.12.2025	HK$40.34	2,828,250	–	–	(269,500)	2,558,750
					11,313,000	–	(1,124,500)	(1,301,000)	8,887,500
Exercisable at the end of the year									1,211,250
Weighted average exercise price					HK$40.34				HK$40.34

				Number of options				
	Date of grant	Exercise period	Exercise price	Outstanding at 1.1.2017	Exercised during the year	Reclassified during the year (note)	Forfeited during the year	Outstanding at 31.12.2017
Directors	09.12.2015	01.04.2017 to 08.12.2025	HK$40.34	574,250	(308,000)	(35,500)	–	230,750
	09.12.2015	01.04.2018 to 08.12.2025	HK$40.34	574,250	–	(35,500)	–	538,750
	09.12.2015	01.04.2019 to 08.12.2025	HK$40.34	574,250	–	(35,500)	–	538,750
	09.12.2015	01.04.2020 to 08.12.2025	HK$40.34	574,250	–	(35,500)	–	538,750
Employees	09.12.2015	01.04.2017 to 08.12.2025	HK$40.34	2,254,000	(816,500)	35,500	(492,500)	980,500
	09.12.2015	01.04.2018 to 08.12.2025	HK$40.34	2,254,000	–	35,500	(269,500)	2,020,000
	09.12.2015	01.04.2019 to 08.12.2025	HK$40.34	2,254,000	–	35,500	(269,500)	2,020,000
	09.12.2015	01.04.2020 to 08.12.2025	HK$40.34	2,254,000	–	35,500	(269,500)	2,020,000
				11,313,000	(1,124,500)	–	(1,301,000)	8,887,500
Exercisable at the end of the year								1,211,250
Weighted average exercise price				HK$40.34				HK$40.34

Note: Mr. Jin Yongsheng retired from office as non-executive director of the Company on 21 March 2017. The outstanding 142,000 share options granted to him were reclassified to employees.

45. Share Options *(continued)*

a. Scheme 2012 *(continued)*

The following tables disclose details of the Company's share options held by the employees (including the Directors) and movements in such holdings under the share options scheme during the prior year:

	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1.2016	Number of options Granted during the year	Forfeited during the year	Outstanding at 31.12.2016
Tranche 1	09.12.2015	09.12.2015 to 01.04.2017	01.04.2017 to 08.12.2025	HK$40.34	3,000,000	–	(171,750)	2,828,250
Tranche 2	09.12.2015	09.12.2015 to 01.04.2018	01.04.2018 to 08.12.2025	HK$40.34	3,000,000	–	(171,750)	2,828,250
Tranche 3	09.12.2015	09.12.2015 to 01.04.2019	01.04.2019 to 08.12.2025	HK$40.34	3,000,000	–	(171,750)	2,828,250
Tranche 4	09.12.2015	09.12.2015 to 01.04.2020	01.04.2020 to 08.12.2025	HK$40.34	3,000,000	–	(171,750)	2,828,250
					12,000,000	–	(687,000)	11,313,000
Exercisable at the end of the year								–
Weighted average exercise price					HK$40.34			HK$40.34

	Date of grant	Exercise period	Exercise price	Outstanding at 1.1.2016	Number of options Reclassified during the year (note)	Forfeited during the year	Outstanding at 31.12.2016
Directors	09.12.2015	01.04.2017 to 08.12.2025	HK$40.34	664,750	(75,500)	(15,000)	574,250
	09.12.2015	01.04.2018 to 08.12.2025	HK$40.34	664,750	(75,500)	(15,000)	574,250
	09.12.2015	01.04.2019 to 08.12.2025	HK$40.34	664,750	(75,500)	(15,000)	574,250
	09.12.2015	01.04.2020 to 08.12.2025	HK$40.34	664,750	(75,500)	(15,000)	574,250
Employees	09.12.2015	01.04.2017 to 08.12.2025	HK$40.34	2,335,250	75,500	(156,750)	2,254,000
	09.12.2015	01.04.2018 to 08.12.2025	HK$40.34	2,335,250	75,500	(156,750)	2,254,000
	09.12.2015	01.04.2019 to 08.12.2025	HK$40.34	2,335,250	75,500	(156,750)	2,254,000
	09.12.2015	01.04.2020 to 08.12.2025	HK$40.34	2,335,250	75,500	(156,750)	2,254,000
				12,000,000	–	(687,000)	11,313,000
Exercisable at the end of the year							–
Weighted average exercise price				HK$40.34			HK$40.34

Note: Mr. Yu Jianchao and Mr. Lim Haw Kuang retired from office as executive director of the Company during the year ended 31 December 2016. The outstanding 75,500 share options granted to them were reclassified to employees.

Exercise price of the share options granted is HK$40.34 per share, which represents the highest of (i) the closing price of HK$39.00 per share as stated in the daily quotations sheet of the Stock Exchange on 9 December 2015, being the date of grant; (ii) the average closing price of HK$40.34 per share as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the share.

During the year, 1,301,000 (2016: 687,000) share options were forfeited. As at 31 December 2017, the number of outstanding share options is 8,887,500 (2016: 11,313,000), among which 7,676,250 share options have not yet vested and hence not exercisable until fulfilment of vesting condition. During the year the Group recognised share-based payment expenses of RMB34 million (2016: RMB51 million).

45. Share Options *(continued)*

a. Scheme 2012 *(continued)*

The total fair value of the options calculated by using the binomial model was HK$194 million. The following assumptions were used to calculate the fair value of share options:

	Directors	Employees
Spot price	HK$39.00	HK$39.00
Exercise price	HK$40.34	HK$40.34
Risk free rate	1.555%	1.555%
Expected volatility	43.12%	43.12%
Expected dividend yield	1.08%	1.08%
Early exercise behaviour	280% of the exercise price	220% of the exercise price

The Binomial model has been used to estimate the fair value of the options. The expected volatility was determined by referencing to the historical volatility of the Company's share option price over the previous 10 years. The other variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

At the end of each reporting date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to the share options reserve.

b. Scheme 2002

On 14 June 2010, the Company granted share options to the Directors and certain employees ("Grantees") to subscribe for a total of 33,490,000 ordinary shares of HK$0.1 each in the share capital of the Company under the share option scheme adopted by the Company on 21 May 2002, subject to acceptance by the Grantees.

Among the share options granted above, 14,810,000 share options were granted to the Directors to subscribe for a total of 14,810,000 shares in the Company and 18,680,000 share options were granted to certain employees of the Group to subscribe for 18,680,000 shares in the Company.

