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

Stock Code 股份代號: 3633

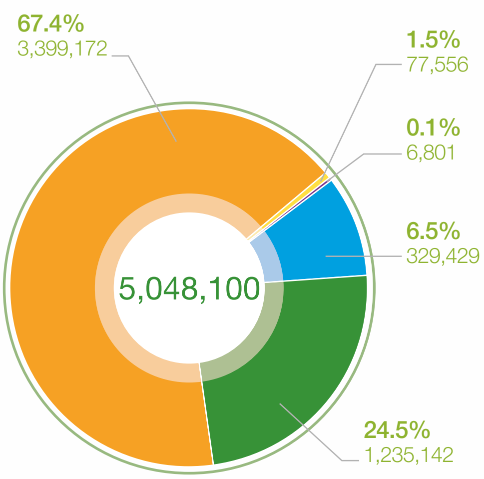
2017 Annual Report 年報

CONTENTS

Financial and Operational Highlights

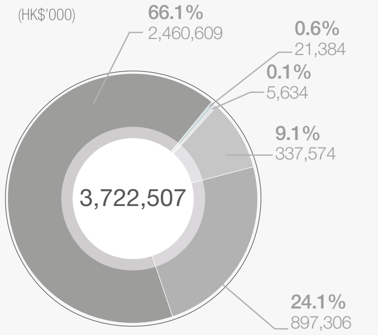
	For the year ended 31st December,		
	2017	2016	changes
	HK$'000	HK$'000	%
Turnover	**5,048,100**	3,722,507	35.6%
Gross profit	**1,289,102**	1,008,009	27.9%
(Gross margin)	**(25.5%)**	(27.1%)	(1.6%)
Profit attributable to owners of the Company	**557,959**	206,150	170.7%
EBITDA	**1,257,947**	899,586	39.8%
Basic earnings per share (HK cents)	**22.10**	8.16	170.8%
Proposed final dividend (HK cents)	**5.00**	–	100%
Unit of natural gas sold ('000 m^3)	**1,327,480**	985,934	34.6%
New piped gas connections made (residential households)	**365,178**	260,187	40.4%

2017
(HK$'000)

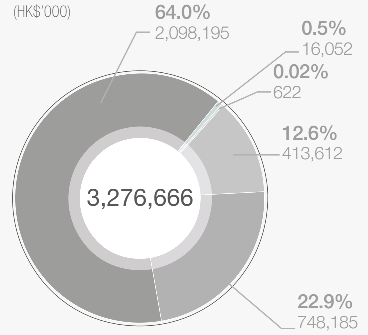


Sales of gas
Connection revenue from gas pipeline construction
Operation of CNG/LNG vehicle filling stations
Sales of liquefied petroleum gas
Sales of stoves and related equipment

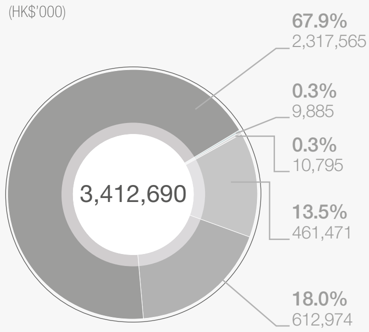
2016
(HK$'000)



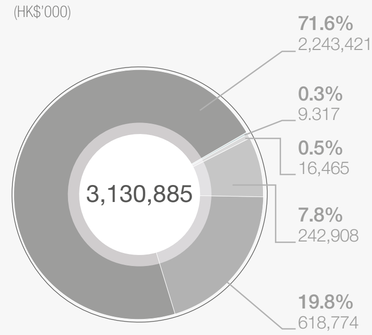
2015
(HK$'000)



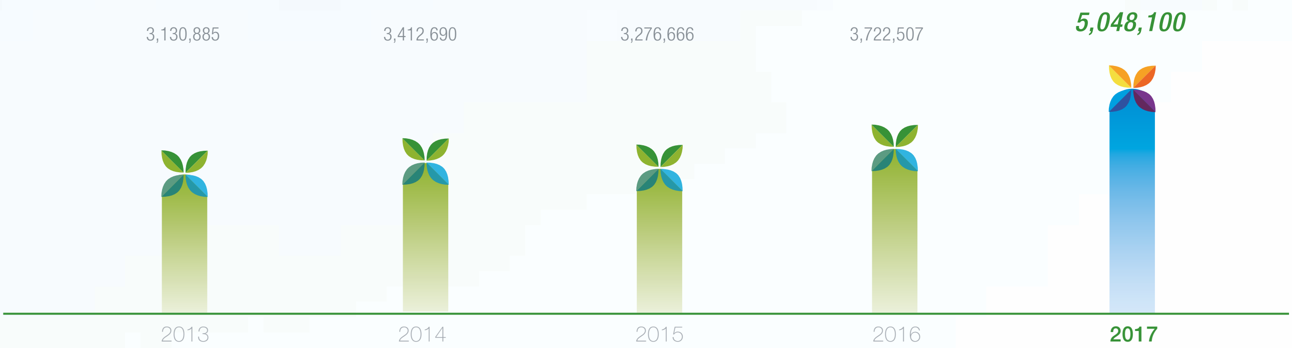
2014
(HK$'000)



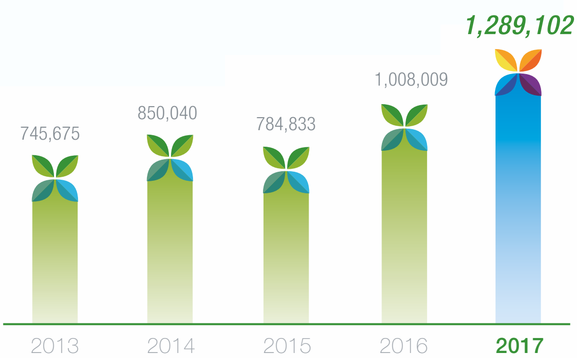
2013
(HK$'000)



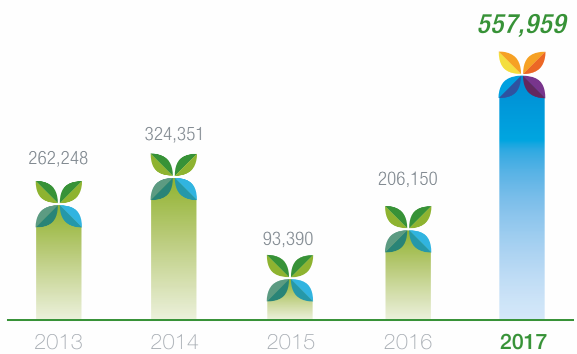
Turnover (HK$'000)



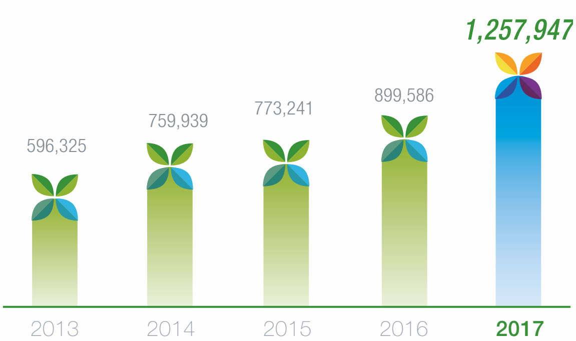
Gross Profit (HK$'000)



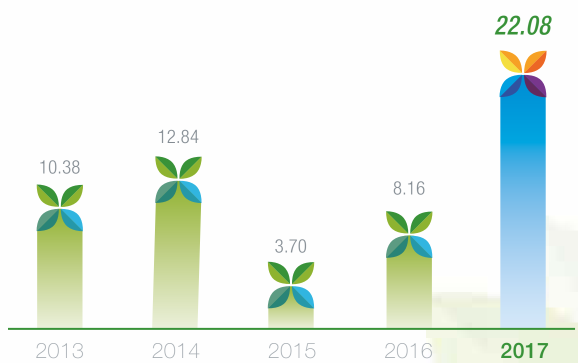
Profit attributable to owners of the Company (HK$'000)



EBITDA (HK$'000)



Earning per share - Diluted (HK cents)



Corporate Information

Executive Directors

Mr. Wang Wenliang *(Chairman)*
Mr. Lui Siu Keung *(Chief Executive Officer)*
Mr. Lu Zhaoheng

Non-executive Director

Mr. Xu Yongxuan *(Vice Chairman)*

Independent Non-executive Directors

Mr. Li Chunyan
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen *(resigned with effect from 30th March, 2017)*
Ms. Liu Yu Jie *(appointed with effect from 30th June, 2017)*

Company Secretary

Mr. Lui Siu Keung

Authorised Representatives

Mr. Wang Wenliang
Mr. Lui Siu Keung

Audit Committee

Mr. Li Chunyan *(Chairman)*
Dr. Luo Yongtai
Ms. Liu Yu Jie

Remuneration Committee

Mr. Li Chunyan *(Chairman)*
Dr. Luo Yongtai
Ms. Liu Yu Jie

Nomination Committee

Mr. Li Chunyan *(Chairman)*
Dr. Luo Yongtai
Ms. Liu Yu Jie

Hong Kong Legal Advisors

Reed Smith Richards Butler

Auditor

Deloitte Touche Tohmatsu

Corporate Website

www.zhongyugas.com

Stock Code

3633

Registered Office

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

Head Office and Principal Place of Business in Hong Kong

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

Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Branch Share Registrar and Transfer Office in Hong Kong

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

Principal Bankers

The Hong Kong & Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
China Citic Bank International Limited
Standard Chartered Bank
Chiyu Banking Corporation Limited
Taishin International Bank
Dah Sing Bank, Limited
Far Eastern International Bank
Industrial Bank Co., Ltd.

Chairman's Statement

Dear shareholders,

The year of 2017 did not only mark the 15th anniversary of Zhongyu Gas Holdings Limited (the "Company"), but is also the year that we have set a new high with outstanding performance. Encouragingly, we have recorded exponential growth for our major business segments – sales of gas and pipeline construction and connection. With the favourable policies of the People's Republic of China ("PRC" or "China") and its increasingly high consumer demands, profit attributable to owner of the Company rises over 170% to HK$557,959,000. The robust growth of the industry and the business has contributed to the solid foundation which the positive stock performance was built on. Currently, the market capitalisation of the Company and its subsidiaries (collectively the "Group") has exceeded HK$20 billion and has become one of the bellwethers in the gas industry. Surrounded by these proud results, the board of directors of the Company (the "Board" or the "Directors") passed the resolution to pay a final dividend of HK5 cents per share, to share the accomplishments with shareholders.

All these dated back to 15 years ago. The PRC government encouraged private capitals to operate in construction of commercial infrastructures and public utilities projects at the end of 2001 by fully liberalizing the municipal public infrastructure market on a policy level. This stimulated a market-oriented reformation in the public utilities industry and started a new era for the city gas industry. In 2002, we progressively obtained the gas concession rights in different counties and cities of Henan Province, which marked the clear inception of the Group's operation. During the past 15 years, with continuous business expansion and mergers and acquisitions, the Group strives to evolve into a nationwide network. The Group's network currently covers almost one third of the number of provinces and cities across the country. In terms of business, the Group has transformed from providing simple city gas to providing a blend of diversified business that spans from upstream to downstream in the industrial chain, covering four major segments – gas pipeline construction and connection, sales of gas, operation of compressed natural gas or liquefied natural gas ("CNG/LNG") vehicles filling stations, and value-added services (sales of stoves and related equipment). The Group has a diversified client base and massive usage volume as it provides one-stop natural gas solutions and various types of value-added services to over 2 million industrial and commercial customers and households across the country. The number of employees of the Group increased from several hundreds to about 3,500 at present. By continuously optimizing its management methods, the Group has achieved professionalization and lean management at each level. As the business continues to expand, the Group has successfully transferred its listing from the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to the Main Board of the Stock Exchange in July 2012, and made its entry into a broader capital market and a new chapter in development.

In 2017, the Chinese government continued to promote the supply side structural reformation in national economy comprehensively and accelerated energy transformation. Natural gas became the first choice in clean energy amid China's push to optimize energy structure and cope with smog. On the Fifth Session of the Twelfth National People's Congress, Premier Li Keqiang announced in the government work report that China was determined to win "the battle to defend the blue sky". In August 2017, the Ministry of Environmental Protection released Crucial Action Plan for Comprehensive Treatment of Air Pollution in Autumn and Winter for 2017-2018 in Beijing, Tianjin, Hebei and Nearby Areas. Among the "2+26" cities mentioned in the plan, 10 cities are within the Group's operation regions. In response to the national policy, the Group actively participated in "the battle to defend blue sky". With its all-out efforts, the Group completed "coal-to-gas" conversion for around 110,000 countryside households in 2017, devising a sustainable development strategy of "leveraging city gas business to benefit the countryside market, and coordinating gas markets across cities and countryside".

The Group's journey over the past 15 years was uneven. We experienced a period full of ups and downs and navigated unpredictable market changes. I take great pride in our team's wisdom, diligence and courage. We spotted the mega tendencies and aligned ourselves with the market trends. We did not retreat in face of difficulties and were never complacent about our achievements. We attained today's success through our relentless and unswerving efforts.

Prospects

In 2018, the Group will capitalize on the opportunities arising from industrial reforms to provide integrated energy service solutions to users, and expand the industrial and regional coverage of clean energy. Among them, we believe that smart energy and decentralized energy will become one of the major growth points in the industry's future development. In 2018, the Group is planning to build a number of pilot points for decentralized energy projects. By commencing with decentralized natural gas and decentralized photovoltaic projects and creating high-standard smart energy demonstration projects, we aim to accelerate high-intelligence, deep optimization and more complementing energy supply pattern and achieve our goal of "becoming the most valuable integrated energy service provider". For its principal business of city gas, the Group will strive to consolidate and expand its current advantages, explore potential businesses and new growth drivers. The Group will accelerate the merger and acquisition of high quality targets and explore developed markets adjacent to its existing operation regions, so as to further expand its operational boundary. The Group will also leverage its existing client base to further enhance the awareness of its own brand name, 中裕鳳凰(Zhongyu Phoenix), by selling products such as different gas appliances and wall hung boiler, and thereby extend its market among residential customers. In addition, the Group has actively engaged with top-tier financial institutions to build a flexible and stable financial and capital platform, so as to ensure steady development of the Group's major businesses.

As China continuously introduced policies to solve the smog problem, the "coal-to-gas" conversion has become an initiative of national strategic importance. This posed challenges and presented opportunities to the Group. The Group will actively comply with the policies to build a clean heating system in northern China, and speed up its "coal-to-gas" conversion projects. After completing "coal-to-gas" conversion for 110,000 countryside households and allowing them to enjoy heating services without polluting the air in 2017, the Group aims to complete "coal-to-gas" conversion for another 800,000 countryside households in 2018 and steadily push forward the "coal-to-gas" conversion in its operation regions, so as to take on more social responsibility in the "battle to defend the blue sky". Regarding the safety hazard posed by "coal-to-gas" conversion projects in the countryside, the Group will place emphasis on preliminary planning, and relevant design, construction and safety measures with enhanced precaution. In the meanwhile, the Group will strengthen the promotional and educational activities among users to boost their safety awareness, and carry out effective after-sale tracking and maintenance to ensure safe operation. In 2018, the target of the Group on project construction is to provide new natural gas connections for 800,000 residential households (including "coal-to-gas" conversion), 280 industrial customers, and 2,400 commercial customers. In addition, against the backdrop of steady improvement in China's economy as well as reduction in industrial capacities, the industrial gas demand is rising rapidly, creating an impetus for the Group's growing profit.

After more than a decade of development, we realized that service has become a core competency of enterprises. In the coming year, the Group will enhance its services and brand image by strengthening employees' service awareness and introducing innovative services. The Group will provide more convenient, accurate and effective services, so as to enhance customers' satisfaction and their sense of gaining. The Group is now at a critical time when emerging technologies and internet technologies are increasingly applied in the energy industry. In face of this trend, the Group will accelerate its efforts to build a modernized service system, focus on customer needs, integrate its resources, and optimize procedures. It will deepen the "Internet Plus" marketing services and build a uniform and open internet service platform that can provide integrated services. The Group will also introduce one-stop and round-the-clock online services as soon as possible.

Looking ahead, the Group aims to become the most valuable integrated energy service provider in China and a first-tier player in the energy industry. With a focus on safety, quality, efficiency and economic benefits, the Group will vigorously enhance quality of its products and services, boost efficiency, renew its impetus, and strengthen its overall management. In 2018, we will carry out activities to strengthen our project management, thereby enhancing the leadership skills of the management and performance of basic rank employees. In addition, we will foster talent pool construction by implementing effective performance assessment system, remuneration management system, as well as training and development platform. As a young enterprise, the Group will continuously endeavour to create value for customers and society and realize its dreams. In the new era, the Group will capture new opportunities to maximize enterprise value and achieve optimal organizational growth.

Appreciation

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

Wang Wenliang
Chairman
Hong Kong

21st March, 2018

CEO MESSAGE

To our valued shareholders,

On behalf of management and fellow staff, I am proud to deliver another set of outstanding annual results of the Group for the year ended 31st December, 2017 (the "Year").

Since 2012, the Group has progressively developed itself from a regional player to an established natural gas distributor nationwide in the PRC. In the past decade, the PRC government has been vigorously advocating the use of clean energy and emission reduction in order to tackle the pollution problems across the country. Under the large-scale "coal-to-gas" conversion scheme, the natural gas industry has become one of the fast-growing industries. To capture opportunities under the auspicious market environment, the Group proactively expanded its market share and built brand equity through strategic mergers and acquisitions ("M&As") and product diversification over the years, making the Group one of the key gas distributors serving approximately 11,885,000 connectable population in the PRC. With all the devotion and hard work accumulated in the past fifteen years, the Group achieved a set of record-breaking results for 2017. Going forward, the Group will continue to explore for opportunities to accelerate its geographical expansion and develop strategies for the sustainable growth of the Group.

RESULTS

During the Year, the Group recorded a turnover of HK$5,048.1 million, representing a substantial year-on-year ("yoy") growth of 35.6% (2016: HK$3,722.5 million). The growth in turnover was driven by a significant increase in sales of gas to industrial customers and connection revenue from residential households under the implementation of the "coal-to-gas" conversion policy in the PRC. Gross profit raised from HK$1,008.0 million in 2016 to HK$1,289.1 million, with gross profit margin of 25.5% (2016: 27.1%). Profit attributable to Owners of the Company surged by 170.7% to HK$558.0 million as compared to HK$206.2 million in 2016, while net profit margin enhanced by 5.6 percentage points to 11.1% (2016: 5.5%). The significant increase in profit attributable to owners of the Company was majorly led by a remarkable growth in turnover and a foreign exchange gain arose from the bank borrowings denominated in United States Dollars against the appreciation of Renminbi ("RMB") throughout the Year. Basic earnings per share and net assets per share amounted to HK$0.2210 and HK$1.26 respectively (2016: HK$0.0816; HK$1.01).

BUSINESS REVIEW

In 2017, the strong growth momentum of the economy of the PRC returned where the gross domestic product ("GDP") reached RMB82,712.2 billion, representing a yoy growth of 6.9%. Driven by the accelerated "coal-to-gas" conversion and the enforcement of reduction on coal capacity, the consumption of natural gas grew by 17.0% to 240.7 billion cubic meters. The fruitful result was attributable to the aggressive implementation of the conversion plan by the local governments. During the Year, the number of households who had adopted clean energy conversion in the Northern region was amounted to 3.94 million. In particular, Henan Province, Hebei Province and Shandong Province, where the Group had strong presence, had all outpaced their original conversion targets, contributing to the growth in gas consumption.

The Group comprises four major business segments, namely sales of gas, gas pipeline construction and connection, operation of CNG/LNG vehicles filling stations, and value-added services (sales of stoves and related equipment).

After the completion of acquisition of 38.7% equity interest of Harmony Gas Holdings Limited ("Harmony Gas") in July 2017, Harmony Gas has become a wholly-owned subsidiary of the Group and made greater contribution to the Group in 2017. Since the acquisition of interest of Harmony Gas in late 2014, the projects of Harmony Gas have extensively expanded the network coverage of the Group in provinces and cities with great potential such as Anhui, Jilin, Hebei and Beijing. This aids the Group to further deepen its penetration in the PRC market. Infrastructure and pipe construction of a number of projects have commenced since 2016 and some have started operations, and hence making a good contribution to the Group in 2017.

Under the aggressive "coal-to-gas" conversion, revenue from gas pipeline construction and connection achieved a yoy growth of 37.7%, majorly attributable to the impressive increase in the connection fee for "coal-to-gas" projects. The number of new piped gas connection made for residential households in 2017 was 365,178, representing a yoy growth of 40.4%. As of 31st December, 2017, the Group operated 59 gas projects with exclusive rights in the PRC, covering approximately 11,885,000 connectable population, which represented a yoy increase of 11.6%.

During the Year, the Group also recorded a substantial growth in the sales of gas segment, especially the turnover generated from industrial customers, thanks to the rising domestic consumption and solid exports driven by the world's economy recovery. The Group anticipates that the income from industrial customers will persist as the recovery of the economy is expected to continue and the capacity of coal production will be further reduced in 2018. As the diversification of customer base is always the key to business stability and sustainability, the Group will continue to acquire new customers, especially the leading players of different industrial sectors to reduce concentration risk.

The operation of CNG/LNG vehicles filling stations had a moderate decrease of 2.4% in turnover, caused by a reduction in sales volume. This was driven by the price of crude oil, substitute of the natural gas, remaining at a relatively low level during the Year, discouraging the use of natural gas in cars. Going forward, the Group will maintain sufficient supply in its project locations but remain prudent in further expansion.

Apart from the three aforementioned major business segments, in 2017, the Group placed greater efforts in value-added services like sales of stoves and related equipment, which involves the sales of safe and reliable kitchenware, such as gas water heaters, gas cooking appliances and wall hung boilers, to residential customers under its own brand name, "中裕鳳凰" (Zhongyu Phoenix). With the Group's current coverage of around 2.2 million households, the segment received good results for the Year. In the coming year, the Group will promote products such as different gas appliances and wall hung boiler under its own brand name, "中裕鳳凰" (Zhongyu Phoenix) among customers, reinforcing our positioning of an integrated gas service provider in the PRC.

In addition, to facilitate the "coal-to-gas" conversion nationwide, the Group started to source LNG in different areas and redistribute to regions where piped gas was not available yet. This not only solves one of the bottlenecks of "coal-to-gas" conversion, but also brings the Group with additional income and elevates its brand recognition across the country.

PROSPECTS

During the Year, the significant improvement in smog pollution had encouraged the PRC government to continue its environmental protection campaign. Clear targets are set by the PRC government in its 13th Five-Year plan that the natural gas consumption will increase to 360 billion m^3 or 8.3%-10.0% of the total primary energy consumption by 2020 and 15% by 2030. For 2018, the natural gas production in the PRC is expected to rise by 8.5% over 2017 to a record high according to the Chinese National Energy Administration. Under such favourable market environment, the Group is confident that strong demand for natural gas will persist in the coming year. The PRC government also has a clear target on the network expansion of natural gas pipeline to increase the accessibility of natural gas across the nation, extending the pipeline to 104,000 km by 2020 and 123,000 km by 2025. In addition, the construction of the China-Russia East-Route Natural Gas Pipeline (which will be covering 9 regions such as Hebei, Shandong and Jiangsu) is forecasted to be completed by 2020. While the Group will carry on the LNG redistribution to regions without piped gas supply, it will be well-prepared for the potential sales of piped gas in those newly covered areas. In view of the positive factors listed above, the Group is confident that we will be able to further expand our service group in 2018 by increasing the number of residential households by 800,000 (including "coal-to-gas" conversion) and industrial and commercial households by 280 and 2,400 respectively.

Since Harmony Gas has become the wholly-owned subsidiary of the Group in July 2017, development of Harmony Gas projects has accelerated. The Group will continue to expedite the launch of infrastructure and pipe construction. Given more greenfield projects are on pipeline, the Group is optimistic that these will enable the Group to enhance its market share rapidly in the near future.

Apart from expanding our business empire, the Group will also actively develop two potential new projects in connection with smart energy and decentralized energy, thereby expanding the Group's major business segments from four to five. In the coming year if conditions permit, we will strive to implement 2-3 pilot points of decentralized energy projects. We tend to build a high-starting and high-standard smart energy demonstration project so as to advocate smart energy, and becoming the market leader in this business segment.

In further expanding the Group's geographical coverage and building a stronger brand, the Group will have Harmony Gas as a benchmark when exploring for more M&A opportunities. The Group will maintain a cautious manner when assessing potential projects that are close to gas source and with strong local demand.

We see great potential in the Group's value-added service of selling stoves and related equipment to residential customers, although it is still small when compared with the Group's core gas supply businesses. Given the Group's network currently covers over 2.2 million residential households, which the Group expects will continue to increase, we strongly believe that the business scale of the Group's value-added services of selling stoves and related equipment will grow rapidly with good profitability in the near future.

Looking forward, the Group will endeavor to deepen its market penetration and refine its brand recognition through widening its geographical coverage. With its strong determination to become an integrated clean energy service provider, the Group will seize every possible business opportunity to further enrich its offering and enhance its profitability. In the coming years, the Group will continue its current strategies to optimize its return under the current prosperous market, and deliver outstanding results as a gratitude for its unfailing shareholders.

APPRECIATION

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

Lui Siu Keung, Daniel
Chief Executive Officer
Hong Kong

21st March, 2018

As at 31 December 2017								
Province	Operational location	Connectable Population	Connectable Residential Households	Accumulated Connected Residential Households	Accumulated Connected Industrial Customers	Accumulated Connected Commercial Customers	Length of Existing Intermediate and Main Pipelines (km)	Number of CNG/LNG Vehicle Filling Stations
Henan	Jiaozuo City	1,266,000	361,714	279,808	104	956	1,176	8
	Qinyang City	196,000	56,000	34,923	51	143	438	1
	Wuzhi County	563,000	160,857	33,665	19	125	286	1
	Xiuwu County	116,000	33,143	12,983	53	135	345	4
	Luohe City	1,313,000	375,143	272,559	94	1,139	875	4
	Light Food Industrial Park in Luohe Economic Development District	–	–	–	10	–	–	–
	Luohe Shaoling District	–	–	–	18	–	–	–
	Luohe Songjiang Industrial Zone	–	–	–	15	–	–	–
	Luohe Houxie Village Industrial Zone	–	–	–	–	–	–	–
	Luohe West Industrial Zone	–	–	–	–	–	–	–
	Venture Centre in Luohe Economic Development District	–	–	–	15	–	–	–
	Xiping County	32,800	9,371	–	–	–	–	–
	Jiyuan City	785,000	224,286	152,793	187	1,054	932	4
	Sanmenxia City	399,000	114,000	91,868	41	466	425	3
	Shanxian County	53,000	15,143	–	–	–	–	–
	Sanmenxia Industrial Park	–	–	–	7	–	–	–
	Lingbao City	125,000	35,714	5,876	14	75	119	–
	Yanshi City	183,000	52,286	36,374	136	142	379	2
	Yongcheng City	436,000	124,571	96,219	20	239	454	4
	Yongcheng Industrial Zone	35,000	10,000	–	1	–	–	–
	Xinmi City	296,000	84,571	62,044	67	286	599	5
	Huiguo Town, Gongyi City	11,000	3,143	1,121	43	9	53	–
	Yuanyang County	230,000	65,714	82	–	–	2	–
	Hui County	35,000	10,000	–	–	–	–	–
Hebei	Yutian County	238,800	68,229	55,274	12	167	249	–
	Yutian Town and Caitingqiao Town, Yutian County	105,200	30,057	–	–	–	–	–
	Changli County	239,070	68,306	48,166	33	88	255	–
	Weixian County	135,100	38,600	25,675	1	27	157	–
	Xiahuayuan District	80,862	23,103	17,993	–	19	114	–
	Chengan County	188,864	53,961	23,461	3	21	156	–
	Wuqiao County	96,516	27,576	19,879	25	53	220	–
	Ningjin County	175,832	50,238	35,565	25	141	286	–
	Linzhang County	151,922	43,406	23,979	20	59	234	1
	Zaoqiang County	93,628	26,751	20,519	2	47	186	–

As at 31 December 2017								
Province	**Operational location**	**Connectable Population**	**Connectable Residential Households**	**Accumulated Connected Residential Households**	**Accumulated Connected Industrial Customers**	**Accumulated Connected Commercial Customers**	**Length of Existing Intermediate and Main Pipelines (km)**	**Number of CNG/LNG Vehicle Filling Stations**
	Longyao County	23,907	6,831	5,255	–	54	38	–
	Xingtang County	58,767	16,791	10,725	1	18	112	–
	City district of Gucheng	203,550	58,157	27,951	5	115	206	–
	Administrative jurisdiction of Gucheng County	90,000	25,714	6,100	5	12	151	–
	Nangong City	209,474	59,850	36,463	1	87	139	–
	Jize County	61,242	17,498	9,584	8	37	148	–
	Xinhe County	34,386	9,825	11,636	22	58	166	–
	Xingtai	31,000	8,857	–	–	–	–	–
Jiangsu	Jingqiao Town, Nanjing City	48,000	13,714	–	7	1	7	–
	Donghai County	53,000	15,143	456	9	3	31	–
	City district of Sihong County	264,171	75,477	85,441	14	241	575	–
	Sihong County	28,000	8,000	2,222	17	1	44	–
	Guannan County	178,000	50,857	35,585	–	117	181	–
	Nanjing City	–	–	–	–	–	–	1
Shandong	Linyi City (Note)	1,415,000	404,286	342,835	280	1,354	951	14
	Linyi Economic Development District	290,000	82,857	72,094	138	185	588	4
	Linshu County	9,000	2,571	1,753	77	6	170	2
	Tianqu Industrial Park in Dezhou City	–	–	–	20	10	69	1
Jilin	Baishan City	369,639	105,611	69,427	4	232	305	2
	Changbaishan International Tourist Resort Zone in Fusong County	166,419	47,548	5,138	7	63	131	–
Fujian	Shaowu City	165,000	47,143	13,260	3	61	77	2
Heilongjiang	Chengguan Town, Tieli City	198,000	56,571	7,587	5	34	28	–
Zhejiang	Daishan Economic Development District	–	–	–	3	–	–	–
	Yueqing City	35,000	10,000	499	–	–	–	–
Anhui	Wuhe County	187,231	53,495	38,945	3	115	156	–
	Sixian County	186,037	53,153	25,744	1	61	129	–
		11,885,417	**3,395,832**	**2,159,526**	**1,646**	**8,256**	**12,342**	**63**

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

Management Discussion & Analysis

Business Review

BUSINESS REVIEW

During the year ended 31st December, 2017, the Group was principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, and the distribution of piped gas to residential, industrial and commercial users; and (ii) the construction and operation of CNG/LNG vehicle filling stations in the PRC.

Downstream Piped Gas Distribution

Harmony Gas Project

References are made to the announcements of the Company dated 8th December, 2015, 30th March, 2017, 7th April, 2017 and 14th July, 2017 (the "Announcements") in relation to acquisition of further interests in Harmony Gas. Unless otherwise defined herein, capitalised terms used in this section of this report shall have the same meanings as defined in the Announcements.

On 8th December, 2015, Zhongyu Beijing (a wholly-owned subsidiary of the Company) and North Haven Private Equity Asia Gas Holdings Limited entered into a sale and purchase agreement pursuant to which Zhongyu Beijing conditionally agreed to acquire 38.7% of the total issued share capital of Harmony Gas held by North Haven Private Equity Asia Gas Holdings Limited at the consideration of US$78,722,395 which shall be satisfied by cash. The completion of such acquisition took place on 14th July, 2017.

On 30th March, 2017, Zhongyu Beijing and Eloten Group Ltd. entered into a sale and purchase agreement pursuant to which Zhongyu Beijing agreed to acquire 11.3% of the total issued share capital of Harmony Gas held by Eloten Group Ltd. at the consideration of US$18,000,000 which shall be satisfied by cash. The completion of such acquisition took place on 7th April, 2017.

As at the date of this report, Zhongyu Beijing is the sole shareholder of Harmony Gas.

Due to the steady growth in the natural gas market in the PRC, the Group is confident in its prospects in this market. The Directors are of the view that the investment in Harmony Gas could provide an opportunity for the Group to further invest in natural gas business in the PRC in order to enhance its earning base and expand the geographical coverage of its operations.

New Downstream Piped Gas Distribution Projects

As at 31st December, 2017, the Group had 59 gas projects with exclusive rights in the PRC. During the year, the Group obtained concession right to operate 5 additional natural gas projects in Henan Province and Hebei Province. 1 loss-making natural gas project in Jiangsu Province was disposed of.

New CNG/LNG Vehicle Filling Stations Expansion

In 2017, the Group slowed down the expansion of CNG/LNG vehicle filling stations as the price of crude oil remained at low. During the financial year ended 31st December, 2017, 3 new CNG/LNG vehicle filling stations were put into operation.