As at the end of the reporting period, the number of outstanding share options granted to the Directors is nil (2016: nil) and the number of outstanding share options granted to certain employees of the Group is 200,000 (2016: 200,000).

45. Share Options *(continued)*

b. Scheme 2002 *(continued)*

The following tables disclose details of the Company's share options held by the employees (including the Directors) and movements in such holdings under the share option scheme during the year:

	Date of grant	Vesting period	Exercise period	Exercise price	Number of options: Outstanding at 1.1.2017	Granted during the year	Exercised during the year	Outstanding at 31.12.2017
Tranche 1	14.06.2010	14.06.2010 to 13.12.2010	14.12.2010 to 13.06.2020	HK$16.26	**–**	–	–	**–**
Tranche 2	14.06.2010	14.06.2010 to 13.06.2012	14.06.2012 to 13.06.2020	HK$16.26	**200,000**	–	–	**200,000**
					200,000	–	–	**200,000**
Exercisable at the end of the year								**200,000**
Weighted average exercise price					**HK$16.26**			**HK$16.26**

The following tables disclose details of the Company's share options held by the employees (including the Directors) and movements in such holdings under the share option scheme during the prior year:

	Date of grant	Vesting period	Exercise period	Exercise price	Number of options: Outstanding at 1.1.2016	Granted during the year	Exercised during the year	Outstanding at 31.12.2016
Tranche 1	14.06.2010	14.06.2010 to 13.12.2010	14.12.2010 to 13.06.2020	HK$16.26	–	–	–	–
Tranche 2	14.06.2010	14.06.2010 to 13.06.2012	14.06.2012 to 13.06.2020	HK$16.26	400,000	–	(200,000)	200,000
					400,000	–	(200,000)	200,000
Exercisable at the end of the year								200,000
Weighted average exercise price					HK$16.26			HK$16.26

Exercise price of the share options granted is HK$16.26 per share, which represents the highest of (i) the closing price of HK$16.26 per share as stated in the daily quotations sheet of the Stock Exchange on 14 June 2010, being the date of grant; (ii) the average closing price of HK$15.04 per share as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the Date of Grant; and (iii) the nominal value of the share.

During the current and prior year, the Group recognised no share-based payment expenses.

46. Retirement Benefits Scheme

	2017 **RMB million**	2016 RMB million
Retirement benefit scheme contribution made during the year	**166**	155

According to the relevant laws and regulations in the PRC, the PRC subsidiaries of the Group are required to contribute a certain percentage of the payrolls of their employees to the retirement benefits scheme to fund the retirement benefits of their employees. The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, contribution of which is matched by employees. The maximum monthly amount of contribution is limited to HK$1,500 per employee.

47. Acquisition of Businesses

a. Acquisition of businesses during the year ended 31 December 2017

On 8 November 2017, the Group acquired 60% of the registered capital of 山東魯鴻天然氣有限公司 ("Luhong") at a consideration of RMB35 million. Luhong is engaged in sales of piped gas. Luhong was acquired with the objective of expansion in market coverage of business of the Group.

On 26 December 2017, the Group acquired 60% of the registered capital of 萍鄉長豐燃氣有限公司 ("Pingxiang") at a consideration of RMB84 million. Pingxiang is engaged in sales of piped gas. Pingxiang was acquired with the objective of expansion in market coverage of business of the Group.

On 27 December 2017, the Group disposed of its 11.96% equity interest in 湖南新奧清潔能源有限公司 ("Hunan Clean Energy", a former wholly-owned subsidiary of the Group) to other shareholders of 湖南三湘新奧清潔能源有限公司 ("Sanxiang") in exchange for the entire businesses held and operated by Sanxiang. Prior to this transaction, the Group held 43.35% equity interest in Sanxiang and accounted for it as an associate. Sanxiang is engaged in sales of piped gas. Sanxiang was acquired with the objective of expansion of business of the Group. Subsequent to the completion of the transaction, Sanxiang was dissolved and its businesses was merged into Hunan Clean Energy.

47. Acquisition of Businesses *(continued)*

a. Acquisition of businesses during the year ended 31 December 2017 *(continued)*

The provisional amounts of fair value of the assets and liabilities of Luhong, Pingxiang and Sanxiang at the date of acquisition are as follows:

	Luhong RMB million	**Pingxiang** RMB million	**Sanxiang** RMB million
Non-current assets			
Property, plant and equipment	72	84	58
Prepaid lease payment	5	2	–
Intangible assets – right of operation	15	85	–
Interests in joint ventures	–	–	30
Interests in an associate	9	–	–
Current assets			
Inventories	5	4	–
Trade and other receivables	25	5	9
Cash and cash equivalents	4	5	6
Current liabilities			
Trade and other payables	(48)	(89)	(20)
Bank and other loans – due within one year	(25)	–	–
Non-current liabilities			
Deferred tax liabilities	(4)	(21)	(14)
Bank and other loans – due after one year	–	(6)	–
Net assets acquired	58	69	69
Capital injection by the Group	–	50	–
Net assets acquired including capital injection by the Group	58	119	69
Goodwill arising on acquisition (determined on a provisional basis)			
Total consideration	35	84	31
Add: Non-controlling interests	23	48	8
Add: Fair value of 43.35% equity interest of Sanxiang previously held by the Group	–	–	30
Less: Fair value of identified net assets acquired including capital injection by the Group	(58)	(119)	(69)
Goodwill arising on acquisition	–	13	–
Total consideration satisfied by:			
Cash	27	31	–
Consideration payables (included in other payables)	8	3	–
Fair value of 11.96% equity interest of Hunan Clean Energy disposed by the Group	–	–	31
Capital injection by the Group in Pingxiang	–	50	–
	35	84	31
Net cash (outflow) inflow arising on acquisition:			
Cash consideration paid	(27)	(31)	–
Less: Cash and cash equivalents acquired	4	5	6
	(23)	(26)	6

47. Acquisition of Businesses *(continued)*

a. Acquisition of businesses during the year ended 31 December 2017 *(continued)*

Impact of acquisition on the results of the Group

The fair value of property, plant and equipment and intangible assets at the date of acquisition is provisional and pending for the valuation by an independent professional valuer.

Included in the profit for the year ended 31 December 2017 is RMB1 million of loss attributable to the additional businesses generated by Luhong, Pingxiang and Sanxiang. Revenue for the year ended 31 December 2017 includes RMB19 million generated from Luhong, Pingxiang and Sanxiang.