Major Operational Data

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

The major operational data of the Group for the year ended 31st December, 2017 together with the comparative figures for the corresponding period last year are as follows:

	2017	2016	Increase/ (Decrease)
Number of operational locations *(Note a)*	**59**	55	4
– Henan Province	**24**	22	2
– Hebei Province	**18**	15	3
– Jiangsu Province	**5**	6	(1)
– Shandong Province	**4**	4	–
– Jilin Province	**2**	2	–
– Fujian Province	**1**	1	–
– Heilongjiang Province	**1**	1	–
– Zhejiang Province	**2**	2	–
– Anhui Province	**2**	2	–
Connectable population ('000) *(Note b)*	**11,885**	10,652	11.6%
Connectable residential households ('000)	**3,396**	3,043	11.6%
New piped gas connections by the Group made during the year			
– Residential households	**365,178**	260,187	40.4%
(i) "Coal-to-gas" projects	**111,126**	22,904	385.2%
(ii) Non "Coal-to-gas" projects	**254,052**	237,283	7.1%
– Industrial customers	**475**	368	29.1%
– Commercial customers	**2,200**	1,197	83.8%
Accumulated number of connected piped gas customers			
– Residential households	**2,159,526**	1,844,870	17.1%
– Industrial customers	**1,646**	1,171	40.6%
– Commercial customers	**8,256**	6,056	36.3%
Penetration rate of residential pipeline connection *(Note c)*	**63.6%**	60.6%	3.0%

	2017	2016	Increase/ (Decrease)
Unit of piped natural gas sold ('000 m^3)	**1,203,007**	886,809	35.7%
– Residential households	**250,086**	212,753	17.5%
– Industrial customers	**825,725**	551,619	49.7%
– Commercial customers	**115,418**	99,167	16.4%
– Wholesale customers	**11,778**	23,270	(49.4)%
Unit of LNG sold ('000 m^3)			
– Wholesale customers	**28,251**	–	100%
Number of CNG/LNG vehicle filling stations			
– Accumulated	**63**	60	3
– Under construction	**11**	19	(8)
Unit of natural gas sold to vehicles ('000 m^3)	**96,222**	99,125	(2.9)%
Total length of existing intermediate and main pipelines (km)	**12,342**	10,538	17.1%
Average selling price of natural gas (pre-tax) (RMB per m^3)			
– Residential households	**2.13**	2.17	(1.8)%
– Industrial customers	**2.38**	2.35	1.3%
– Commercial customers	**2.81**	2.68	4.9%
– Wholesale customers	**1.89**	1.67	13.2%
– CNG/LNG vehicle filling stations	**2.97**	2.92	1.7%
Average cost of natural gas (RMB per m^3)	**2.11**	1.99	6.0%
Average connection fee for residential households (RMB)			
– "Coal-to-gas" projects	**2,656**	2,905	(8.6)%
– Non "Coal-to-gas" projects	**2,558**	2,508	2.0%

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

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

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

Management Discussion & Analysis

Financial Review

Overall

The Group's turnover for the year ended 31st December, 2017 increased by 35.6% to HK$5,048,100,000 (2016: HK$3,722,507,000), and gross profit for the year ended 31st December, 2017 increased by 27.9% to approximately HK$1,289,102,000 (2016: HK$1,008,009,000). The Group's profit attributable to owners of the Company increased significantly by 170.7% to HK$557,959,000 (2016: HK$206,150,000). The basic and diluted earnings per share attributable to the owners of the Company were HK22.10 cents and HK22.08 cents respectively for the year ended 31st December, 2017, as compared with that of HK8.16 cents and HK8.16 cents respectively for the corresponding period last year.

Turnover

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

	Year ended 31st December,				
	2017	**% of total**	2016	% of total	Increase/ (Decrease)
	HK$'000		*HK$'000*		
Sales of Gas	**3,399,172**	**67.4%**	2,460,609	66.1%	38.1%
Connection revenue from Gas Pipeline Construction	**1,235,142**	**24.5%**	897,306	24.1%	37.7%
Operation of CNG/LNG Vehicle Filling Stations	**329,429**	**6.5%**	337,574	9.1%	(2.4)%
Sales of Stoves and Related Equipment	**77,556**	**1.5%**	21,384	0.6%	262.7%
Sub-total	**5,041,299**	**99.9%**	3,716,873	99.9%	35.6%
Sales of Liquefied Petroleum Gas	**6,801**	**0.1%**	5,634	0.1%	20.7%
Total	**5,048,100**	**100%**	3,722,507	100%	35.6%

The turnover for the year ended 31st December, 2017 amounted to approximately HK$5,048,100,000 (2016: HK$3,722,507,000). The growth in turnover was mainly attributable to a significant increase in sales of gas to industrial customers and connection revenue from gas pipeline construction under the implementation of the "coal-to-gas" conversion policy.

Sales of Gas

Sales of gas for the year ended 31st December, 2017 amounted to approximately HK$3,399,172,000 (2016: HK$2,460,609,000), representing an increase of approximately 38.1% over the corresponding period last year.

Sales of gas for the year ended 31st December, 2017 contributed approximately 67.4% of the total turnover of the Group. As compared with the percentage of approximately 66.1% during the corresponding period last year, sales of gas continued to be the major source of turnover for the Group. The following table set forth the breakdown of sales of gas by customers.

Sales of gas by customers:

	Year ended 31st December,				
	2017	**% of total**	2016	% of total	Increase/ (Decrease)
	HK$'000		*HK$'000*		
Industrial customers	**2,299,934**	**67.7%**	1,550,468	63.0%	48.3%
Residential households	**623,478**	**18.3%**	552,397	22.5%	12.9%
Commercial customers	**375,191**	**11.0%**	312,291	12.7%	20.1%
Wholesale customers	**100,569**	**3.0%**	45,453	1.8%	121.3%
Total	**3,399,172**	**100%**	2,460,609	100%	38.1%

Industrial customers

The sales of gas to the Group's industrial customers for the year ended 31st December, 2017 increased by 48.3% to approximately HK$2,299,934,000 from approximately HK$1,550,468,000 for the corresponding period last year. During the year ended 31st December, 2017, the Group connected 475 new industrial customers. The average selling price of natural gas for industrial customers for the year ended 31st December, 2017 slightly increased by 1.3% to RMB2.38 per m^3 (2016: RMB2.35 per m^3) when compared to the corresponding period last year. There is also a remarkable growth in the demand of natural gas among industrial customers under the implementation of the "coal-to-gas" conversion policy. During the year ended 31st December, 2017, the piped natural gas usage provided by the Group to its industrial customers increased by 49.7% to approximately 825,725,000 m^3 (2016: 551,619,000 m^3).

The sales of gas to its industrial customers for the year ended 31st December, 2017 contributed approximately 67.7% of the total sales of gas of the Group (2016: 63.0%) and continues to be the major source of sales of gas of the Group.

Residential households

The sales of gas to its residential households for the year ended 31st December, 2017 increased by 12.9% to approximately HK$623,478,000 from approximately HK$552,397,000 for the corresponding period last year. The growth in sales of gas to residential households was supported by the implementation of the "coal-to-gas" conversion policy and the growth in population due to urbanization in the Group's existing project cities in the PRC. During the year ended 31st December, 2017, the Group provided new natural gas connections for 365,178 residential households and the piped natural gas usage provided by the Group to residential households was approximately 250,086,000 m^3 (2016: 212,753,000 m^3).

The sales of gas to its residential households for the year contributed approximately 18.3% of the total sales of gas of the Group (2016: 22.5%).

Commercial customers

In addition to fulfilling the demand of residential customers for natural gas, the Group stepped up its gas connection for commercial customers. The sales of gas to its commercial customers for the year ended 31st December, 2017 increased by 20.1% to approximately HK$375,191,000 from approximately HK$312,291,000 for the corresponding period last year. The sales of gas to its commercial customers for the year contributed approximately 11.0% of the total sales of gas of the Group (2016: 12.7%). During the year ended 31st December, 2017, the Group connected 2,200 new commercial customers. As at 31st December, 2017, the number of commercial customers of the Group reached 8,256, representing an increase of approximately 36.3% as compared with 6,056 customers as at 31st December, 2016.

The average selling price of natural gas for commercial customers increased by 4.9% to RMB2.81 per m^3 (2016: RMB2.68 per m^3) when compared to the corresponding period last year. The increase in gas consumption of commercial customers by 16.4% to approximately 115,418,000 m^3 (2016: 99,167,000 m^3) for the year ended 31st December, 2017 was attributable to the "coal-to-gas" conversion policy and the raising awareness for environmental protection.

Gas Pipeline Construction

Connection revenue from gas pipeline construction for the year ended 31st December, 2017 amounted to approximately HK$1,235,142,000, representing an increase of approximately 37.7% over the corresponding period last year. The following table set forth the breakdown of connection revenue from gas pipeline construction by customers.

Connection revenue from gas pipeline construction by customers

	Year ended 31st December,				
	2017	**% of total**	2016	% of total	Increase
	HK$'000		*HK$'000*		
Residential households					
– "Coal-to-gas" projects	**340,616**	**27.6%**	77,717	8.7%	338.3%
– Non "Coal-to-gas" projects	**750,194**	**60.7%**	695,018	77.5%	7.9%
Non-residential households	**144,332**	**11.7%**	124,571	13.8%	15.9%
Total	**1,235,142**	**100%**	897,306	100%	37.7%

During the year ended 31st December, 2017, the PRC government has identified the switch from coal to gas as one of its major priorities to fight with air pollution. The Group has followed the "coal-to-gas" conversion policy and carried out a number of conversion projects in different regions of the PRC. Connection revenue from gas pipeline construction for residential households for "coal-to-gas" projects for the year ended 31st December, 2017 increased by 338.3% to approximately HK$340,616,000 from approximately HK$77,717,000 for the corresponding period last year. During the year ended 31st December, 2017, the Group provided new natural gas connections for 111,126 residential households (2016: 22,904) under "coal-to-gas" projects and the average connection fee was RMB2,656 (2016: RMB2,905). To promote the "coal-to-gas" conversion, discounted prices were offered to certain new residential households, led to a reduced average connection fee in 2017.

During the year ended 31st December, 2017, connection revenue from gas pipeline construction for residential households for non"coal-to-gas" projects increased by 7.9% to approximately HK$750,194,000 from approximately HK$695,018,000 for the corresponding period last year. The increase was mainly attributable to the increase in construction work for gas pipeline connection completed by the Group for residential households for non "coal-to-gas" projects to 254,052 from 237,283 for the corresponding period last year.

The connection fee charged to industrial/commercial customers by the Group was significantly higher than that charged to residential households and was determined on a case-by-case basis. During the year ended 31st December, 2017, connection revenue from gas pipeline construction for non-residential customers increased by 15.9% to approximately HK$144,332,000 from approximately HK$124,571,000 for the corresponding period last year. In consideration of the current economic environment in the PRC, the non-residential customers were more prudent when negotiating the gas pipeline construction contracts.

As at 31st December, 2017, the Group's penetration rates of residential pipeline connection amounted to 63.6% (2016: 60.6%) (represented by the percentage of the accumulated number of the Group's connected residential households to the estimated aggregate number of connectable residential households in its operation regions). In view of the rapid growth of the population in urban areas due to urbanization, the Group will continue to increase its market coverage by active acquisition when suitable opportunities arise.

Operation of CNG/LNG Vehicle Filling Stations

International crude oil prices remained at a low level since late 2014, resulting in the shrinkage of the comparative advantage of CNG/LNG vehicle filling stations in short term. Revenue from operating CNG/LNG vehicle filling stations for the year ended 31st December, 2017 amounted to approximately HK$329,429,000, representing a decrease of approximately 2.4% over the corresponding period last year. In view of the increased cost of natural gas, the average selling price of natural gas for CNG/LNG vehicle filling stations for the year ended 31st December, 2017 was adjusted upward by 1.7% to RMB2.97 per m^3 (2016: RMB2.92 per m^3) when compared to the corresponding period last year. The unit of natural gas sold to vehicles reduced by 2.9% to approximately 96,222,000 m^3 for the year ended 31st December, 2017 from approximately 99,125,000 m^3 for the corresponding period last year.

During the year ended 31st December, 2017, the turnover derived from operating CNG/LNG vehicle filling stations accounted for approximately 6.5% of the total turnover of the Group. As at 31st December, 2017, the Group had 63 CNG/LNG vehicle filling stations and commenced building an additional 11 CNG/LNG vehicle filling stations in the PRC. All new CNG/LNG vehicle filling stations are targeted to commence operation in 2018 or 2019.

Gross profit margin

The overall gross profit margin for the year ended 31st December, 2017 was approximately 25.5% (2016: 27.1%). The decline in overall gross profit margin for the year under review was mainly due to decrease in gross profit margin for sales of piped natural gas.

The gross profit margin for the sales of piped natural gas reduced to 12.0% (2016: 17.3%) and the gross profit margin for the operation of CNG/LNG vehicle filling stations reduced to 4.1% (2016: 6.3%) as a result of limited supply of natural gas and hence increased average cost in the second half of 2017. The gross profit margin for the gas pipeline construction increased to 69.7% for the year under review (2016: 64.1%), which was mainly due to cost reduction after integration and improvement of design, material procurement and construction processes.

Other gains and losses

The Group recognised other net gain of HK$130,647,000 in 2017 (2016: net loss of HK$158,104,000). The amount mainly represented (i) net foreign exchange gain of HK$114,747,000 (2016: loss of HK$138,173,000) mainly arising from the Group's bank borrowings denominated in United States dollars as a result of the appreciation of RMB since the beginning of 2017; and (ii) net reversal of allowance for doubtful debts for other receivables of HK$25,806,000 (2016: HK$3,604,000). In 2016, there was impairment loss on amounts due from customers for contract work of HK$27,010,000.

Other income

Other income increased to approximately HK$69,422,000 in 2017 from approximately HK$42,389,000 in 2016. The balance in 2017 represented the bank interest income of approximately HK$3,973,000 (2016: HK$7,432,000), interest income on amount due from an associate of approximately HK$2,775,000 (2016: HK$4,045,000), government subsidies of approximately HK$15,879,000 (2016: HK$8,087,000), interest income from investments in life insurance contracts of approximately HK$2,587,000 (2016: HK$2,704,000) and sundry income of approximately HK$44,208,000 (2016: HK$20,121,000).

Selling and distribution costs and administrative expenses

Selling and distribution costs increased by 25.2% to approximately HK$111,355,000 in 2017 from approximately HK$88,955,000 in 2016. Administrative expenses increased by 13.3% to approximately HK$311,860,000 in 2017 from approximately HK$275,220,000 in 2016. The increase was mainly attributable to (i) ascending staff costs and related expenses as a result of increased salary and number of headcount; and (ii) additional depreciation expenses arisen from the revaluation of pipelines in prior year.

Finance costs

Finance costs decreased by 4.4% to approximately HK$241,292,000 in 2017 from approximately HK$252,495,000 in 2016. The financial impact of the increase in average bank and other borrowings balance and average interest rate was offset by decrease in amortisation on loan facilities fees.

Income tax expenses

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

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the years ended 31st December, 2016 and 2017. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries had no assessable profits arising in Hong Kong for both years mentioned above.

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2017, withholding tax amounting to HK$6,638,000 (2016: HK$9,620,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities of the Group in the current year.

Accordingly, the income tax expenses in 2017 amounted to approximately HK$257,818,000 (2016: HK$191,318,000).

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

The Group's EBITDA was approximately HK$1,257,947,000 in 2017, representing an increase of 39.8% as compared with that of approximately HK$899,586,000 in 2016.

Profit attributable to owners of the Company

As a result of the above, profit attributable to owners of the Company was approximately HK$557,959,000 in 2017, representing an increase of 170.7% as compared with that of approximately HK$206,150,000 in 2016.

Net profit margin

For the year ended 31st December, 2017, the net profit margin, representing a ratio of profit attributable to owners of the Company to turnover, was approximately 11.1% (2016: 5.5%).

Earnings per share

The basic and diluted earnings per share attributable to the owners of the Company were HK22.10 cents and HK22.08 cents respectively in 2017, as compared with that of HK8.16 cents and HK8.16 cents respectively in 2016.

Net assets value per share

The net assets value per share attributable to the owners of the Company was HK$1.26 as at 31st December, 2017 (2016: HK$1.01).

The net assets value represents total assets minus total liabilities.

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Liquidity

As at 31st December, 2017, the total assets of the Group increased by approximately HK$2,177,068,000 or 22.6% to HK$11,800,731,000 (2016: HK$9,623,663,000).

As at 31st December, 2017, the Group has net current liabilities of approximately HK$1,665,593,000 (2016: HK$1,055,376,000). It was mainly due to increase in bank and other borrowings which are repayable within one year.

As at 31st December, 2017, the Group's current ratio, represented by a ratio of total current assets to total current liabilities, was approximately 0.5 (2016: 0.6).

As at 31st December, 2017, the total borrowings and obligations under finance lease increased by approximately HK$1,281,216,000 or 29.0% to HK$5,705,741,000 (2016: HK$4,424,525,000).

As at 31st December, 2017, the Group had total net debts of approximately HK$5,241,394,000 (2016: HK$3,645,010,000), measured as total borrowings and obligations under finance lease minus the bank balances and cash and pledged bank deposits. As at 31st December, 2017, the Group had net gearing ratio of approximately 1.41 (2016: 1.30), measured as total net debts to total equity of approximately HK$3,723,217,000 (2016: HK$2,805,931,000).

Financial resources

During the year ended 31st December, 2017, the Group entered into several loan agreements with several banks in Hong Kong and overseas, pursuant to which loan facilities of up to US$80,000,000 and HK$346,000,000 in total were made available to the Group.

During the year ended 31st December, 2017, the Group generally financed its operations with internally generated resources and bank and other borrowings. As at 31st December, 2017, all of the bank and other borrowings were secured or unsecured and on normal commercial basis.

Capital structure

Please refer to notes 29, 32, 33 and 44 of the consolidated financial statements for details of the capital structure of the Group.

Working capital

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

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

During the year, the Group's monetary assets and liabilities are principally denominated in either RMB or the United States dollars and the Group conducted its business transactions principally in RMB. As a result of appreciation of RMB since the beginning of 2017, exchange gain arising from the Group's bank borrowings denominated in United States dollars and Hong Kong dollars was recognised during the year. The proportion of the Group's bank borrowings denominated in United States dollars was significantly reduced after the loan restructuring in August 2016. This helped to reduce currency exposure and maintain a more stable financial position for the Group. As at 31st December, 2017, the Group did not employ any financial instruments for hedging purposes.