Had the acquisitions of Luhong, Pingxiang and Sanxiang been effected on 1 January 2017, the revenue of the Group for the year ended 31 December 2017 would have been approximately RMB48,366 million, and the profit for the year would have been approximately RMB3,659 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2017, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group, had Luhong, Pingxiang and Sanxiang been acquired on 1 January 2017, the Directors have calculated the depreciation and amortisation of property, plant and equipment and intangible asset acquired on the basis of the fair values rather than the carrying amounts recognised in the pre-acquisition financial statements.

b. Acquisition of businesses during the year ended 31 December 2016

On 12 May 2016, the Group acquired 70% of the registered capital of 昌樂新奧燃氣有限公司 ("Changle") at a cash consideration of RMB43 million. Changle is engaged in sales of piped gas. Changle was acquired with the objective of expansion in market coverage of business of the Group.

The amounts of fair value of the assets and liabilities of Changle at the date of acquisition are as follows:

	RMB million
Non-current assets	
Property, plant and equipment	29
Intangible assets – right of operation	51
Current liabilities	
Trade and other payables	(6)
Non-current liabilities	
Deferred tax liabilities	(13)
Net assets acquired	61
Goodwill arising on acquisition	
Total consideration	43
Add: Non-controlling interests (30% in Changle)	18
Less: Fair value of identified net assets acquired	(61)
Goodwill arising on acquisition	–
Total consideration satisfied by:	
Deposits paid in the prior year	4
Cash	35
Consideration payables (included in other payables)	4
	43
Net cash outflow arising on acquisition:	
Cash consideration paid	(35)
Less: Cash and cash equivalents acquired	–
	(35)

48. Acquisition of Assets through Acquisitions of Subsidiaries

a. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2017

To facilitate the Group's overall business, the Group will from time to time liaise with the local PRC governments and potential vendors to acquire the gas connection and integrated energy related assets. During the year ended 31 December 2017, the Group has acquired assets through the acquisitions of the following subsidiaries:

On 6 April 2017, the Group acquired 93.41% of the equity interest of 炎陵新奥燃氣有限公司 ("Yanling") at a consideration of RMB32 million.

On 5 June 2017, the Group acquired 100% of the equity interest of 株洲新奥淥口燃氣有限公司 ("Lukou") at a consideration of RMB25 million.

On 16 October 2017, the Group acquired 100% of the equity interest of 亳州皖華燃氣有限公司 ("Bozhou") at a consideration of RMB53 million.

On 31 December 2017, the Group acquired 100% of the equity interest of 15 electricity wholesale companies at a consideration of RMB21 million from a company controlled by Mr. Wang.

The transactions were accounted for as acquisition of assets through acquisition of subsidiaries and the fair value of the considerations allocated to the assets and liabilities acquired are as follows:

	RMB million
Non-current assets	
Property, plant and equipment	35
Prepaid lease payment	10
Intangible assets – right of operation	57
Current assets	
Trade and other receivables	5
Cash and cash equivalents	44
Current liabilities	
Trade and other payables	(18)
Net assets acquired	133
Less: Non-controlling interests	(2)
Total consideration	131
Total consideration satisfied by:	
Cash	92
Deposit paid in the prior year	18
Consideration payables (included in other payables and amount due to related parties)	21
	131
Net cash outflow arising on acquisition:	
Cash consideration paid	(92)
Less: Cash and cash equivalents acquired	44
	(48)

48. Acquisition of Assets through Acquisitions of Subsidiaries *(continued)*

b. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2016

To facilitate the Group's overall business strategy, the Group will from time to time liaise with the local PRC governments and potential vendors to acquire the gas connection and related assets. During the year ended 31 December 2016, the Group has acquired assets through the acquisitions of the following subsidiaries:

On 5 May 2016, the Group acquired 100% of the equity interest of 好買氣電子商務有限公司 ("Haomaiqi") at a consideration of RMB20 million from a company controlled by Mr. Wang.

On 18 July 2016, the Group acquired 60% of the registered capital of 日照新奧中泰能源有限公司 ("Rizhao Zhongtai") at a cash consideration of RMB14 million.

On 16 December 2016, the Group acquired 51% of the registered capital of 株洲新奧雲龍燃氣有限公司 ("Yunlong") at a cash consideration of RMB10 million.

The transaction was accounted for as acquisition of assets through acquisition of subsidiaries and the fair value of the considerations allocated to the assets and liabilities acquired are as follows:

	RMB million
Non-current assets	
Property, plant and equipment	70
Intangible assets – rights of operation	52
Current assets	
Inventories	9
Trade and other receivables	1
Cash and cash equivalents	7
Current liabilities	
Trade and other payables	(75)
Net assets acquired	64
Less: Non-controlling interests	(20)
Total consideration	44
Total consideration satisfied by:	
Cash	21
Consideration payables (included in other payables and amount due to related parties)	23
	44
Net cash outflow arising on acquisition:	
Cash consideration paid	(21)
Less: Cash and cash equivalents acquired	7
	(14)

49. Disposal of Subsidiaries and a Business

a. Disposal of a subsidiary during the year ended 31 December 2017

On 30 June 2017, the Group disposed of 100% equity interest in ENN Clean Fuels B.V. ("ENN Clean Fuels") at a cash consideration of EUR 1.25 million (approximately RMB9 million) to an independent third party.

The net consideration from the transaction is summarised as follow:

	RMB million
Cash consideration	9

The net assets at the date of disposal were as follow:

	RMB million
Non-current assets	
Property, plant and equipment	12
Current assets	
Trade and other receivables	1
Cash and cash equivalents	1
Current liabilities	
Trade and other payables	(1)
Net assets disposed of	13

The loss on disposal of ENN Clean Fuels recognised in profit or loss was calculated as below:

	RMB million
Cash consideration received	9
Less: Goodwill disposed of	(9)
Less: Net assets disposed of	(13)
Loss on disposal of a subsidiary	(13)

Net cash inflow arising on disposal:

	RMB million
Cash consideration received	9
Less: Cash and cash equivalents disposed of	(1)
	8

49. Disposal of Subsidiaries and a Business *(continued)*

b. Disposal of subsidiaries during the year ended 31 December 2016

On 13 December 2016, the Group disposed of 100% equity interest in ENN Clean Energy UK Limited ("ENNUK") at a cash consideration of GBP2 million (approximately RMB16 million) to an independent third party.

On 16 December 2016, the Group transferred 90% equity interest in 長沙新奧熱力有限公司 ("Changsha Heating") at a cash consideration of RMB31 million to a joint venture of the Group. As a result, the Group lost control on Changsha Heating.