EMPLOYEE INFORMATION

As at 31st December, 2017, the Group had a total of 3,587 employees (2016: 3,342) in Hong Kong and the PRC, and the total employee benefit expenses (other than directors) for the year was approximately HK$347,367,000 (2016: HK$305,290,000). The increase was mainly due to the increase in the number of headcount of the Group and salary increment. Around 99.8% of the Group's employees are located in the PRC.

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

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

Share option scheme

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

As at the date of this report, there were a total of 2,000,000 share options (as at the date of the annual report of the Company for the year ended 31st December, 2016: 2,000,000) outstanding which were granted under the Old Share Option Scheme, the full conversion of which will result in the issue of 2,000,000 ordinary shares in the Company, representing approximately 0.08% of the number of issued shares of the Company as at the date of this report (as at the date of the annual report of the Company for the year ended 31st December, 2016: 0.08%).

On 11th April, 2011, share options to subscribe for an aggregate of 159,000,000 ordinary shares at par value HK$0.01 each of the Company were granted to the eligible participants by the Company pursuant to the Old Share Option Scheme. The exercise price of such share options granted under the Old Share Option Scheme was HK$0.49 per share. The share options granted shall be valid for a period of ten years from the date of grant. No share options granted under the Old Share Option Scheme were exercised during the year. The movements of the Company's share options granted under the Old Share Option Scheme and movements in such holdings during the year ended 31st December, 2017 are disclosed in the title of share options in Directors' Report.

The New Share Option Scheme shall be valid and effective for a period of ten years commencing on 3rd May, 2013 and will expire on 2nd May, 2023. As at the date of this report, the maximum number of share options which may be granted under the New Share Option Scheme is 126,400,768. These share options, if granted and converted in full, represent approximately 5.006% of the number of issued shares of the Company as at the date of this report (as at the date of the annual report of the Company for the year ended 31st December, 2016: 9.996%).

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

On 5th January, 2018, 126,000,000 share options to subscribe for an aggregate of 126,000,000 ordinary shares at par value of HK$0.01 each of the Company were granted to the eligible participants by the Company pursuant to the New Share Option Scheme. The exercise price of such share options granted under the New Share Option Scheme was HK$5.5 per share. The share options granted shall be valid for a period of ten years from the date of grant. No share options granted under the New Share Option Scheme were exercised from 1st January, 2017 to the date of this report. The closing price of the Company's shares on 5th January, 2018, being the date on which the share options under the New Share Option Scheme were granted, was HK$5.0. For further details, please refer to the Company's announcement dated 5th January, 2018.

CHARGE ON THE GROUP'S ASSETS

As at 31st December, 2017, the Group has pledged certain buildings in the PRC having a carrying value of HK$2,927,000 (2016: HK$2,807,000) to secure a bank borrowing granted to the Group.

As at 31st December, 2017, the Group has pledged certain prepaid lease payments in the PRC having a carrying value of HK$40,291,000 (2016: HK$46,225,000) to secure certain bank borrowings granted to the Group.

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

As at 31st December, 2017, the Group's obligations under finance lease are secured by the Group's pipelines with an aggregate carrying amount of RMB420,838,000 (equivalent to HK$503,455,000) (2016: RMB416,222,000 (equivalent to HK$465,312,000)) and 50% of the equity interests of a subsidiary of the Group.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the year ended 31st December, 2017, save for the events described in notes 37 and 38 to the consolidated financial statements, the Group did not conduct any significant investments, or material acquisitions or disposals of subsidiaries.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

As at 31st December, 2017, the Board did not have any specific plans for material investment or capital assets.

CAPITAL AND OTHER COMMITMENTS

As at 31st December, 2017, the capital expenditure in respect of the acquisition of property, plant and equipment and prepaid lease payments contracted for but not provided in the consolidated financial statements is HK$120,529,000 (2016: HK$76,859,000).

CONTINGENT LIABILITIES

As at 31st December, 2017, the Group did not have any contingent liabilities (2016: nil).

Biographical Information of Directors

Executive Directors

Mr. Wang Wenliang, aged 47, is the Chairman of the Company. He was appointed as an executive Director on 10 July 2003 and is responsible for the overall strategic development of the Company and its subsidiaries (collectively the "Group"). Mr. Wang has held investments in various industries in the PRC including aluminium, property, and information technology. Mr. Wang was a deputy general manager of a company in Zhengzhou, People's Republic of China (the "PRC") (whose principal business is the manufacture and sale of aluminium products) between 1996 and 1999 and was a deputy general manager of a company in Henan Province, the PRC (whose principal business is property management and rental) between 1997 and 2000. Mr. Wang was also a president of a company in Henan Province, the PRC between 2000 and 2005, the principal business of which is the provision of software development, networking engineering services, sale of computer and peripheral products, and provision of Internet services. Mr. Wang was an executive director of China Gas between 17 January 2003 and 10 June 2003. Mr. Wang completed his postgraduate course in Finance in the Graduate School of Chinese Academy of Social Sciences in the PRC in June 2001. Mr. Wang is the sole shareholder, a chairman and director of Hezhong Investment Holding Company Limited ("Hezhong"), which is a substantial shareholder (as defined in the Listing Rules) of the Company.

Mr. Lui Siu Keung, aged 46, is the Chief Executive Officer and Company Secretary of the Company. He was appointed as an executive Director of the Company on 22 October 2007. Mr. Lui joined the Company in 2003 and is responsible for the general business operations and management. Mr. Lui has approximately twenty years of experience in corporate finance, accounting and auditing fields. He graduated from The Hong Kong Polytechnic University with a bachelor of arts degree in accountancy in November 1996. Mr. Lui is an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Lui was an independent non-executive director of Co-Prosperity Holdings Limited (Stock Code: 707) up to 10th March, 2015.

Mr. Lu Zhaoheng, aged 53, is the executive Director of the Company and is mainly responsible for the management of the Group's business in PRC. He was appointed as an executive Director on 24 June 2004. Mr. Lu is the National Registered Public Facilities Engineer and Senior Engineer. Mr. Lu graduated from 重慶建築工程學院 (The Architecture and Engineering Institute of Chongqing) specializing Town Gas Thermal Engineering in 1984, and obtained a master degree in senior management of business administration from China Europe International Business School in 2017. Mr. Lu has accumulated more than thirty years of experience in the development and commercialisation of natural gas in the PRC. Mr. Lu held various positions in 河南省城鄉規劃設計研究總院 (Henan Urban Planning Institute Corporation) and has comprehensive qualification and experience in planning research, engineering and business management in the natural gas industry.

Non-executive Director

Mr. Xu Yongxuan, aged 72, is the Vice Chairman of the Company. Mr. Xu was appointed as a non-executive Director and Vice Chairman of the Company on 12 March 2004. Mr. Xu had been an executive director of Greater China Holdings Limited, the issued shares of which are listed on the main board of the Stock Exchange for the period from October 2001 to January 2004.

Independent Non-executive Directors

Mr. Li Chunyan, aged 54, is an independent non-executive Director, Chairman of Audit Committee, Remuneration Committee and Nomination Committee of the Company. He was appointed as an independent non-executive Director on 5 October 2010. He is currently a registered lawyer at Henan Shi Ji Tong Law Office (河南世紀通律師事務所) and is also a registered accountant, registered assets valuer and registered tax adviser in the PRC. Mr. Li acted as legal adviser or independent non-executive director to the Henan Provincial People's Hospital, the Henan Province Television Station and other listed companies listed in the PRC and overseas. He was the independent non-executive director of Zhengzhou Yutong Bus Co. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600066) from April 2014 to the present. He is a non-executive director of Rosan Resources Holdings Limited (stock code: 578).

Dr. Luo Yongtai, aged 71, is an independent non-executive Director, a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He was appointed as an independent non-executive Director on 31 July 2003. He is a professor and a doctoral tutor in management of Tianjin University of Finance and Economics, the committee member of Tianjin Historical Building Protection Expert Consultation Committee, a Director of Coordinated Innovation Development Research Institute of the Beijing, Tianjin and Hebei region, the committee member of Coordinated Development Research Center Expert Consultation Committee of the Northeastern region and the Beijing, Tianjin and Hebei region, and an expert of Thinking Tank in Tianjin Science and Technology Commission, as well as a beneficiary of the Expert Special Subsidy granted by the State Council of the PRC. Dr. Luo had been an independent director of Tianjin Tianbao Infrastructure Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000965) for the period from December 2014 to June 2017. He is an independent director of Tianjin Guifaxiang 18th Street Mahua Food Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002820) and an external director of Tianjin Ringpu Bio-Technology Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300119).

Ms. Liu Yu Jie, aged 53, is an independent non-executive Director, a member of Audit Committee, Remuneration Committee and Nomination Committee of the Company. She was appointed as an independent non-executive Director on 30 June 2017. Ms. Liu graduated from University of International Business and Economics in Beijing and obtained a master's degree in business management. She has been working in Hong Kong, Singapore and the PRC for over 20 years and is familiar with the business environment and regulatory systems of such jurisdictions. She has comprehensive experience in capital markets, business promotion and corporate management through participating in initial public offerings, underwriting over 30 companies in their respective initial public offerings on The Stock Exchange of Hong Kong Limited, and having led and completed mergers and acquisitions of a number of companies in Hong Kong and Singapore. Ms. Liu also assisted in capital raising and management of large-scale industrial funds which make investments in China, and acted as executive directors of listed companies in Hong Kong and Singapore which engaged in utilities and infrastructure investments. Ms. Liu is an executive director of China Water Affairs Group Limited (stock code: 855) and New Universe Environmental Group Limited (stock code: 436). She was also an executive director of SIIC Environment Holdings Ltd. (a company listed on the Singapore Exchange) from 19 November 2009 to 8 August 2014.

Corporate Governance Report

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

Save as disclosed herein, the Company has fully complied with all code provisions set out in the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") (the "CG Code") for the year ended 31st December, 2017. The following summarises the corporate governance practices of the Company and the reasons for deviations, if any, from the CG Code.

A. Board of Directors

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

A.1 Board composition

As at 31st December, 2017, the Board included seven Directors, of which three were executive Directors, one was non-executive Director and the remaining three were independent non-executive Directors. The composition of the Board and its changes during the year ended 31st December, 2017 and up to the date of this report are as follows:

Executive Directors:	Mr. Wang Wenliang ("Mr. Wang") *(Chairman)* Mr. Lui Siu Keung *(Chief Executive Officer)* Mr. Lu Zhaoheng
Non-executive Director:	Mr. Xu Yongxuan *(Vice-Chairman)*
Independent Non-executive Directors:	Mr. Li Chunyan Dr. Luo Yongtai Mr. Hung, Randy King Kuen (resigned with effect from 30th March, 2017) Ms. Liu Yu Jie (appointed with effect from 30th June, 2017)

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

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

Given the business nature, the Board members have distinct skills and experience in a variety of business range, which includes city gas network design and operation, organisational management, financial and securities trading market, etc. The relevant biographies and the respective roles of all Directors on the Board are set out on pages 31 and 32 in this report.

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

A.2 Board meetings and information supply

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

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

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

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

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

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

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

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

For the year ended 31st December, 2017, the Board held 25 board meetings and the Company held one general meeting. The attendance records of all board meetings and the general meeting are set out below:

	General meeting		Board meetings	
Executive Directors				
Mr. Wang Wenliang *(Chairman)*	1	100%	25	100%
Mr. Lui Siu Keung *(Chief Executive Officer)*	1	100%	25	100%
Mr. Lu Zhaoheng	1	100%	21	84%
Non-executive Director				
Mr. Xu Yongxuan *(Vice Chairman)*	1	100%	21	84%
Independent Non-executive Directors				
Mr. Li Chunyan	1	100%	21	84%
Dr. Luo Yongtai	1	100%	21	84%
Mr. Hung. Randy King Kuen*	–	–	4	100%
Ms. Liu Yu Jie**	–	–	6	67%

* *Mr. Hung, Randy King Kuen was resigned as an independent non-executive Director with effect from 30th March, 2017. Accordingly, the attendance record only shows the board meetings and general meeting that were held before his resignation.*

** *Ms. Liu Yu Jie was appointed as an independent non-executive Director with effect from 30th June, 2017. Accordingly, the attendance record only shows the board meetings and general meeting that were held after her appointment.*

A.3 Chairman and chief executive

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

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

A.4 Appointments and re-election

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

The Company renewed the service contracts with each non-executive Director, except for Ms. Liu Yu Jie, on 11 July 2015. The Company entered into service contract with Ms. Liu Yu Jie on 30th June, 2017. The term of appointment for the non-executive Directors is three years and they are subject to retirement by rotation and re-election in accordance with the Articles of Association. The details of procedure for retirement of Directors are as follows:

According to the Articles of Association and the CG Code Provisions A4.1-A4.3, one-third of the Directors shall retire from office by rotation at the annual general meeting. The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election. Any further Director so to retire shall be those of the other Directors subject to retirement by rotation who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall be determined by lot. Any Director appointed pursuant to the Company's articles of association as stated in the paragraph one under the heading "A.4 Appointment and re-election" shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation.

Accordingly, Ms. Liu Yu Jie, who was appointed as an independent non-executive Director with effect from 30th June, 2017, will hold office until the AGM and will be eligible for re-election at the AGM, and Dr. Luo Yongtai and Mr. Wang Wenliang will retire from office as Directors by rotation at the AGM and being eligible, offer themselves for re-election. In accordance with CG Code Provision A.4.3, the re-election of Dr. Luo Yongtai, an independent non-executive Director who has served more than 9 years, will be subject to approval by the shareholders of the Company at the upcoming AGM.

A.5 Responsibilities of directors

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

A.6 Directors' securities transaction

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

A.7 Directors and Officers' Liabilities Insurance

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

A.8 Corporate Governance Functions

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

A.9 Continuous Professional Development

Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company. All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged in-house trainings for Directors and provision of training materials. A summary of training received by Directors during the year ended 31st December, 2017 according to the records provided by the Directors is as follows:

Name of Directors	Training on corporate governance, Directors' responsibilities and other relevant topics
Executive Directors	
Mr. Wang Wenliang	✓
Mr. Lui Siu Keung	✓
Mr. Lu Zhaoheng	✓
Non-executive Director	
Mr. Xu Yongxuan	✓
Independent non-executive Directors	
Mr. Li Chunyan	✓
Dr. Luo Yongtai	✓
Mr. Hung, Randy King Kuen *(resigned with effect from 30th March, 2017)*	✓
Ms. Liu Yu Jie	✓

B. Remuneration Matters

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

Two remuneration meetings were held on 21st March, 2017 and 29th June, 2017 to review the remuneration packages of Directors with reference to their duties and responsibilities within the Group, the Company's remuneration policy and the prevailing market condition. The attendance record of the Remuneration Committee meeting is set out below:

Independent Non-executive Directors		
Mr. Li Chunyan *(Chairman)*	2	100%
Dr. Luo Yongtai	2	100%
Mr. Hung, Randy King Kuen	1	100%
Ms. Liu Yu Jie	–	–

C. Accountability and Audit

C.1 Financial reporting

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

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

C.2 Risk Management and Internal controls

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the year ended 31st December, 2017, the Board, through the Audit Committee, conducted an annual review of the effectiveness of the risk management and internal control systems of the Group. The annual review covered all material controls, including financial, operational and compliance controls. The annual review also covered the resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions, which the Board considered to be adequate.

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

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

C.3 Audit committee

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

The Audit Committee comprises three independent non-executive Directors who have extensive experience in financial matters, including Mr. Li Chunyan, Dr. Luo Yongtai and Ms. Liu Yu Jie. Mr. Li Chunyan is the chairman of the Audit Committee. In 2017, the Audit Committee held two meetings to check the effectiveness of the risk management and internal control systems; to review the effectiveness of the Company's internal audit function; to review all draft interim and annual financial reports, circulars and announcements; and understand the external auditors' statutory audit plan and the Letters of Representation, and to consider and approve the audit fees. The attendance records of the Audit Committee meetings are set out below:

Independent Non-executive Directors		
Mr. Li Chunyan *(Chairman)*	2	100%
Dr. Luo Yongtai	2	100%
Mr. Hung, Randy King Kuen	1	100%
Ms. Liu Yu Jie	1	100%

C.4 Auditor's remuneration

The remuneration in respect of audit service provided by Deloitte Touche Tohmatsu, being the Company's auditor during the year 2017 amounted to HK$3,500,000.

D. Nomination Committee

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

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

The Nomination Committee comprises three independent non-executive Directors including Mr. Li Chunyan, Dr. Luo Yongtai and Ms. Liu Yu Jie. Mr. Li Chunyan is the chairman of the Nomination Committee.

The Nomination Committee held one meeting during the year ended 31st December, 2017 to determine the policy for the nomination of directors, review the nomination, re-appointment and re-election of Directors, discuss the resignation of Mr. Hung, Randy King Kuen and the appointment of Ms. Liu Yu Jie as an independent executive Director of the Company, and to determine the nomination procedures and consider the process and criteria to be adopted by the Nomination Committee for selecting and proposing a person for election as a Director including the benefits of board diversity in terms of skill, experience, knowledge and gender. The Company believes diversity is important to enhance board effectiveness by encouraging a diversity of perspectives and to maintain high standards of corporate governance. The range of diversity perspectives may include a consideration of various factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, and other factors based on the specific needs of the Company. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained and has not set any measurable objective implementing the Board diversity policy. The Nomination Committee considered the current size and composition of the Board to be sufficient to meet the Company's business needs. The attendance record of the Nomination Committee meeting is set out below:

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

E. Shareholders' Rights

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

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

Procedures by which enquiries may be put to the Board

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

F. Constitutional Documents

There was no change in the Company's constitutional documents during the year ended 31st December, 2017.