The net consideration received from the transactions are summarised as follow:

Consideration:

	ENNUK RMB million	**Changsha Heating** RMB million
Cash consideration received	16	25
Deferred cash consideration	–	6
Total consideration	16	31

The net assets of ENNUK and Changsha Heating at the date of disposal were as follow:

	ENNUK RMB million	**Changsha Heating** RMB million
Non-current assets		
Property, plant and equipment	10	143
Prepaid lease payment	–	22
Current assets		
Inventories	–	2
Trade and other receivables	3	23
Cash and cash equivalents	3	20
Current liabilities		
Trade and other payables	(1)	(163)
Taxation payables	(1)	–
Deferred income	(4)	(30)
Net assets	10	17
Less: Non-controlling interests	–	(3)
Net assets attributable to owners of the Company disposed of	10	14

The gain on disposal of ENNUK and Changsha Heating recognised in profit or loss was calculated as below:

	ENNUK RMB million	**Changsha Heating** RMB million
Consideration received and receivable	16	31
Less: Goodwill disposed of	–	(3)
Less: Net assets disposed of	(10)	(14)
Gain on disposal of subsidiaries	6	14

49. Disposal of Subsidiaries and a Business *(continued)*

b. Disposal of subsidiaries during the year ended 31 December 2016 *(continued)*

Net cash inflow arising on disposal:

	ENNUK RMB million	Changsha Heating RMB million
Cash consideration received	16	25
Less: Cash and cash equivalents disposed of	(3)	(20)
	13	5

c. Disposal of a business during the year ended 31 December 2016

To create strategic alliance with another major competitor in Shantou for further development in gas distribution business in Shantou city, the Group disposed of the business in 汕頭新奧燃氣有限公司 ("Shantou Xinao") as capital injection to 汕頭市潤新燃氣有限公司, an associate of the Group controlled by the competitor, on 30 June 2016. As a result, the Group lost control of Shantou Xinao through this non-cash transaction.

The net consideration received from this transaction was summarised as follow:

Consideration:

	RMB million
Cash	23
Interests in associates	118
Total consideration	141

The net assets of Shantou Xinao at the date of disposal were as follow:

	RMB million
Non-current assets	
Property, plant and equipment	105
Prepaid lease payments	13
Current assets	
Inventories	2
Trade and other receivables	16
Current liabilities	
Trade and other payables	(21)
Net assets disposed of	115

The gain on disposal of Shantou Xinao recognised in profit or loss was calculated as below:

	RMB million
Consideration received and receivable	141
Less: Net assets disposed of	(115)
Gain on disposal of a business	26

Net cash inflow arising on disposal:

	RMB million
Cash consideration received	–
Less: Cash and cash equivalents disposed of	–
	–

50. Commitments

a. Capital commitments

	2017 RMB million	2016 RMB million
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	643	251
Capital commitments in respect of		
– investments in joint ventures	207	177
– investments in associates	86	17
– other equity investments	86	68

b. Other commitments

As at 31 December 2017, the Group has commitments to acquire LNG from certain suppliers. The delivery of LNG under such arrangements will start from 2018 or 2019 and last for 5 to 10 years. The Group will be obliged to make "take-or-pay" payment to suppliers for the quantity contracted but not delivered.

In the opinion of the Directors, these LNG will be utilised to satisfy the demand of domestic natural gas consumption from both the Group's piped gas customers and wholesale customers. The Directors determined that such LNG purchase arrangements are entered into and continued to be held for the purpose of the receipt of a non-financial item in accordance with the Group's expected purchase, sale and usage. Accordingly, the LNG purchase arrangements are not considered as derivatives financial instruments within the scope of HKAS 39.

The relevant purchase prices of these arrangements will be determined by reference to certain variables, such as petroleum price indexes prevailing at the market, and are denominated in USD. The Directors assessed the economic characteristics and risks of the embedded derivatives and concluded that they are closely related to the economic risks and characteristics of the relevant host contracts. Accordingly, the embedded derivatives are not separated from the LNG purchase arrangements as derivative financial instruments recognised in the consolidated financial statements.

51. Lease Commitments

The Group as lessee

	2017 RMB million	2016 RMB million
Minimum lease payments paid under operating leases during the year:		
Premises	111	104
Other assets	10	7
	121	111

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

	2017 RMB million	2016 RMB million
Within one year	96	75
In the second to fifth year inclusive	203	183
Over five years	221	203
	520	461

Leases are negotiated for an average term of four years and rentals are fixed for an average of one year.

51. Lease Commitments *(continued)*

The Group as lessor

The Group's investment properties are held for rental purposes. Property rental income earned during the year was RMB15 million (2016: RMB12 million). All of the properties held have committed tenants for terms ranging from one to twenty years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2017 RMB million	2016 RMB million
Within one year	**14**	7
In the second to fifth year inclusive	**24**	15
Over five years	**26**	20
	64	42

52. Pledge of Assets

At the end of the reporting period, the Group pledged certain assets as securities for bank and other loans, bill facilities and contracts granted to the Group, associates and joint ventures as follows:

	2017 RMB million	2016 RMB million
Carrying amount of:		
Property, plant and equipment	**–**	11
Restricted bank deposits	**254**	374
Prepaid lease payments	**5**	–
Bills receivable	**719**	463

In addition to the above, the Group has also pledged its rights to receive gas connection and gas supply fee income of certain subsidiaries in favour of banks to secure banking facilities amounting to RMB1,320 million (2016: RMB1,020 million) granted to the Group, of which RMB395 million (2016: RMB609 million) has been utilised up to 31 December 2017.

53. Capital Management and Financial Instruments

a. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern, to maintain the confidence of creditors, to sustain future development of the entities and to maximise the return to the equity holders of the entities. The capital structure of the Group consists of net debt (borrowings disclosed in Notes 40, 41, 42, 43 and 44, net of cash and cash equivalents) and total equity of the Group.