Directors' Report

The directors of the Company present their annual report and the audited consolidated financial statements of the Group for the year ended 31st December, 2017.

Further discussion and analysis of the activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business, an analysis using key performance indicators and an indication of likely future development in the Group's business can be found in the "Chairman's Statement", "CEO Message" and the "Management Discussion and Analysis" sections of this annual report (which form part of this report of the Directors).

Principal Activities

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

Results and Appropriations

The results of the Group for the year ended 31st December, 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 58.

The Board has recommended the payment of a final dividend of HK5 cents per ordinary share to shareholders whose names appear on the register of members of the Company on 15th June, 2018 and the proposed final dividend is expected to be paid on or about 10th July, 2018. The payment of dividends shall be subject to the approval of the shareholders at the forthcoming annual general meeting of the Company.

Investment Properties and Property, Plant and Equipment

The Group revalued all of its investment properties and pipelines included in property, plant and equipment at the year end date. The decrease in fair value of investment properties, which has been debited to profit or loss, amounted to HK$2,218,000. The investment properties are primarily used as offices and shop in the PRC.

Details of the movements during the year in investment properties and property, plant and equipment of the Group are set out in notes 15 and 16 to the consolidated financial statements respectively.

Share Capital

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

Distributable Reserves

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for distributions of dividends to shareholders subject to the provisions of its Articles of Association and provided that immediately following the distribution of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors, as at 31st December, 2017, the Company's reserves available for distribution amounted to HK$968,511,000 which consisted of share premium of HK$895,736,000 and accumulated profit of HK$72,775,000.

Purchase, Sale or Redemption of Shares

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

Directors

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

Executive Directors

Mr. Wang Wenliang *(Chairman)*
Mr. Lui Siu Keung *(Chief Executive Officer)*
Mr. Lu Zhaoheng

Non-executive Director

Mr. Xu Yongxuan *(Vice-Chairman)*

Independent non-executive Directors

Mr. Li Chunyan
Dr. Luo Yongtai
Mr. Hung, Randy King Kuen
(resigned with effect from 30th March, 2017)
Ms. Liu Yu Jie *(appointed with effect from 30th June, 2017)*

Pursuant to the provisions of the Company's Articles of Association and/or the Listing Rules, Ms. Liu Yu Jie shall hold the office of Director until the AGM and, being eligible, offer herself for re-election as Director at the AGM.

In accordance with the provisions of the Company's Articles of Association, Dr. Luo Yongtai and Mr. Wang Wenliang will retire by rotation at the upcoming AGM and, being eligible, offer themselves for re-election. The re-election of Dr. Luo Yongtai will also be subject to approval by the shareholders as he has served as an independent non-executive director for over nine years.

Directors Service Contracts

The Company renewed the service contracts with each of the Directors of the Company, except for Ms. Liu Yu Jie, on 11th July, 2015. The Company entered into service contract with Ms. Liu Yu Jie on 30th June, 2017. The term of appointment for the Directors is three years and the Directors are subject to retirement by rotation and re-election in accordance with the Articles of Association and the CG Code. There are no existing or proposed directors' service contracts which are not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Transactions, Arrangements or Contracts of Significance

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

Disclosure of Interests

(a) Interests of Directors

As at 31st December, 2017, the interests and short positions of the Directors of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules were as follows:

Long positions in the shares of the Company

Name of Directors	Notes	Number of shares and/or underlying shares	Type of Interests	Approximate percentage of issued share capital (Note 4)
Mr. Wang Wenliang	1	595,217,542	Beneficial / Interest in controlled corporation / Interest of spouse	23.57%
Mr. Xu Yongxuan	2	1,000,000	Beneficial	0.04%
Mr. Lui Siu Keung	3	6,000,000	Beneficial	0.24%
Mr. Lu Zhaoheng	3	3,000,000	Beneficial	0.12%
Mr. Li Chunyan	3	1,000,000	Beneficial	0.04%
Dr. Luo Yongtai	2	1,000,000	Beneficial	0.04%

Notes:

1. *Among these shares and/or underlying shares, 567,453,542 shares are held by Hezhong Investment Holding Company Limited ("Hezhong"). Mr. Wang Wenliang is beneficially interested in 100% of the issued share capital of Hezhong. The remaining 18,746,000 shares and 9,018,000 shares are directly held by Mr. Wang Wenliang and his spouse respectively.*

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

3. *The shares are directly held by the Director.*

4. *As at 31st December, 2017, the total number of issued shares of the Company was 2,525,007,684.*

Save as disclosed above, as at 31st December, 2017, none of the Directors and chief executive of the Company had or was deemed to have any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

(b) Interests of substantial shareholders of the Company

So far as is known to the Directors, as at 31st December, 2017, the following entities (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in the shares of the Company

Name of Shareholder	**Notes**	**Type of interests**	**Number of shares**	**Approximate percentage of interests** (Note 4)
China Gas Holdings Limited	1	Interest of controlled corporation	1,111,934,142	44.04%
Rich Legend International Limited	1	Beneficial	1,111,934,142	44.04%
Hezhong	2	Beneficial	567,453,542	22.47%
Ms. Feng Haiyan	3	Beneficial / Interest of spouse	595,217,542	23.57%

Notes:

1. *According to the disclosure of interests pages as shown in the website of the Stock Exchange as at 31st December, 2017, China Gas Holdings Limited controlled 100% of Rich Legend International Limited ("Rich Legend") and is therefore deemed to be interested in the 1,111,934,142 shares held by Rich Legend. This does not include an interest in 568,619,542 shares which, based on such disclosure are not held beneficially by Rich Legend but are held by Rich Legend in a capacity described as "Other" in the relevant disclosure of interests pages. Apart from the information ascertained in the disclosure of interest pages as shown in the website of the Stock Exchange, the Company has no further information.*

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

3. *Ms. Feng Haiyan directly holds 9,018,000 shares and is deemed to be interested in 586,199,542 shares under the SFO as she is the spouse of Mr. Wang Wenliang.*

4. *As at 31st December, 2017, the total number of issued shares of the Company was 2,525,007,684.*

Save as disclosed above, as at 31st December, 2017, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Share Options

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

As at the date of this report, there were a total of 2,000,000 share options (as at the date of the annual report of the Company for the year ended 31st December, 2016: 2,000,000) outstanding which were granted under the Old Share Option Scheme, the full conversion of which will result in the issue of 2,000,000 ordinary shares in the Company, representing approximately 0.08% of the number of issued shares of the Company as at the date of this report (as at the date of the annual report of the Company for the year ended 31st December, 2016: 0.08%).

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

As at 31st December, 2017, no share option had been granted under the New Share Option Scheme.

On 5th January, 2018, 126,000,000 share options to subscribe for an aggregate of 126,000,000 ordinary shares of the Company at par value of HK$0.01 each were granted to the eligible participants by the Company pursuant to the New Share Option Scheme. The exercise price of such share options granted under the New Share Option Scheme was HK$5.5 per share. The share options granted shall be valid for a period of ten years from the date of grant. No share options granted under the New Share Option Scheme were exercised from 1st January, 2017 to the date of this report. The closing price of the Company's shares on 5th January, 2018, being the date on which the share options under the New Share Option Scheme were granted, was HK$5.0. For further details, please refer to the Company's announcement dated 5th January, 2018.

As at the date of this report, the maximum number of share options which may be granted under the New Share Option Scheme is 126,400,768. These share options, if granted and converted in full, represent approximately 5.006% of the number of issued shares of the Company as at the date of this report (as at the date of the annual report of the Company for the year ended 31st December, 2016: 9.996%).

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

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

The Company may renew the Scheme Mandate Limit at any time subject to prior shareholders' approval but in any event, the total number of shares which may be issued upon exercise of all share options to be granted under the New Share Option Scheme under the limit as refreshed must not exceed 10% of the Shares in issue as at the date of the

Shareholders' approval of the renewed limit. Options previously granted under the New Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the terms or exercised options) will not be counted for the purpose of calculating the limit as renewed.

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

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

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

				Number of share options under the Old Share Option Scheme				
Name of Directors	Date of grant	Exercise / Vesting period	Exercise price HK$	Outstanding as at 1st January, 2017	Granted during the year under review	Exercised during the year under review	Lapsed/ Cancelled during the year under review	Outstanding at 31st December, 2017
Xu Yongxuan	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	1,000,000	–	–	–	1,000,000
Luo Yongtai	11th April, 2011	11th April, 2011 to 10th April, 2021	0.49	1,000,000	–	–	–	1,000,000
				2,000,000	–	–	–	2,000,000
Exercisable at the end of the year								2,000,000
Weighted average exercise price				HK$0.49	–	–	–	HK$0.49

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

Connected Transaction

In order to increase its shareholding interest in Harmony Gas Holdings Limited ("Harmony Gas") and carry out further integration of the projects of Harmony Gas, on 30th March, 2017 (after trading hours), Zhongyu Gas Investment (Beijing) Limited ("Zhongyu Beijing") (a wholly owned subsidiary of the Company) and Eloten Group Ltd. ("Eloten"), a 11.3% shareholder of Harmony Gas and therefore a connected person of the Company, entered into a sale and purchase agreement pursuant to which Zhongyu Beijing agreed to acquire a further interest of 11.3% in Harmony Gas at the consideration of US$18,000,000 (approximately HK$140,072,000).

Immediately before and after completion of the acquisition, the interest held by the Group in Harmony Gas increased from 50% to 61.3%. Please refer to the announcements of the Company dated 30th March, 2017 and 7th April, 2017 for more details.

Continuing Connected Transaction

The Group has been purchasing household appliances, including gas boilers, gas water heaters, gas stoves, range hood, household disinfection cabinet and other kitchen appliances from Gasbo Electrical and Gas Appliances Co., Ltd. (中燃寶電氣(深圳)有限公司) ("Gasbo") pursuant to certain sale and purchase agreements entered into from time to time between members of the Group as purchasers and Gasbo as supplier since 1st December, 2016 ("the "Gas Appliance Purchase Agreements"). Such gas and kitchen appliances will then be sold to the Group's customers. In connection with the transactions under the Gas Appliance Purchase Agreements, the Group also entered into service agreements with Gasbo pursuant to which the Group agreed to provide after-sale services, including delivery, installation and repair and maintenance services, to its customers who are users of the gas and kitchen appliances. Such service agreements and transactions contemplated thereunder are fully exempt from reporting, announcement, annual review and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

China Gas Holdings Limited, the controlling shareholder of the Company, has an effective interest of approximately 63.3% in Gasbo and therefore, Gasbo is an associate of China Gas Holdings Limited and a connected person of the Company.

The term of the Gas Appliance Purchase Agreements are all for three years each commencing from the date of the relevant agreement. The transactions under the Gas Appliance Purchase Agreements are on normal commercial terms subject to annual caps of RMB75,000,000 (approximately HK$87,945,000), RMB130,000,000 (approximately HK$152,438,000) and RMB150,000,000 (approximately HK$175,890,000) for the three years ending 31st December, 2017, 2018 and 2019.

The Directors are of the view that the Group can benefit from the cooperation with Gasbo with a view to strengthening its existing business segment in the sale of gas stoves and other related household appliances. Please refer to the announcement of the Company dated 25th August, 2017 for more details.

Pursuant to rule 14A.55 of the Listing Rules, the independent non-executive Directors have confirmed that the above transactions had been entered into:

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

(ii) on normal commercial terms or better; and

(iii) according to the above agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

For the purpose of rule 14A.56 of the Listing Rules, Deloitte Touche Tohmatsu, the Company's auditor, has provided a letter to the Board, confirming that nothing has come to their attention that causes them to believe that the Gas Appliance Purchase Agreements and transactions contemplated thereunder:

(i) have not been approved by the Board;

(ii) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

(iii) have exceeded the cap.

The continuing connected transactions disclosed above also constitute related party transaction under the Hong Kong Financial Reporting Standards. A summary of significant related party transactions made during the year was disclosed in note 41 to the consolidated financial statements.

The Board confirms that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Compliance with Laws and Regulations

The Group has complied with the relevant laws and regulations that have a significant impact on the Group. The Group has established policies to reduce wastewater and solid wastes and monitor the waste emissions to comply with relevant environmental laws and regulations in different region in the PRC.

The Group has formulated relevant policies to protect employees' rights and strictly complied with relevant laws and regulations. We implement Law on Protection of the Rights and Interests of Women to safeguard the statutory rights of female employees. In addition, we have clear requirements for working hours and holidays, which complies with Labour Contract Law and relevant national laws and regulations and prohibits employment of child labour or forced labour.

The Group has formulated various rules in relation to occupational health and work safety in accordance with the Law of the People's Republic of China on Work Safety to specify work safety responsibilities of staff at all levels, and ensure that these rules and measures are strictly followed.

Environmental policies

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

The Group has formulated annual standards of energy consumption and included those standards in appraisal indicators for every department. Regular appraisals are conducted and appropriate incentives are given to employees to improve their motivation for energy and water conservation. Guidelines on using lighting facilities and air conditioning have been set up to reduce electricity consumption.

Key Relationship with Employees

The Group's recruitment system clearly stipulates the principle of "openness, fairness and justice". We recruit talents extensively through three ways including campus recruitment, internal recruitment and open recruitment. We have formulated Performance Management System, pursuant to which we provide fair and reasonable promotion opportunities to our employees. The ranks and remuneration of employees are determined according to their skills, contributions and scope of influence. The Group also provides thorough and comprehensive training for staff at all levels through diversified means including lectures, practical training, sharing and learning, onsite observation and outreach training.

Major Customers and Suppliers

The aggregate sales attributable to the Group's five largest customers were less than 15.8% of total turnover for the year. The Group's largest customer accounted for 8.8% of the total sales for the year. The Group allows an average credit period of 30 days to its trade customers. Customers are mainly local reputable real estate developers and corporate entities in the PRC and no significant counterparty default was noted in the past. The concentration of credit risk is limited due to the customer base being large and unrelated.

For the year ended 31st December, 2017, our five largest suppliers comprised 64.9% of our total purchase for the year. The Group's largest supplier accounted for 38.6% of the total purchase for the year. Long-term relationship has been established with major suppliers to ensure stable supply of gas.

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

Pre-emptive Rights

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

Appointment of Independent Non-executive Directors

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

Emolument Policy

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

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

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

Indemnity Provision

Pursuant to article 165 of the Articles of Association of the Company, every director of the Company shall be entitled to be indemnified and assured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or trusts in relation thereto provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the said directors. Such provision was in force during the year ended 31st December, 2017 and remained in force as of the date of this report.

Principal Risks and Uncertainties Facing by the Group

Work safety is the most important operational risk facing by the Group. The Group has formulated various rules in relation to occupational health and work safety in accordance with the Law of the People's Republic of China on Work Safety to specify work safety responsibilities of staff at all levels, and ensure that these rules and measures are strictly followed. We organize annual training for all staff in respect of management, environment to safety systems, and departments organize their own relevant training as well, with the aim of raising employees' awareness of prevention. We have also equipped our employees with appropriate safety gear to ensure their work safety. For frontline positions, all employees are strictly required to obtain certificates of labour skills from the government, ensuring that the related personnel are equipped with the professional qualifications and safety knowledge about dangerous working conditions.

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

Please refer to note 44 to the consolidated financial statements for a summary of financial risks of the Group.

Competing Business

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

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

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31st December, 2017.

Donations

During the year under review, the Group made charitable and other donations amounted to approximately RMB892,000.

Auditor

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

On behalf of the Board

Wang Wenliang
Chairman

Hong Kong
21st March, 2018

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of Zhongyu Gas Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 58 to 171, which comprise the consolidated statement of financial position as at 31st 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 31st 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 MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill, other intangible assets, property, plant and equipment and prepaid lease payments	
We identified the impairment of goodwill, other intangible assets, property, plant and equipment and prepaid lease payments of the Group's operating and reportable segments as a key audit matter due to their significance to the consolidated financial statements and significant judgment and estimation involved in the impairment assessment. As at 31st December, 2017, the carrying amounts of goodwill, other intangible assets, property, plant and equipment and prepaid lease payments, which were subjected to impairment assessment, were HK\$225,878,000, HK\$1,010,138,000, HK\$3,699,594,000 and HK\$187,104,000 respectively. As disclosed in note 4 to the consolidated financial statements, the relevant assets have been allocated to individual cash-generating units ("CGUs") relating to sales of piped gas, connection of pipeline construction and Harmony Gas Holdings Limited. The recoverable amounts of the respective CGUs have been determined with reference to the value in use of the relevant CGUs, which require adoption of key assumptions such as suitable discount rates and growth rates, in order to calculate the present value of the estimated future cash flows.	Our procedures in relation to the impairment of goodwill, other intangible assets, property, plant and equipment and prepaid lease payments included: • obtaining the value in use calculations ("Cashflow Forecasts") of the CGUs to which the Group's goodwill, other intangible assets, property, plant and equipment and prepaid lease payments are allocated and understanding the key management assumptions adopted in these Cashflow Forecasts through enquiries with the management; • challenging of the models used including the macroeconomic assumptions used; • comparing key assumptions (including discount rates and growth rates) used in the model to external data; • assessing the reasonableness of forecasted future cash flows by comparing to historical performance; and • performing sensitivity analysis on key assumptions, including discount rates adopted.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of pipelines included in property, plant and equipment We identified valuation of pipelines included in property, plant and equipment as a key audit matter due to the significance of this balance to the consolidated financial statements and the complex and subjective judgments and estimates involved in: • the determination of valuation techniques, which is depreciated replacement cost method considering the new replacement cost of the pipelines and deduction for obsolescence and • the selection of different inputs in the model. The directors of the Company adopt revaluation model to measure pipelines included in property, plant and equipment. The surplus resulted from the revaluation is dealt with in other comprehensive income and accumulated in equity, under the heading property revaluation reserve. As disclosed in note 16 to the consolidated financial statements, the fair value of the pipelines amounted to HK$4,664,851,000 as at 31st December, 2017 with the revaluation increase of the pipelines for the year of HK$386,738,000 recorded in other comprehensive income. The fair value was determined by the Group with reference to the valuations performed by an independent professional valuer (the "Valuer") engaged by the Group.	Our procedures in relation to the valuation of pipelines included in property, plant and equipment included: • assessing the competence, capabilities and objectivity of the Valuer; • evaluating management's process in respect of reviewing the valuation performed by the Valuer; • holding discussion with management and the Valuer to understand the valuation basis, methodology used and underlying assumptions applied; • obtaining the valuation reports for pipelines, and challenging the relevance and reasonableness of valuation techniques used by the Valuer; and • assessing the reasonableness of key inputs which were used to determine the fair value under depreciated replacement cost method, including historical labour cost and historical raw chemical materials purchasing price indices for industrial producers, by comparing with the historical purchase prices of the pipelines by the Group in the relevant valuation period.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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 Yu Kin Man.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21st March, 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2017

	NOTES	2017 HK$'000	2016 HK$'000
Turnover	5	**5,048,100**	3,722,507
Cost of sales		**(3,758,998)**	(2,714,498)
Gross profit		**1,289,102**	1,008,009
Other gains and losses	7	**130,647**	(158,104)
Other income	8	**69,422**	42,389
Selling and distribution costs		**(111,355)**	(88,955)
Administrative expenses		**(311,860)**	(275,220)
Finance costs	9	**(241,292)**	(252,495)
Share of results of associates		**24,750**	19,295
Profit before tax		**849,414**	294,919
Income tax expenses	10	**(257,818)**	(191,318)
Profit for the year	11	**591,596**	103,601
Other comprehensive income (expense)			
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**192,613**	(165,543)
Fair value gain on revaluation of pipelines included in property, plant and equipment	16	**386,738**	837,535
Deferred tax arising from revaluation of pipelines included in property, plant and equipment		**(96,685)**	(209,384)
Surplus on revaluation upon transfer of property, plant and equipment to investment property at fair value		**–**	6,693
Deferred tax arising from transfer of property, plant and equipment to investment property at fair value		**–**	(1,673)
Total comprehensive income for the year		**1,074,262**	571,229
Profit (loss) for the year attributable to:			
Owners of the Company		**557,959**	206,150
Non-controlling interests		**33,637**	(102,549)
		591,596	103,601
Total comprehensive income (expense) attributable to:			
Owners of the Company		**996,210**	580,396
Non-controlling interests		**78,052**	(9,167)
		1,074,262	571,229
Earnings per share	14		
Basic		**HK22.10 cents**	HK8.16 cents
Diluted		**HK22.08 cents**	HK8.16 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current assets			
Investment properties	15	**44,516**	43,748
Property, plant and equipment	16	**7,124,176**	5,625,852
Goodwill	17	**225,878**	208,886
Other intangible assets	18	**1,072,322**	1,038,810
Long-term deposits, prepayments and other receivables	19	**418,568**	408,000
Prepaid lease payments	20	**522,635**	474,532
Interests in associates	21	**364,484**	164,034
Interest in a joint venture	22	**10,767**	–
Available-for-sale investments	23	**6,309**	6,074
		9,789,655	7,969,936
Current assets			
Inventories	24	**209,554**	105,863
Trade and bills receivables	25	**672,022**	411,101
Deposits, prepayments and other receivables	25	**484,944**	237,791
Entrusted loan receivable	26	**23,926**	22,359
Amount due from an associate	27	**59,816**	56,087
Amounts due from related parties	27	**8,972**	24,901
Prepaid lease payments	20	**15,157**	13,579
Amounts due from customers for contract work	28	**56,821**	1,774
Tax recoverable		**15,517**	757
Pledged bank deposits	29	**–**	11,574
Bank balances and cash	29	**464,347**	767,941
		2,011,076	1,653,727
Current liabilities			
Deferred income and advance received	30	**670,050**	521,308
Trade and bills payables	30	**727,274**	576,497
Other payables and accrued charges	30	**331,269**	230,830
Amount due to an associate	31	**1,236**	1,155
Amounts due to customers for contract work	28	**35,484**	41,458
Borrowings	32	**1,581,936**	571,616
Obligations under finance lease due within one year	33	**188,373**	100,306
Obligation arising from forward contract with non-controlling interests	37	**–**	575,791
Tax payables		**141,047**	90,142
		3,676,669	2,709,103
Net current liabilities		**(1,665,593)**	(1,055,376)
Total assets less current liabilities		**8,124,062**	6,914,560

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2017

	NOTES	2017 HK$'000	2016 HK$'000
Capital and reserves			
Share capital	34	**25,250**	25,250
Reserves		**3,148,702**	2,527,956
Equity attributable to owners of the Company		**3,173,952**	2,553,206
Non-controlling interests		**549,265**	252,725
Total equity		**3,723,217**	2,805,931
Non-current liabilities			
Deferred income and advance received	30	**6,048**	5,652
Borrowings	32	**3,676,849**	3,537,814
Obligations under finance lease due after one year	33	**258,583**	214,789
Deferred taxation	35	**459,365**	350,374
		4,400,845	4,108,629
		8,124,062	6,914,560

The consolidated financial statements on pages 58 to 171 were approved and authorised for issue by the Board of Directors on 21st March, 2018 and are signed on its behalf by:

MR. WANG WENLIANG
DIRECTOR

MR. LUI SIU KEUNG
DIRECTOR

For the year ended 31st December, 2017

	Attributable to owners of the Company									Non-controlling interests			
	Share capital HK$'000	Share premium HK$'000	Share option reserve HK$'000	property revaluation reserve HK$'000	Other reserve HK$'000	Statutory surplus reserve HK$'000 (Note)	Translation reserve HK$'000	Accumulated profits HK$'000	Sub-total HK$'000	Capital contribution and share of results HK$'000 (note 47)	Others HK$'000 (note 37)	Sub-total HK$'000	Total HK$'000
At 1st January, 2016	25,250	895,736	319	1,128	(3,685)	73,063	163,197	851,656	2,006,664	773,547	(507,817)	265,730	2,272,394
Profit for the year	–	–	–	–	–	–	–	206,150	206,150	(102,549)	–	(102,549)	103,601
Other comprehensive income (expense) for the year	–	–	–	480,240	–	–	(105,994)	–	374,246	93,382	–	93,382	467,628
Total comprehensive income (expense) for the year	–	–	–	480,240	–	–	(105,994)	206,150	580,396	(9,167)	–	(9,167)	571,229
Transfer to statutory surplus reserve	–	–	–	–	–	13,595	–	(13,595)	–	–	–	–	–
Dividend paid by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	(9,709)	–	(9,709)	(9,709)
Acquisition of additional interests in a subsidiary (note 37)	–	–	–	–	(33,854)	–	–	–	(33,854)	(36,477)	–	(36,477)	(70,331)
Acquisition of subsidiaries (note 38)	–	–	–	–	–	–	–	–	–	33,991	–	33,991	33,991
Capital contribution from non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	8,357	–	8,357	8,357
At 31st December, 2016	25,250	895,736	319	481,368	(37,539)	86,658	57,203	1,044,211	2,553,206	760,542	(507,817)	252,725	2,805,931
Profit for the year	–	–	–	–	–	–	–	557,959	557,959	33,637	–	33,637	591,596
Other comprehensive income for the year	–	–	–	254,078	–	–	184,173	–	438,251	44,415	–	44,415	482,666
Total comprehensive income for the year	–	–	–	254,078	–	–	184,173	557,959	996,210	78,052	–	78,052	1,074,262
Transfer to statutory surplus reserve	–	–	–	–	–	23,785	–	(23,785)	–	–	–	–	–
Dividend paid by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	(13,315)	–	(13,315)	(13,315)
Acquisition of additional interests in subsidiaries (note 37)	–	–	–	94,626	(561,335)	–	(6,282)	102,345	(370,646)	(280,832)	507,817	226,985	(143,661)
Deemed disposal of interest in a subsidiary	–	–	–	–	(4,818)	–	–	–	(4,818)	4,818	–	4,818	–
At 31st December, 2017	25,250	895,736	319	830,072	(603,692)	110,443	235,094	1,680,730	3,173,952	549,265	–	549,265	3,723,217

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2017

	2017 HK$'000	2016 HK$'000
Operating activities		
Profit before tax	**849,414**	294,919
Adjustments for:		
Depreciation of property, plant and equipment	**225,775**	166,492
Amortisation of other intangible assets	**47,392**	37,517
Release of prepaid lease payments	**8,821**	9,990
Net loss (gain) on disposal of property, plant and equipment	**34,757**	(2,634)
Net gain on disposal of prepaid lease payments	**(33,008)**	–
Net allowance (reversal of allowance) for doubtful debts		
– trade receivables	**8,812**	5,566
– other receivables	**(25,806)**	(3,604)
Share of results of associates	**(24,750)**	(19,295)
Net (reversal of impairment loss) impairment loss recognised on amounts due from customers for contract work	**(2,873)**	27,010
Interest income	**(9,335)**	(14,181)
Finance costs	**241,292**	252,495
Decrease (increase) in fair value of investment properties	**2,218**	(6,407)
Foreign exchange (gain) loss	**(113,430)**	159,870
Operating cash flows before movements in working capital	**1,209,279**	907,738
Increase in long-term deposits, prepayments and other receivables	**(13,850)**	–
Increase in inventories	**(92,410)**	(1,025)
Increase in trade and bills receivables	**(231,733)**	(93,295)
(Increase) decrease in deposits, prepayments and other receivables	**(200,578)**	53,885
(Increase) decrease in amounts due from customers for contract work	**(50,120)**	7,064
Increase in deferred income and advance received	**106,968**	24,555
Increase (decrease) in trade and bills payables	**104,999**	(15,902)
Increase (decrease) in other payables and accrued charges	**55,291**	(20,412)
Decrease in amounts due to customers for contract work	**(8,671)**	(9,855)
Cash generated from operations	**879,175**	852,753
Interest received	**9,335**	14,181
Income taxes paid	**(238,339)**	(171,191)
Withholding tax paid	**(6,638)**	(3,452)
Net cash from operating activities	**643,533**	692,291

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st December, 2017

	NOTES	2017 HK$'000	2016 HK$'000
Investing activities			
Purchases of property, plant and equipment		**(655,275)**	(376,804)
Proceeds from disposal of property, plant and equipment		**112,376**	18,159
Proceeds from disposal of prepaid lease payments		**38,921**	–
Placement of pledged bank deposits		**–**	(11,574)
Withdrawal of pledged bank deposits		**11,949**	95,488
Repayment of an entrusted loan		**2,236**	–
Advance of an entrusted loan		**(2,236)**	–
Acquisitions of subsidiaries	38	**(23,973)**	(94,690)
Payments of unsettled consideration of acquisitions of subsidiaries		**(17,697)**	(2,432)
Additional investment to an associate		**(157,548)**	–
Additional investment to a joint venture		**(4,617)**	–
Addition of prepaid lease payments		**(2,195)**	(11,650)
Addition of investment properties		**–**	(1,762)
Addition of other intangible assets		**–**	(4,443)
Deposits paid for acquisition of property, plant and equipment and prepaid lease payments		**(62,538)**	(126,382)
Repayment from an associate		**196**	–
Repayments from (advance to) related parties		**17,052**	(10,848)
Net cash used in investing activities		**(743,349)**	(526,938)
Financing activities			
Interest paid		**(240,405)**	(169,890)
Loan facilities fees paid		**(4,377)**	(43,787)
New borrowings raised		**1,606,840**	3,648,408
Repayments of borrowings		**(692,674)**	(3,683,156)
Repayments of obligations under finance lease		**(124,664)**	(56,334)
Refundable deposit paid for obtaining a finance lease		**(6,925)**	–
Dividend paid by subsidiaries to non-controlling interests		**(13,315)**	(9,709)
Capital contribution from non-controlling interests of a subsidiary		**–**	8,357
Acquisition of additional interests in subsidiaries	37	**(143,661)**	(70,331)
Settlements of obligation arising from forward contract with non-controlling interests	37	**(610,162)**	–
Net cash used in financing activities		**(229,343)**	(376,442)
Net decrease in cash and cash equivalents		**(329,159)**	(211,089)
Cash and cash equivalents at 1st January		**767,941**	983,726
Effect of foreign exchange rate changes		**25,565**	(4,696)
Cash and cash equivalents at 31st December, represented by bank balances and cash		**464,347**	767,941

1. GENERAL INFORMATION AND BASIS OF PREPARATION

General information

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

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

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

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

Basis of preparation

As at 31st December, 2017, the Company and its subsidiaries (collectively referred to as "the Group") has net current liabilities of HK$1,665,593,000.

The Directors have therefore given careful consideration to the future liquidity of the Group when preparing the consolidated financial statements. The Directors believe that the consolidated financial statements are prepared on a going concern basis, taking into account that the new bank borrowings facilities amounting to HK$1,197,300,000 and US$236,500,000 (equivalent to HK$1,850,116,000), respectively, have been obtained subsequent to 31st December, 2017, in which the borrowings are due after one year from the date of draw down.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

Amendments to 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 performance and financial positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments 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 disclosures 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 45. 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 45, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

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[4]
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[3]
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 1st January, 2018.

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

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

4 Effective for annual periods beginning on or after 1st January, 2021.

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.

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

HKFRS 9 Financial instruments *(Continued)*

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

- 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 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.

- 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 31st December, 2017, the Directors anticipate the following potential impact on initial application of HKFRS 9:

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

HKFRS 9 Financial instruments *(Continued)*

Classification and measurement:

- The unlisted equity security as included in available-for-sale investments carried at cost less impairment as disclosed in note 23: these investments qualified for designation as measured at FVTOCI under HKFRS 9 and the Group will designate these investments at initial recognition of FVTOCI and measure at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve and such investments are not subject to impairment. Upon initial application of HKFRS 9, the fair value gain relating to these investments would be adjusted to investments revaluation reserve as at 1st January, 2018.

- Except for financial assets that are subject to expected credit loss measurement, 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, including contract assets, that are 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 Group as at 1st January, 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and bills receivables, entrusted loan receivable, amount due from an associate, amounts due from related parties and contract assets. Such further impairment recognised under expected credit loss model would reduce the opening accumulated profits and increase in deferred tax assets at 1st January, 2018.

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

HKFRS 15 Revenue from contracts with customers

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

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

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

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

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

The Directors anticipate that the application of HKFRS 15 may result in change of the identification of performance obligations and allocation of total consideration (including connection fee received from the customers for the construction of the Group's main gas pipeline) to the respective performance obligations which may affect the timing and amounts of revenue recognition. In addition, application of HKFRS15 may result in adjustments to the carrying amounts and presentation of amounts due from (to) customers under construction contracts and advances received from customers. The application of HKFRS 15 may also result in more disclosures in the consolidated financial statements.

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

HKFRS 16 Leases

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

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

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

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

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

HKFRS 16 Leases *(Continued)*

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 31st December, 2017, the Group has non-cancellable operating lease commitments of HK$28,235,000 as disclosed in note 39. 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.

In addition, the Group currently considers refundable rental deposits paid of HK$1,377,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be included in the initial measurement of right-of-use assets.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 investment properties which are transacted 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 as 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of the 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 carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

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

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. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

Investments in associates and a joint venture

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

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

The results and assets and liabilities of the associates and joint venture are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of the associates and joint venture used for equity accounting purpose are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate and a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate and joint venture. Changes in net assets of the associate/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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates and a joint venture *(Continued)*

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 an associate or a joint venture. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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 joint venture and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

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

Service income is recognised when services are provided.

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

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

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

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

Property, plant and equipment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Buildings under development for future owner-occupied purpose

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

Investment properties

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

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

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

Construction contracts

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts *(Continued)*

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

Borrowing costs

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

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

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset. Other than investment properties measured under fair value model, such costs are recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

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

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

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land and building for own use

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

Retirement benefits costs

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

Short-term employee benefits

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

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

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

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

Intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

Financial instruments

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

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

Financial assets

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

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

Interest income is recognised on an effective interest basis for debt instruments.

Available-for-sale financial assets

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, refundable deposits, other receivables, entrusted loan receivable, amounts due from an associate and related parties, pledged bank deposits and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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.