The Group manages its capital base through net gearing ratio. The Directors review the capital structure on a semi-annual basis. The Group has a target of net gearing ratio below 100% and will maintain the ratio within target by issue of new debts, repayment of debts, issue of new shares, repurchase of shares or payment of dividends. The Group's overall strategy remains unchanged from prior year. During the years ended 31 December 2017 and 2016, the Group repurchased and redeemed certain convertible bonds and senior notes in order to better manage its risk exposure to foreign currencies. The net gearing ratio at the end of the reporting period was as follows:

	2017 **RMB million**	2016 RMB million
Bank and other loans	**2,260**	4,141
Corporate bonds	**5,490**	5,482
Senior notes	**2,366**	2,507
Medium-term notes	**–**	700
Convertible bonds at FVTPL	**3,635**	3,515
Unsecured bonds	**4,316**	446
	18,067	16,791
Less: Cash and cash equivalents	**(7,972)**	(7,163)
Net debt	**10,095**	9,628
Total equity	**20,217**	17,854

	2017 **%**	2016 %
Net debt to total equity ratio	**49.9**	53.9

The entities comprising the Group are not subject to externally imposed capital requirements.

b. Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of the reporting period are set out as follows:

	2017 **RMB million**	2016 RMB million
Financial assets		
AFS financial assets	**5,106**	4,882
Financial assets at FVTPL	**9**	170
Loans and receivables (including cash and cash equivalents)	**16,510**	12,333
Financial liabilities		
Financial liabilities at FVTPL	**3,733**	3,515
Financial liabilities at amortised cost	**21,719**	18,478
Financial guarantee liability	**5**	22

53. Capital Management and Financial Instruments *(continued)*

c. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, AFS financial assets, financial assets/liabilities at FVTPL, amounts due from/to associates, joint ventures and related companies, cash and cash equivalents, restricted bank deposits, trade and other payables, bank and other loans, corporate bonds, senior notes, convertible bonds at FVTPL, unsecured bonds and financial guarantee liability. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

Foreign currency risk management

Except that the functional currency of the Group's entities established in the Europe, United States and Canada is the European Dollar, United States Dollar and Canadian Dollar, respectively, the functional currency of the Group's other entities is RMB in which most of the transactions are denominated. However, certain loans, senior notes, unsecured bonds and convertible bonds issued by the Group and certain bank balances kept by the Group are denominated in foreign currencies.

To mitigate the foreign exchange exposure, the Group entered into various Foreign Currency Derivatives with certain financial institutions during the current and prior year as set out in Note 24.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2017	2016	**2017**	2016
	RMB million	RMB million	**RMB million**	RMB million
Foreign currency:				
USD	**1,988**	300	**10,579**	7,745
HK$	**116**	17	**–**	347

The following table details the Group's sensitivity to a reasonable possible change in exchange rate of each foreign currency against RMB, while all other variables are held constant. The sensitivity analysis includes only outstanding monetary items denominated in foreign currency without considering the impact of the Foreign Currency Derivatives and adjusts their translations at the end of the reporting period for a change in foreign currency exchange rate as set out below:

	USD		**HK$**	
	2017	2016	**2017**	2016
	%	%	**%**	%
Possible change in exchange rate	**5**	5	**5**	5

	2017	2016	**2017**	2016
	RMB million	RMB million	**RMB million**	RMB million
(Decrease) increase in profit after taxation for the year:				
– if RMB weakens against foreign currencies	**(439)**	(372)	**6**	(17)
– if RMB strengthens against foreign currencies	**439**	372	**(6)**	17

In the opinion of the Directors, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure and does not reflect the exposure during the year, and some of the Group's foreign currency exposure has been reduced due to the offset effect of the Foreign Currency Derivatives.

53. Capital Management and Financial Instruments *(continued)*

c. Financial risk management objectives and policies *(continued)*

Interest rate risk management

The Group does not have any specific interest rate policy except that the Group would regularly review the market interest rates to capture the potential opportunities to reduce the cost of borrowings. Accordingly, the Group will enter into interest rate swap arrangement to mitigate the interest rate risks if appropriate.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to non-current amounts due from associates and joint ventures, and fixed-rate bank and other loans, corporate bonds, senior notes, medium-term notes and unsecured bonds (see Notes 27, 28, 40, 41, 42 and 44 for details of these amounts, loans, bonds and notes respectively).

The fair value interest rate risk on bank balance and deposits is insignificant as the terms of the fixed deposits are relatively short.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to floating-rate bank loans (see Note 40 for details of these amounts). The Directors consider that the Group is not exposed to significant cash flow interest rate risk relating to bank deposits, which are primarily short term in nature and basically carried at stable market interest rates.

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure to interest rates for the floating-rate bank loans. The analysis is prepared assuming that the amount of liabilities outstanding at the end of the reporting period was outstanding for the whole year and excluding the interest expected to be capitalised.

	2017 **%**	2016 %
Reasonably possible change in interest rate	**50 basis points**	25 basis points

	2017 **RMB million**	2016 RMB million
(Decrease) increase in profit after taxation for the year		
– as a result of increase in interest rate	**(4)**	(2)
– as a result of decrease in interest rate	**4**	2

The possible change in the interest rate does not affect the equity of the Group in both years.

Other price risk

The Group is mainly exposed to price risk through the convertible bonds designated as financial liabilities at FVTPL and investments classified as AFS financial assets. The Directors do not implement specific measurements to mitigate the price risk.

The convertible bonds will be ultimately redeemed or converted into the shares of the Company. If the market price of the convertible bonds increased or decreased by 5%, the Group would recognise additional losses or gains of RMB182 million (2016: RMB176 million) respectively in profit or loss.

If the market price of the AFS excluding those measured at cost less impairment increased or decreased by 5%, the Group would recognise additional gains or losses of RMB45 million (2016: RMB36 million) respectively in other comprehensive income or expense.

53. Capital Management and Financial Instruments *(continued)*

c. Financial risk management objectives and policies *(continued)*

Credit risk management

As at 31 December 2017, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of contingent liabilities in relation to financial guarantees provided by the Group is disclosed in Note 39.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other debt, advances to associate, joint venture and related party semi-annually to ensure that adequate impairment losses are recognised at irrecoverable amounts. In respect of the risk arising from the provision of financial guarantee, the management of the Group continuously monitors the credit quality and financial conditions of the guaranteed parties to which the Group issued financial guarantee contracts in favour of to ensure that the Group will not suffer significant credit losses as a result of the failure of the guaranteed parties on the repayment of the relevant loans. In this regard, the Directors consider that the Group's credit risk has been significantly reduced.

The credit risk on liquid funds is limited because the counterparties are reputational international and PRC banks and other financial institutions with high credit-ratings assigned by international credit-rating agencies or regulated by PRC government.

The Group has no significant concentration of credit risk to certain counterparties as the exposures spread over a number of counterparties and customers.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for over 90% of the trade receivables at 31 December 2017 and 2016.

53. Capital Management and Financial Instruments *(continued)*

c. Financial risk management objectives and policies *(continued)*

Liquidity risk management

To manage the liquidity risk, the Group reviews the level of cash and cash equivalents to ensure their adequacy to finance the Group's operations, capital expansion plans and mitigate the effects of fluctuation in cash flows. The Group also reviews the utilisation of borrowings and ensures the compliance of loan covenants.