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

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

3. 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.

Financial liabilities at amortised cost

Financial liabilities including trade and bills payables, other payables, accrued charges, amount due to an associate, obligation arising from forward contract with non-controlling interests and borrowings are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions

Share options granted to employees

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

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

When share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

Inventories

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the 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 asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, 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 associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Determining whether an impairment loss is required requires an estimate of the future cash flows of the relevant cash-generating unit to which the assets belong expected to arise. The recoverable amount is determined based on the value in use calculation which requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the future cash flows are less than expected or due to changes in estimates, a material impairment loss may arise. Details of the recoverable amount calculation for the cash-generating units in respect of sales of piped gas, connection of pipeline construction and different subsidiaries of Harmony Gas Holdings Limited ("Harmony Gas") engaging trading of natural gas are set out in note 17.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Valuation of pipelines included in property, plant and equipment

As described in note 16, pipelines included in property, plant and equipment were revalued as at 31st December, 2017 based on depreciated replacement cost method ("DRC") determined by an independent professional valuer. Such valuations were based on certain assumptions, which are subject to uncertainty and may materially differ from the actual results. In making the estimation for depreciated replacement cost for pipelines, the independent professional valuer considers information from the aggregate amount of the new replacement cost of the pipelines and deductions may be made to allow for the age, condition, economic or functional obsolescence and environmental factor existing at the end of the reporting period. As at 31st December, 2017, the carrying amount of pipelines was HK$4,664,851,000 (2016: HK$3,537,327,000).

Estimated impairment of trade and bills receivables and other receivables and deposits

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2017, the carrying amount of trade and bills receivables is HK$672,022,000 (net of allowance for doubtful debts of HK$16,427,000) (2016: carrying amount of trade and bills receivables is HK$411,101,000 (net of allowance for doubtful debts of HK$7,615,000)) and carrying amount of other receivables and deposits was HK$244,921,000 (net of allowance for doubtful debts of HK$4,732,000) (2016: carrying amount of other receivables and deposits was HK$124,312,000 (net of allowance for doubtful debts of HK$30,538,000)).

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the relevant assets, after taking into account their estimated residual value, if any. The Group reviews the estimated useful lives of the assets annually in order to determine the amount of depreciation expenses to be recorded during the periods. The useful lives are based on the Group's historical experience with similar assets taking into account anticipated technological changes. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates. As at 31st December, 2017, the carrying value of property, plant and equipment was HK$7,124,176,000 (2016: HK$5,625,852,000).

5. TURNOVER

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

	2017 HK$'000	2016 HK$'000
Sales of gas	**3,399,172**	2,460,609
Connection revenue from gas pipeline construction	**1,235,142**	897,306
Operation of CNG/liquefied natural gas ("LNG") vehicle filling stations	**329,429**	337,574
Sales of stoves and related equipment	**77,556**	21,384
Sales of liquefied petroleum gas	**6,801**	5,634
	5,048,100	3,722,507

6. SEGMENT INFORMATION

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

Information that is reported to the CODM for the purpose of resources allocation and assessment of performance focuses on the type of products delivered or services rendered which is also consistent with the basis of organisation of the Group, except for the performance of Harmony Gas. The Group considered Harmony Gas and its subsidiaries as a single operating and reportable segment as CODM reviewed the total revenue and overall result of Harmony Gas separately from the other operations of the Group for the reporting periods.

6. SEGMENT INFORMATION *(Continued)*

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

(a) sales of gas;

(b) connection revenue from gas pipeline construction;

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

(d) sales of stoves and related equipment;

(e) sales of liquefied petroleum gas; and

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

Segment revenue and results

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

For the year ended 31st December, 2017

	Sales of gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operation of CNG/LNG vehicle filling stations HK$'000	Sales of stoves and related equipment HK$'000	Sales of liquefied petroleum gas HK$'000	Harmony Gas and its subsidiaries HK$'000	Consolidated HK$'000
Segment revenue	2,979,134	897,260	298,805	45,444	135	827,322	5,048,100
Segment profit (loss)	241,307	540,882	9,860	13,848	(70)	209,672	1,015,499
Unallocated other income							4,297
Unallocated other gains and losses							133,255
Unallocated central corporate expenses							(62,345)
Finance costs							(241,292)
Profit before tax							849,414

6. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

For the year ended 31st December, 2016

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

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

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

Amounts of segment assets and liabilities of the Group are not reviewed by the CODM or otherwise regularly provided to the CODM, accordingly, segment assets and liabilities are not presented.

Other segment information

2017

	Sales of gas HK$'000	Connection revenue from gas pipeline construction HK$'000	Operations of CNG/LNG vehicle filling stations HK$'000	Sales of stoves and related equipment HK$'000	Sales of liquefied petroleum gas HK$'000	Harmony Gas and its subsidiaries HK$'000	Segment total HK$'000	Unallocated HK$'000	Consolidated HK$'000
Amounts included in the measure of segment profit or loss:									
Net (gain) loss on disposal of property, plant and equipment	(8,030)	-	-	-	-	42,787	34,757	-	34,757
Net gain on disposal of prepaid lease payments	(31,973)	-	-	-	-	(1,035)	(33,008)	-	(33,008)
Release of prepaid lease payments	4,044	-	3,728	-	-	307	8,079	742	8,821
Depreciation of property, plant and equipment	174,398	-	9,443	-	-	33,676	217,517	8,258	225,775
Amortisation of other intangible assets	22,063	-	8,271	-	-	17,058	47,392	-	47,392
(Reversal of impairment loss) impairment loss recognised on amounts due from customers for contract work	-	(3,097)	-	-	-	224	(2,873)	-	(2,873)
Net allowance (reversal of allowance) for doubtful debts	637	-	-	-	-	(17,631)	(16,994)	-	(16,994)

6. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

2016

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

Geographical information

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

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

7. OTHER GAINS AND LOSSES

	2017 HK$'000	2016 HK$'000
Net (allowance) reversal of allowance for doubtful debts		
– trade receivables	(8,812)	(5,566)
– other receivables	25,806	3,604
Net foreign exchange gain (loss)	114,747	(138,173)
(Decrease) increase in fair value of investment properties	(2,218)	6,407
Net reversal of impairment loss (impairment loss) recognised on amounts due from customers for contract work	2,873	(27,010)
Net (loss) gain on disposal of property, plant and equipment	(34,757)	2,634
Net gain on disposal of prepaid lease payments	33,008	–
	130,647	(158,104)

8. OTHER INCOME

	2017 HK$'000	2016 HK$'000
Bank interest income	3,973	7,432
Interest income on amount due from an associate	2,775	4,045
Government subsidies (Note)	15,879	8,087
Interest income from investments in life insurance contracts	2,587	2,704
Sundry income	44,208	20,121
	69,422	42,389

Note: During the year ended 31st December, 2017, the Group has received subsidies of HK$15,879,000 (2016: HK$8,087,000) from relevant PRC governments for promoting the use of natural gas. There are no conditions attached to the subsidies granted to the Group.

9. FINANCE COSTS

	2017	2016
	HK$'000	HK$'000
Interest on borrowings	**227,521**	159,775
Interest on obligations under finance lease	**13,247**	10,115
	240,768	169,890
Imputed interest on obligation arising from forward contract with non-controlling interests	**34,371**	62,947
Amortisation on loan facilities fees relating to bank borrowings	**21,330**	72,881
Total borrowing costs	**296,469**	305,718
Less: Amounts capitalised in construction in progress included in property, plant and equipment	**(55,177)**	(53,223)
	241,292	252,495

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.53% (2016: 5.12%) per annum to expenditure on qualifying assets.

10. INCOME TAX EXPENSES

	2017	2016
	HK$'000	HK$'000
PRC Enterprise Income Tax:		
Current tax	**258,020**	181,667
Underprovision in prior years	**7,603**	2,871
Withholding tax levied on dividends paid previously not recognised	**6,638**	9,620
	272,261	194,158
Deferred tax (note 35)	**(14,443)**	(2,840)
	257,818	191,318

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

10. INCOME TAX EXPENSES *(Continued)*

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

Under the EIT Law of the PRC, withholding tax is imposed on the dividend declared to non-PRC tax residents in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. During the year ended 31st December, 2017, withholding tax amounting to HK$6,638,000 (2016: HK$9,620,000) was charged by the PRC tax authority which levied on the dividends paid to overseas group entities in previous and current years.

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

	2017	2016
	HK$'000	HK$'000
Profit before tax	**849,414**	294,919
Tax at the domestic income tax rate of 25% (2016: 25%) (Note)	**212,354**	73,730
Tax effect of expenses not deductible for tax purpose	**14,948**	66,021
Tax effect of income not taxable for tax purpose	**(29,329)**	(8,750)
Underprovision in respect of prior years	**7,603**	2,871
Tax effect of share of results of associates	**(6,188)**	(4,824)
Tax effect of estimated tax losses not recognised	**84,810**	24,398
Utilisation of estimated tax losses previously not recognised	**(26,707)**	(18,955)
Withholding tax levied on dividends paid previously not recognised	**6,638**	9,620
Effect of different tax rates of group entities operating in other jurisdictions	**(6,311)**	47,207
Tax charge for the year	**257,818**	191,318

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

11. PROFIT FOR THE YEAR

	2017 HK$'000	2016 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	3,500	3,600
Amortisation of other intangible assets (included in cost of sales)	47,392	37,517
Release of prepaid lease payments	8,821	9,990
Depreciation of property, plant and equipment	225,775	166,492
Employee benefits expenses, other than directors (including contributions to retirement benefits schemes of HK$50,363,000 (2016: HK$44,812,000))	347,367	305,290
Operating lease rentals in respect of rented premises	12,176	11,181
Cost of inventories recognised as expenses in respect of contract cost for gas pipeline construction	253,281	170,963
Cost of inventories recognised as expenses in respect of sales of gas, liquefied petroleum gas and stoves equipment	2,902,116	1,789,125
	3,155,397	1,960,088
Gross rental income from investment properties with minimal outgoings	(425)	(684)
Gross rental income from equipment with minimal outgoings	(2,454)	(1,750)

12. DIRECTORS', CHIEF EXECUTIVE'S AND JOINT MANAGING DIRECTOR'S EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

Directors', chief executive's and joint managing director's emoluments

The emoluments paid or payable to the directors, the chief executive and the joint managing director of the Company are as follows:

	2017 HK$'000	2016 HK$'000
Fees	938	1,000
Other emoluments:		
– Salaries and other benefits	9,767	13,066
– Discretionary and performance related incentive payments	–	3,390
– Contributions to retirement benefits scheme	106	67
Total emoluments	10,811	17,523

12. DIRECTORS', CHIEF EXECUTIVE'S AND JOINT MANAGING DIRECTOR'S EMOLUMENTS AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors', chief executive's and joint managing director's emoluments *(Continued)*

The emoluments of directors, the chief executive and the joint managing director of the Company are analysed as follows:

	2017					2016				
	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary and performance related incentive payments HK$'000 (note v)	Contributions to retirement benefits scheme HK$'000	Total HK$'000	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary and performance related incentive payments HK$'000 (note v)	Contributions to retirement benefits scheme HK$'000	Total HK$'000
Executive directors										
Mr. Wang Wenliang	-	4,920	-	-	4,920	–	5,010	–	–	5,010
Mr. Peng Wei (note i)	-	-	-	-	-	–	3,150	–	–	3,150
Mr. Lui Siu Keung (note ii)	-	3,600	-	18	3,618	–	3,658	3,390	18	7,066
Mr. Lu Zhaoheng	-	1,247	-	88	1,335	–	1,248	–	49	1,297
Non-executive director										
Mr. Xu Yongxuan	250	-	-	-	250	250	–	–	–	250
Independent non-executive directors										
Mr. Li Chunyan	250	-	-	-	250	250	–	–	–	250
Dr. Luo Yongtai	250	-	-	-	250	250	–	–	–	250
Mr. Hung, Randy King Kuen (note iii)	63	-	-	-	63	250	–	–	–	250
Ms. Liu Yu Jie (note iv)	125	-	-	-	125	–	–	–	–	–
	938	9,767	-	106	10,811	1,000	13,066	3,390	67	17,523

Notes:

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

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

(iii) Mr. Hung, Randy King Kuen resigned as an independent non-executive director of the Company with effect from 30th March, 2017.

(iv) Ms. Liu Yu Jie was appointed as an independent non-executive director of the Company with effect from 30th June, 2017.

(v) The discretionary and performance related incentive payments are determined by reference to the individual performance of the Directors and the Group's operating results, and approved by the remuneration committee.

12. DIRECTORS', CHIEF EXECUTIVE'S AND JOINT MANAGING DIRECTOR'S EMOLUMENTS AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors', chief executive's and joint managing director's emoluments *(Continued)*

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

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

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

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

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2016: four) were directors whose emoluments are disclosed above. The emoluments of the remaining two (2016: one) individuals are as follows:

	2017	2016
	HK$'000	HK$'000
Salaries and other benefits	**1,472**	2,287
Contributions to retirement benefits scheme	**58**	121
	1,530	2,408

The above emoluments of each individual were within the band of nil to HK$1,000,000 (2016: HK$2,000,001 to HK$2,500,000).

13. DIVIDENDS

	2017	2016
	HK$'000	HK$'000
Final dividend, proposed, of HK5 cents (2016: nil) per ordinary share	**126,250**	–

Subsequent to the end of reporting period, a final dividend in respect of the year ended 31st December, 2017 of HK5 cents per ordinary share, in an aggregate amount of HK$126,250,000 (2016: nil), has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming general meeting.

14. 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:

	2017 HK$'000	2016 HK$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share, being profit for the year attributable to owners of the Company	**557,959**	206,150

	2017 '000	2016 '000
Number of shares		
Number of shares for the purpose of basic earnings per share	**2,525,008**	2,525,008
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**1,648**	1,483
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,526,656**	2,526,491

15. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1st January, 2016	9,012
Transfer from property, plant and equipment (note ii)	28,719
Exchange adjustments	(2,152)
Additions	1,762
Increase in fair value recognised in profit or loss (notes i & ii)	6,407
At 31st December, 2016	43,748
Exchange adjustments	2,986
Decrease in fair value recognised in profit or loss (notes i & ii)	(2,218)
At 31st December, 2017	44,516

15. INVESTMENT PROPERTIES *(Continued)*

Notes:

(i) The fair value of the Group's investment properties at 31st December, 2017 and 2016 (other than the investment property as disclosed in note (ii)) has been arrived at on the basis of a valuation carried out on the respective dates by 河南九鼎資產評估有限公司, independent qualified professional valuer not connected to the Group.

The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in the PRC and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties. There has been no change from the valuation technique used in the prior year.

(ii) During the year ended 31st December, 2016, certain previously self-used property of the Group had been rented out to independent third party. Accordingly the carrying amount of the property as included in property, plant and equipment of HK$22,026,000 with fair value of HK$28,719,000 was transferred to investment properties of the Group. The fair values of this investment property at 31st December, 2017, the relevant date of transfer from property, plant and equipment and 31st December, 2016 have been arrived at on the basis of a valuation carried out on that date by GW Financial Advisory Services Limited, independent qualified professional valuer not related to the Group. The fair values were determined based on direct comparison approach making reference to comparable market observable transactions of similar locations and conditions as available in the relevant market.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

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

15. INVESTMENT PROPERTIES *(Continued)*

Information about fair value measurements using significant unobservable inputs

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

Description	Fair value 2017 HK$'000	Fair value 2016 HK$'000	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of inputs to fair value
Commercial property units located in the PRC (note i)	**9,754**	9,089	Level 3	Income approach	Discount rate (2017: 6.78%; 2016: 7.76%)	The higher the discount rate, the lower the fair value
Commercial property units located in the PRC (note ii)	**34,762**	34,659	Level 3	Direct comparison approach	Market price (2017: RMB15,000 to RMB17,000 per square metre; 2016: RMB15,000 to RMB18,495 per square metre)	The higher the market price, the higher the fair value
	44,516	43,748				

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

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Pipelines HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
COST OR VALUATION								
At 1st January, 2016	370,476	874,777	19,390	3,113,789	424,540	17,549	144,645	4,965,166
Exchange adjustments	(38,516)	(51,903)	(1,211)	(210,295)	(33,322)	(1,413)	(9,023)	(345,683)
Acquisitions of subsidiaries (note 38)	5,911	24,371	–	19,595	15,855	–	196	65,928
Additions	26,079	688,400	1,264	2,518	34,550	2,739	4,952	760,502
Disposals/written-off	(3,385)	–	(20)	(12,959)	(2,925)	(831)	(12,194)	(32,314)
Transfer	337,232	(542,009)	–	113,310	87,584	3,594	289	–
Transfer to investment property	(22,940)	–	–	–	–	–	–	(22,940)
Revaluation	–	–	–	511,369	–	–	–	511,369
At 31st December, 2016	674,857	993,636	19,423	3,537,327	526,282	21,638	128,865	5,902,028
Exchange adjustments	50,023	66,804	1,438	296,866	41,755	533	10,347	467,766
Acquisition of a subsidiary (note 38)	–	49,797	–	–	208	–	18	50,023
Additions	10,023	888,662	4,281	43,471	45,822	3,697	23,217	1,019,173
Disposals	(10,342)	–	–	(142,975)	(26,179)	(189)	(17,728)	(197,413)
Transfer	57,557	(814,707)	–	687,701	69,446	3	–	–
Revaluation	–	–	–	242,461	–	–	–	242,461
At 31st December, 2017	782,118	1,184,192	25,142	4,664,851	657,334	25,682	144,719	7,484,038
COMPRISING								
At cost	782,118	1,184,192	25,142	–	657,334	25,682	144,719	2,819,187
At valuation	–	–	–	4,664,851	–	–	–	4,664,851
	782,118	1,184,192	25,142	4,664,851	657,334	25,682	144,719	7,484,038
DEPRECIATION								
At 1st January, 2016	57,656	–	2,777	264,418	109,199	8,095	52,204	494,349
Exchange adjustments	(5,179)	–	(105)	(21,410)	(9,822)	(725)	(3,555)	(40,796)
Provided for the year	23,244	–	–	84,698	41,090	4,226	13,234	166,492
Eliminated on disposals/written-off	(231)	–	(2)	(1,540)	(2,181)	(758)	(12,077)	(16,789)
Transfer to investment property	(914)	–	–	–	–	–	–	(914)
Elimination on revaluation	–	–	–	(326,166)	–	–	–	(326,166)
At 31st December, 2016	74,576	–	2,670	–	138,286	10,838	49,806	276,176
Exchange adjustments	6,304	–	227	28,459	12,823	918	3,737	52,468
Provided for the year	14,790	–	3,254	140,495	50,371	2,438	14,427	225,775
Eliminated on disposals	(2,524)	–	–	(24,677)	(8,537)	(100)	(14,442)	(50,280)
Eliminated on revaluation	–	–	–	(144,277)	–	–	–	(144,277)
At 31st December, 2017	93,146	–	6,151	–	192,943	14,094	53,528	359,862
CARRYING VALUES								
At 31st December, 2017	688,972	1,184,192	18,991	4,664,851	464,391	11,588	91,191	7,124,176
At 31st December, 2016	600,281	993,636	16,753	3,537,327	387,996	10,800	79,059	5,625,852

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

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

As at 31st December, 2017, the Group is in the process of obtaining title deeds from relevant government authority for its buildings in the PRC amounting to HK$101,854,000 (2016: HK$92,473,000). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the title deeds for its buildings in the PRC.