The Group relies on various bonds and bank and other loans as a significant source of liquidity, detail of which are set out in Notes 40, 41, 42, 43 and 44. As at 31 December 2017, the Group has available unutilised credit facilities of approximately RMB9,051 million (2016: RMB7,277 million) to manage its net current liabilities position as set out in Note 2.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are carried at floating rate, the undiscounted amount is derived from interest rate existed at the end of the reporting period.

At 31 December 2017

	Weighted average interest rate	Repayable on demand or within one year	Within the second year	Within the third year	Within the fourth year	Within the fifth year	Over five years	Total undiscounted cash flow	Carrying amount at end of the reporting period
	%	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Non-derivative financial liabilities									
Trade and other payables		4,648	–	–	–	–	–	4,648	4,648
Amounts due to associates	0.35	283	–	–	–	–	–	283	282
Amounts due to joint ventures	4.35	1,710	–	–	–	–	–	1,710	1,677
Amounts due to related companies		642	–	–	–	–	–	642	642
Bank and other loans									
– fixed rate	4.36	1,034	203	–	–	–	–	1,237	1,225
– variable rate	4.62	755	74	97	66	46	82	1,120	1,035
Corporate bonds	3.55–6.45	3,213	2,589	–	–	–	–	5,802	5,490
Senior notes	6.00	143	143	143	2,460	–	–	2,889	2,366
Unsecured bonds	3.25	141	564	127	127	3,793	–	4,752	4,316
Convertible bonds at FVTPL		3,592	–	–	–	–	–	3,592	3,635
Financial guarantee contracts		126	–	–	–	–	–	126	5
		16,287	3,573	367	2,653	3,839	82	26,801	25,321
Derivatives									
– inflow		2,741	129	130	128	4,048	–	7,176	
– outflow		2,804	185	184	184	4,201	–	7,558	
Net settlement		63	56	54	56	153	–	382	89

53. Capital Management and Financial Instruments *(continued)*

c. Financial risk management objectives and policies *(continued)*

Liquidity risk management (continued)

At 31 December 2016

	Weighted average interest rate %	Repayable on demand or within one year RMB million	Within the second year RMB million	Within the third year RMB million	Within the fourth year RMB million	Within the fifth year RMB million	Over five years RMB million	Total undiscounted cash flow RMB million	Carrying amount at end of the reporting period RMB million
Non-derivative financial liabilities									
Trade and other payables		2,969	–	–	–	–	–	2,969	2,969
Amounts due to associates	0.35	217	–	–	–	–	–	217	216
Amounts due to joint ventures	3.92–6.15	1,614	–	–	–	–	–	1,614	1,601
Amounts due to related companies		416	–	–	–	–	–	416	416
Bank and other loans									
– fixed rate	3.22	3,268	–	–	–	–	–	3,268	3,235
– variable rate	5.45	726	95	60	54	–	–	935	906
Medium-term notes	5.55	739	–	–	–	–	–	739	700
Corporate bonds	3.55–6.45	213	3,213	2,656	–	–	–	6,082	5,482
Senior notes	6.00	152	152	152	152	2,612	–	3,220	2,507
Unsecured bonds	3.25	15	15	464	–	–	–	494	446
Convertible bonds		–	3,556	–	–	–	–	3,556	3,515
Financial guarantee contracts		230	–	–	–	–	–	230	22
		10,559	7,031	3,332	206	2,612	–	23,740	22,015
Derivatives									
– inflow		1,322	3,469	–	–	–	–	4,791	
– outflow		1,349	3,297	–	–	–	–	4,646	
Net settlement		27	(172)	–	–	–	–	(145)	(170)

The above amounts for the 2015 Corporate Bonds are the payments to be made by the Group assuming these bonds to be redeemed when the bondholders' put options are exercised in December 2018. However, the Group has the right to adjust the coupon rate and not of all of the bondholder of the 2015 Corporate Bonds may exercise their option to redeem the bonds in December 2018.

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on the expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, these estimates are subject to change depending on the probability of the counterparties claiming under the guarantee in case that the financial receivables held by the counterparty suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The contractual expiry periods of financial guarantee contracts at the end of the reporting period are as follows:

	2017		2016	
	RMB million	**Expiry period**	RMB million	Expiry period
Guarantees issued to banks to secure loan facilities granted to an associate and joint ventures	**126**	**2020**	230	2020

53. Capital Management and Financial Instruments *(continued)*

d. Fair value measurement of financial instruments

The Group measures its following financial instruments at fair value at the end of the reporting period on a recurring basis:

	Fair value as at 31 December		Fair value	
	2017	2016	**hierarchy**	**Valuation technique and key input**
	RMB million	RMB million		
Financial assets				
Financial assets at FVTPL	**9**	170	Level 2	Discounted cash flow. Future cash flows are estimated based on forward commodity price and forward exchange rates at settlement date, contracted strike rate, cap rate and premium payment, discounted at the swap curves expected by various counterparties
Listed equity securities, 4.45% equity interest in Shanghai Utilities	**367**	413	Level 1	Fair values are derived from quoted bid prices in an active market
Unlisted wealth management products	**528**	300	Level 2	Discounted cash flow. Future cash flows are estimated based on the recoverable amount expected, discounted at a rate that reflects the credit risk of the counterparty
Financial liabilities				
Convertible bonds at FVTPL	**3,635**	3,515	Level 2	Fair values are derived from quoted prices in an over-the-counter market
Financial liabilities at FVTPL	**98**	–	Level 2	Discounted cash flow. Future cash flows are estimated based on forward commodity price and forward exchange rates at settlement date, contracted strike rate, cap rate and premium payment, discounted at the swap curves expected by various counterparties

53. Capital Management and Financial Instruments *(continued)*

d. Fair value measurement of financial instruments *(continued)*

The credit risk of the Group did not result in significant change of the fair value of convertible bonds designated as financial liabilities at FVTPL since the Group manage the own credit risk by maintaining a sound financial position and steadying the credit rating.

Except as detailed in the following table, the Directors consider that the carrying amounts of financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values:

	2017		2016	
	Carrying amount RMB million	**Fair value RMB million**	Carrying amount RMB million	Fair value RMB million
Fixed-rate bank loans	**1,225**	**1,215**	3,235	3,191
Senior notes	**2,366**	**2,757**	2,507	2,803
Unsecured bonds	**4,316**	**4,322**	446	453
Medium-term notes	**–**	**–**	700	713
Corporate bonds	**5,490**	**5,509**	5,482	5,507

In the above table, other than the fair values of bank loans disclosed which are under the fair value hierarchy of Level 3, the rest of the fair values disclosed are under the fair value hierarchy of Level 2. The fair values of the senior notes and unsecured bonds are derived from the quoted prices in an over-the-counter market, and the fair values of the medium-term notes and corporate bonds are derived from the inactive quoted prices in the Shanghai Stock Exchange. The fair values of the rest of the financial liabilities at amortised cost are derived from discount cash flow technique by reference to the market interest rate of the loans with comparable maturity and credit risk of the respective group entities at the end of the reporting period.

54. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank and other loans RMB million (Note 40)	**Convertible bonds** RMB million (Note 43)	**Corporate bonds** RMB million (Note 41)	**Medium-term notes** RMB million	**Unsecured bonds** RMB million (Note 44)	**Senior notes** RMB million (Note 42)	**Others** RMB million (note)	**Total** RMB million
At 1 January 2017	4,141	3,515	5,482	700	446	2,507	1,760	18,551
Financing cash flows	(1,890)	(158)	–	(700)	4,037	–	(519)	770
Acquisition of a subsidiary	31	–	–	–	–	–	–	31
Fair value adjustments	–	278	–	–	–	–	–	278
Foreign exchange translation	(22)	–	–	–	(170)	(146)	–	(338)
Interest expenses	–	–	8	–	3	5	464	480
At 31 December 2017	2,260	3,635	5,490	–	4,316	2,366	1,705	19,772

Note: The amounts include the interest payables, non-trade payables due to joint ventures, associates and related parties.

55. Related Party Transactions

Apart from the related party balances as stated in Notes 27, 28 and 29, the financial guarantee as stated in Note 39 and the equity transactions as stated in Notes 48 and 49, the Group had the following transactions with certain related parties:

	2017 **RMB million**	2016 RMB million
Nature of transaction		
Associates:		
– Sales of gas to	**355**	274
– Sales of materials to	**288**	49
– Purchase of gas from	**235**	183
– Purchase of equipment from	**1**	–
– Loan interest received from	**10**	6
– Provision of gas transportation services to	**3**	3
– Provision of gas transportation services from	**14**	7
– Provision of gas connection services to	**–**	17
– Deposit interest paid to	**2**	1
– Provision of supporting services by	**1**	5
– Provision of supporting services to	**1**	1
Joint ventures:		
– Sales of gas to	**1,234**	778
– Sales of materials to	**125**	83
– Sales of property to	**–**	174
– Purchase of gas from	**2,454**	1,716
– Provision of gas transportation services to	**362**	204
– Loan interest received from	**63**	23
– Loan interest paid to	**40**	13
– Provision of gas connection services to	**80**	68
– Provision of supporting services to	**7**	14
– Purchase of equipment from	**4**	2
– Deposit interest paid to	**9**	5
– Provision of proprietary services to	**30**	–
– Provision of construction services by	**33**	34
– Provision of gas transportation services by	**1**	2
– Provision of supporting services by	**1**	1
– Lease of premises from	**1**	1
– Lease of vehicles to	**2**	–

55. Related Party Transactions *(continued)*

	2017 **RMB million**	2016 RMB million
Companies controlled by Mr. Wang:		
– Provision of energy efficiency technology services by	**218**	61
– Sales of gas to	**8**	9
– Purchase of equipment from	**26**	2
– Sales of materials to	**31**	29
– Provision of gas connection service to	**11**	6
– Provision of construction service by	**861**	597
– Provision of property management services by	**16**	15
– Provision of property management services to	**1**	1
– Lease of premises to	**4**	1
– Lease of premises from	**4**	4
– Provision of supporting services by	**64**	52
– Provision of supporting services to	**3**	1
– Provision of information technology services by	**256**	60
– Purchase of outsourcing services from	**31**	31
– Purchase of LNG from	**12**	107
– Provision of electronic business services to	**1**	–
– Provision of technology services to	**4**	–
– Purchase of property from	**23**	–

Compensation of key management personnel

The remuneration of the Directors who are also the members of key management personnel during the years ended 31 December 2017 and 2016 was disclosed in Note 12.

56. Particular of Principal Subsidiaries

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest/voting power held by Group 2017	2016	Principal activities
ENN Gas Investment Group Limited (“ENN Gas”)	British Virgin Island	USD1,000	**100.00%**	100.00%	Investment holding
北京新奧華鼎貿易有限公司 Beijing Xinao Huading Trading Company Limited#	PRC	USD23,800,000	**100.00%**	100.00%	Retail of gas pipelines, related materials and equipment
長沙新奧燃氣有限公司 Changsha Xinao Gas Company Limited*	PRC	RMB120,000,000	**55.00%**	55.00%	Investment in gas pipeline infrastructure and sales of piped gas
常州新奧燃氣發展有限公司 Changzhou Xinao Gas Development Company Limited*	PRC	USD600,000	**60.00%**	60.00%	Sales of piped gas
常州新奧燃氣工程有限公司 Changzhou Xinao Gas Engineering Company Limited*	PRC	USD5,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
滁州新奧燃氣有限公司 Chuzhou Xinao Gas Company Limited*	PRC	USD7,100,000	**90.00%**	90.00%	Sales of piped gas
泉州市燃氣有限公司 Quanzhou City Gas Company Limited (“Quanzhou City Gas”)	PRC	RMB450,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
晉江新奧燃氣有限公司 Jinjiang Xinao Gas Company Limited	PRC	RMB60,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
洛陽新奧華油燃氣有限公司 Luoyang Xinao Huayou Gas Company Limited*	PRC	RMB160,000,000	**70.00%**	70.00%	Investment in gas pipeline infrastructure and sales of piped gas
石家莊新奧燃氣有限公司 Shijiazhuang Xinao Gas Company Limited* (“Shijiazhuang Xinao”)	PRC	RMB300,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
肇慶新奧燃氣有限公司 Zhaoqing Xinao Gas Company Limited#	PRC	RMB52,700,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
株洲新奧燃氣有限公司 Zhuzhou Xinao Gas Company Limited*	PRC	RMB135,000,000	**55.00%**	55.00%	Investment in gas pipeline infrastructure
湘潭新奧燃氣有限公司 Xiangtan Xinao Gas Company Limited*	PRC	RMB70,000,000	**85.00%**	85.00%	Investment in gas pipeline infrastructure
蚌埠新奧燃氣有限公司 Bengbu Xinao Gas Company Limited*	PRC	RMB110,000,000	**70.00%**	70.00%	Investment in gas pipeline infrastructure

56. Particular of Principal Subsidiaries *(continued)*

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest/voting power held by Group 2017	2016	Principal activities
蚌埠新奧燃氣發展有限公司 Bengbu Xinao Gas Development Company Limited*	PRC	USD600,000	**70.00%**	70.00%	Sales of piped gas
葫蘆島新奧燃氣發展有限公司 Huludao Xinao Gas Development Company Limited*	PRC	USD1,200,000	**90.00%**	90.00%	Investment in gas pipeline infrastructure
青島新奧新城燃氣有限公司 Qingdao Xinao Xincheng Gas Company Limited*	PRC	USD839,000,000	**90.00%**	90.00%	Sales of piped gas
新奧能源物流有限公司 Xinao Energy Logistics Company Limited#	PRC	USD22,230,000	**100.00%**	100.00%	Transportation of oil products and gas
新奧能源貿易有限公司 Xinao Energy Sales Company Limited#	PRC	USD30,200,000	**100.00%**	100.00%	Wholesale and retail of LNG and CNG, piped gas facilities, gas equipment, appliances and others
新奧財務有限責任公司 ENN Finance	PRC	RMB2,000,000,000	**95.50%**	91.00%	Provision of financial services
新奧燃氣發展有限公司 Xinao Gas Development Company Limited#	PRC	USD23,000,000	**100.00%**	100.00%	Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and sales of piped gas
新奧燃氣工程有限公司 Xinao Gas Engineering Company Limited#	PRC	USD7,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
新奧(中國)燃氣投資有限公司 Xinao (China)#	PRC	USD231,778,124	**100.00%**	100.00%	Investment holding

* Sino-foreign equity joint venture

\# Wholly-owned foreign enterprise

All of the above subsidiaries, except for ENN Gas and Xinao (China), are indirectly held by the Company.

Certain subsidiaries mentioned above have names in Chinese only, and the English names used here are for reference only.

All of the above subsidiaries operate principally in the places of their incorporation/establishment respectively, except that ENN Gas operates principally in Hong Kong. The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or net assets of the Group. Giving the details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries issued any debt securities as at 31 December 2017 or at any time during the year except for Xinao (China) which has issued the following debt securities.

56. Particular of Principal Subsidiaries *(continued)*

	2017 RMB million	2016 RMB million
Corporate bonds	**5,490**	5,482
Medium-term notes	**–**	700
	5,490	6,182

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Incorporation/ establishment/ registration and operation	Proportion ownership interest held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2017 %	2016 %	**2017 RMB million**	2016 RMB million	**2017 RMB million**	2016 RMB million
Quanzhou City Gas*	PRC	**40**	40	**115**	83	**263**	245
Shijiazhuang Xinao	PRC	**40**	40	**104**	101	**228**	217

* excluding non-controlling interests of Quanzhou City Gas's subsidiaries.

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Quanzhou City Gas	2017 RMB million	2016 RMB million
Non-current assets	**1,010**	982
Current assets	**506**	496
Current liabilities	**857**	866
Revenue	**3,219**	2,435
Profit and total comprehensive income for the year (note)	**287**	207
Dividends paid to non-controlling interests	**96**	68
Net cash inflow from operating activities	**292**	448
Net cash outflow from investing activities	**(58)**	(80)
Net cash outflow from financing activities	**(250)**	(188)
Net cash (outflow) inflow	**(16)**	180

Note: Included in the amount for the year ended 31 December 2017 is dividends income from Quanzhou City Gas's subsidiaries and joint venture of RMB189 million (2016: RMB122 million).

Shijiazhuang Xinao	2017 RMB million	2016 RMB million
Non-current assets	**1,526**	1,146
Current assets	**709**	550
Non-current liabilities	**12**	–
Current liabilities	**1,653**	1,155
Revenue	**1,933**	1,670
Profit and total comprehensive income for the year	**260**	252
Dividends paid to non-controlling interests	**92**	74
Net cash inflow from operating activities	**681**	352
Net cash outflow from investing activities	**(429)**	(123)
Net cash outflow from financing activities	**(56)**	(206)
Net cash inflow	**196**	23

57. Statement of Financial Position of the Company

	2017 RMB million	2016 RMB million
Non-current Assets		
Property, plant and equipment	**1**	1
Investment in subsidiaries	**4,801**	4,801
Investment in an associate	**44**	44
Financial assets at FVTPL	**–**	154
Amounts due from subsidiaries	**4,361**	5,269
	9,207	10,269
Current Assets		
Financial assets at FVTPL	**4**	16
Other receivables	**–**	3
Amounts due from subsidiaries	**2,655**	3,325
Cash and cash equivalents	**1,741**	63
	4,400	3,407
Current Liabilities		
Other payables and accrued expenses	**82**	35
Taxation payables	**126**	86
Amounts due to subsidiaries	**1,572**	871
Bank loans – due within one year	**–**	2,628
Convertible bonds at FVTPL	**3,635**	–
Financial liabilities at FVTPL	**17**	–
	5,432	3,620
Net Current Liabilities	**(1,032)**	(213)
Total Assets less Current Liabilities	**8,175**	10,056
Capital and Reserves		
Share capital	**112**	112
Reserves	**1,303**	3,475
Total Equity	**1,415**	3,587
Non-current Liabilities		
Unsecured bonds	**4,316**	447
Senior notes	**2,366**	2,507
Financial liabilities at FVTPL	**78**	–
Convertible bonds at FVTPL	**–**	3,515
	6,760	6,469
	8,175	10,056

57. Statement of Financial Position of the Company *(continued)*

The statement of changes in equity is as follow:

	Share capital RMB million	**Share premium** RMB million	**Share options reserve** RMB million	**Retained earnings** RMB million	**Total** RMB million
At 1 January 2016	113	44	4	3,195	3,356
Profit and total comprehensive income for the year	–	–	–	911	911
Recognition of equity-settled share-based payment (Note 45)	–	–	51	–	51
Issue of ordinary shares upon exercise of share options (Note 45)	–	4	(1)	–	3
Share repurchase (Note 38)	(1)	(28)	–	–	(29)
Dividends appropriation (Note 14)	–	–	–	(705)	(705)
At 31 December 2016	112	20	54	3,401	3,587
Loss and total comprehensive loss for the year	–	–	–	(1,469)	(1,469)
Recognition of equity-settled share-based payment (Note 45)	–	–	34	–	34
Issue of ordinary shares upon exercise of share options (Note 45)	–	52	(14)	–	38
Share repurchase (Note 38)	–	–	–	–	–
Dividends appropriation (Note 14)	–	–	–	(775)	(775)
At 31 December 2017	112	72	74	1,157	1,415

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