As at 31st December, 2017, the Group has pledged certain buildings in the PRC having carrying value of HK$2,927,000 (2016: HK$2,807,000) to secure a bank borrowing granted to the Group.

In previous years, pipelines included in property, plant and equipment were carried at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. During the year ended 31st December, 2016, the Directors decided to adopt revaluation model to measure pipelines included in property, plant and equipment with effect from 31st December, 2016. The surplus resulting from the revaluation on the initial adoption was dealt with in other comprehensive income and accumulated in equity, under the heading property revaluation reserve. This change in accounting policy had increased the carrying amount of pipelines included in property, plant and equipment and deferred tax liability by HK$837,535,000 and HK$209,384,000 respectively, as at 31st December, 2016.

Fair value measurement of the Group's pipelines

At 31st December, 2017 and 2016, the fair value of the Group's pipelines was valued by the independent qualified professional valuer, GW Financial Advisory Services Limited, using DRC approach.

In determining the fair value of the pipelines, at the end of each reporting period, the CEO works closely with the independent qualified professional valuer to establish and determine the appropriate valuation techniques and inputs to be used in determining the fair value of the assets. Discussion of valuation processes and results is held between CEO and the Directors at least once a year.

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

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

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

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

Description	Fair value		Valuation techniques	Significant unobservable inputs	Significant inputs
	2017 HK$'000	2016 HK$'000			
Pipelines	4,664,851	3,537,327	DRC approach	(a) historical labour cost (RMB/year) (b) historical raw chemical materials purchasing price indices for industrial producers	(a) RMB52,082 (2016: RMB48,886) (b) 108.40 (2016: 97.60)

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

Had the pipelines at 31st December, 2017 been carried at cost less accumulated depreciation and accumulated impairment losses, its carrying value would have been approximately HK$3,440,578,000 (2016: HK$2,699,792,000).

17. GOODWILL

	2017	2016
	HK$'000	HK$'000
Cost and carrying amount		
At 1st January	**208,886**	199,859
Exchange adjustments	**14,553**	(12,669)
Arising on acquisitions of subsidiaries (note 38)	**2,439**	21,696
At 31st December	**225,878**	208,886

For the purposes of impairment testing, the carrying amount of goodwill is attributable to the cash-generating units ("CGUs") relating to sales of piped gas ("Unit A") amounting to HK$105,251,000 in aggregate (2016: HK$96,272,000), connection of pipeline construction ("Unit B") amounting to HK$53,803,000 in aggregate (2016: HK$50,167,000) and Harmony Gas ("Unit C") amounting to HK$66,824,000 (2016: HK$62,447,000).

Impairment testing on Unit A

Unit A consists of several CGUs which represent the operations of different subsidiaries engaging in sales of piped gas. For impairment test purpose, management reviews each CGU's recoverable amount and compares with the carrying amount of the respective CGU. The aggregate carrying amounts of the CGUs of Unit A comprise other intangible assets of HK$701,690,000 (2016: HK$671,053,000), goodwill of HK$105,251,000 (2016: HK$96,272,000), property, plant and equipment of HK$2,683,781,000 (2016: HK$2,248,808,000) and prepaid lease payments of HK$163,472,000 (2016: HK$155,650,000). The recoverable amount of each CGU has been determined based on the value in use calculation of each CGU using the following assumptions for 2017 and 2016:

Period of cash flow projections	5 years (2016: 5 years)
Growth rates beyond 5-year period extrapolated in the financial budgets approved by the management	1.75% – 5.82% (2016: 1.27% – 4.66%)
Discount rates	12.66% (2016: 12.25%)

17. GOODWILL *(Continued)*

Impairment testing on Unit A *(Continued)*

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

At the end of each reporting period, the recoverable amount of each CGU of Unit A exceeds its carrying amount and no impairment loss is considered necessary for the years ended 31st December, 2017 and 2016.

Impairment testing on Unit B

Unit B consists of the CGUs which represent operation of certain subsidiaries engaging in the connection of pipeline constructions. For impairment test purpose, management reviews each CGU's recoverable amount and compares with the carrying amount of respective CGU. The aggregate carrying amounts of the CGUs of Unit B comprise goodwill of HK$53,803,000 (2016: HK$50,167,000). The recoverable amount of each CGU engaged in Unit B has been determined based on value in use calculation of each CGU using the following assumptions for 2017 and 2016:

Period of cash flow projections	5 years (2016: 5 years)
Growth rates beyond 5-year period extrapolated in the financial budgets approved by the management	2% (2016: 2%)
Discount rates	12.66% (2016: 12.25%)

This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the past performance of the respective CGUs engaged in Unit B and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the individual carrying amount of each CGU within Unit B to exceed the individual recoverable amount of each CGU within Unit B. At the end of each reporting period, the recoverable amounts of each CGU engaged in Unit B exceeds its carrying amount, therefore, no impairment loss is considered necessary for the years ended 31st December, 2017 and 2016.

17. GOODWILL *(Continued)*

Impairment testing on Unit C

Unit C consists of several CGUs which represent the operations of different subsidiaries of Harmony Gas engaging in trading of natural gas. For impairment test purpose, management reviews each CGU's recoverable amount for comparison with the carrying amount of the respective CGU. The aggregate carrying amounts of the CGUs of Unit C comprise other intangible assets of HK$308,448,000 (2016: HK$301,862,000), goodwill of HK$66,824,000 (2016: HK$62,447,000), property, plant and equipment of HK$1,015,813,000 (2016: HK$838,343,000) and prepaid lease payments of HK$23,632,000 (2016: HK$5,782,000). The recoverable amount of each CGU has been determined based on the value in use calculation of each CGU using the following assumptions for 2017:

Period of cash flow projections	5 years (2016: 5 years)
Growth rate beyond 5-year period extrapolated in the financial budgets approved by the management	2% (2016: 2%)
Discount rate	12.66% (2016: 12.25%)

The growth rate is based on the relevant industry growth forecast and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the respective CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the individual carrying amount of each CGU within Unit C to exceed the individual recoverable amount of each CGU within Unit C. At the end of each reporting period, the recoverable amount of each CGU of Unit C exceeds its carrying amount and no impairment loss is considered necessary for the years ended 31st December, 2017 and 2016.

18. OTHER INTANGIBLE ASSETS

	Exclusive rights of operation	Other operating rights	Total
	HK$'000	HK$'000	HK$'000
COST			
At 1st January, 2016	1,051,918	172,262	1,224,180
Exchange adjustments	(67,343)	(8,568)	(75,911)
Additions	4,443	–	4,443
Acquisitions of subsidiaries (note 38)	100,901	–	100,901
At 31st December, 2016	1,089,919	163,694	1,253,613
Exchange adjustments	76,501	11,415	87,916
Acquisition of a subsidiary (note 38)	8,742	–	8,742
At 31st December, 2017	1,175,162	175,109	1,350,271
AMORTISATION AND IMPAIRMENT			
At 1st January, 2016	89,414	101,419	190,833
Exchange adjustments	(717)	(12,830)	(13,547)
Charged for the year	28,307	9,210	37,517
At 31st December, 2016	117,004	97,799	214,803
Exchange adjustments	8,899	6,855	15,754
Charged for the year	39,121	8,271	47,392
At 31st December, 2017	165,024	112,925	277,949
CARRYING VALUES			
At 31st December, 2017	1,010,138	62,184	1,072,322
At 31st December, 2016	972,915	65,895	1,038,810

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

18. OTHER INTANGIBLE ASSETS *(Continued)*

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

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

For the purpose of impairment testing, the carrying amounts of intangible assets have been allocated to the respective CGUs as follows:

	2017	2016
	HK$'000	HK$'000
Sales of piped gas ("Unit A")	**701,690**	671,053
Operation of CNG vehicle filling stations	**62,184**	65,895
Harmony Gas ("Unit C")	**308,448**	301,862
	1,072,322	1,038,810

Impairment assessment of Units A and C are set out in note 17.

19. LONG-TERM DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2017	2016
	HK$'000	HK$'000
Payments for acquisition of additional interest in a subsidiary	**6,281**	5,869
Deposits paid for acquisition of property, plant and equipment	**219,784**	226,716
Deposits paid for leasehold land	**84,914**	91,467
Investments in life insurance contracts	**77,083**	75,547
Other long-term deposits	**30,506**	8,401
	418,568	408,000

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

Deposit paid for acquisition of additional interest in a subsidiary

On 6th January, 2014, 中裕(河南)能源控股有限公司 ("Zhongyu Henan"), a wholly-owned subsidiary of the Group, entered into an equity transfer agreement with an independent third party to further acquire 20% equity interest in 温縣中裕壓縮氣有限公司 ("Wen County Zhongyu") at a total cash consideration of RMB5,250,000 (equivalent to HK$6,655,000). Wen County Zhongyu is principally engaged in operation of CNG/LNG vehicle filling stations in the PRC. RMB5,250,000 (equivalent to HK$6,655,000) was paid during the year ended 31st December, 2014. The transaction is yet completed as at 31st December, 2017, subject to certain conditions which are not yet satisfied at the end of the reporting period.

Deposits paid for acquisition of property, plant and equipment

As at 31st December, 2017, deposit of RMB43,869,000 (equivalent to HK$52,482,000) (2016: RMB74,753,000, equivalent to HK$83,570,000) was paid to a supplier for acquisition of construction materials mainly for construction of the Group's pipelines.

Investments in life insurance contracts

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

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

During the year ended 31st December, 2017, interest income from investments in life insurance contracts of HK$2,587,000 (2016: HK$2,704,000) was recognised in profit or loss.

At 31st December, 2017, the expected life of the policy remained unchanged from the initial recognition and the Directors considered that the financial impact of the option to terminate the policy was insignificant.

20. PREPAID LEASE PAYMENTS

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

At 31st December, 2017, the Group is in process of obtaining land use right certificates from relevant government authorities for its land in the PRC amounting to HK$74,079,000 (2016: HK$50,692,000). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the land use right certificates for its land in the PRC.

The Group has pledged certain prepaid lease payments in the PRC having carrying value of HK$40,291,000 (2016: HK$46,225,000) to secure certain bank borrowings granted to the Group.

21. INTERESTS IN ASSOCIATES

	2017	2016
	HK$'000	HK$'000
Cost of unlisted investments	**317,354**	159,806
Share of post-acquisition results	**42,027**	17,277
Exchange adjustments	**5,103**	(13,049)
	364,484	164,034

Details of the Group's associates as at 31st December, 2016 and 2017 are as follows:

Name of company	Place of establishment	Form of business structure	Proportion of nominal value of registered capital held by the Group		Principal activities
			2017	2016	
Beijing Zhongran Xiangke Oil and Gas Technology Co., Ltd. ("Zhongran Xiangke")	PRC	Sino-foreign joint venture	**40%**	40%	Sales of natural gas and gas pipeline construction
Qujing City Fuel Gas Co., Ltd. ("Qujing")	PRC	Limited liability company	**39% (note)**	39%	Sales of natural gas and gas pipeline construction

Note: During the year ended 31st December, 2017, the Group further injected RMB136,500,000 (equivalent to HK$157,548,000) to Qujing, while other equity owners further injected RMB213,500,000 (equivalent to HK$246,422,000) to Qujing. The Group's interest in Qujing was remain unchanged.

21. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of associates

Summarised financial information in respect of the Group's associates is set out below. The summarised financial information below represents amounts shown in the associates' management accounts which are prepared in accordance with HKFRSs. All of these associates are accounted for using the equity method in the Group's consolidated financial statements.

Zhongran Xiangke

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

	2017	2016
	HK$'000	HK$'000
Current assets	**619,776**	321,263
Non-current assets	**677,255**	403,460
Current liabilities	**(538,620)**	(258,735)
Net assets	**758,411**	465,988
Equity attributable to owners of Zhongran Xiangke Group	**603,042**	410,086
Non-controlling interests	**155,369**	55,902
	758,411	465,988

21. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of associates *(Continued)*

Zhongran Xiangke *(Continued)*

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

	2017 HK$'000	2016 HK$'000
Revenue	**925,204**	427,258
Total comprehensive income for the year attributable to:		
Owners of Zhongran Xiangke Group	**192,956**	62,209
Non-controlling interests	**99,467**	14,291
	292,423	76,500

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

	2017 HK$'000	2016 HK$'000
Equity attributable to owners of Zhangran Xiangke Group	**603,042**	410,086
Proportion of the Group's ownership interest in Zhangran Xiangke Group at 40%	**241,216**	164,034
Carrying amount of the Group's interest in Zhangran Xiangke Group	**241,216**	164,034

21. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of associates *(Continued)*

Qujing

Qujing and its subsidiaries (collectively "Qujing Group")

	2017	2016
	HK$'000	HK$'000
Current assets	**409,890**	236,085
Non-current assets	**832,242**	759,386
Current liabilities	**(200,374)**	(906,218)
Non-current liabilities	**(706,757)**	(129,902)
Net assets (liabilities)	**335,001**	(40,649)
Equity attributable to owners of Qujing Group	**316,071**	(20,131)
Non-controlling interests	**18,930**	(20,518)
	335,001	(40,649)
Revenue	**430,468**	236,918
Total comprehensive (expense) income for the year attributable to:		
Owners of Qujing Group	**(67,450)**	(34,777)
Non-controlling interests	**39,448**	(35,446)
	(28,002)	(70,223)

21. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of associates *(Continued)*

Qujing *(Continued)*

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

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

	2017 HK$'000	2016 HK$'000
Equity attributable to owners of Qujing Group	316,071	(20,131)
Proportion of the Group's ownership interest in Qujing Group at 39%	123,268	–
Carrying amount of the Group's interest in Qujing Group	123,268	–

	2017 HK$'000	2016 HK$'000
The unrecognised share of loss of Qujing Group for the year and accumulative	–	(7,975)

	2017 HK$'000	2016 HK$'000
Share of loss of Qujing Group for the year	(38,620)	(5,588)

22. INTEREST IN A JOINT VENTURE

	2017 HK$'000	2016 HK$'000
Cost of unlisted investment in a joint venture (note)	10,272	–
Exchange adjustment	495	–
	10,767	–

22. INTEREST IN A JOINT VENTURE *(Continued)*

Details of the Group's joint venture as at 31st December, 2017 are as follows:

Name of Company	Place of establishment	Form of business structure	Proportion of nominal value of registered capital held by the Group 2017	2016	Principal activities
故城華洋管道設備安裝有限公司 ("故城華洋")	PRC	Limited liability company	**50% (note)**	–	Not yet commenced business

Note: During the year ended 31st December, 2017, the Group acquired 50% equity interest of 故城華洋 upon the acquisition of Gucheng Minghua (as defined in note 38) as detailed in note 38. After the acquisition, the Group further injected RMB4,000,000 (equivalent to HK$4,617,000) to 故城華洋, while other equity owner further injected the same amount to 故城華洋. The Group's interest in 故城華洋 was remain unchanged.

As all the relevant activities of the above entity require unanimous consent from all joint venture parties, it is accounted for as a joint venture by the Group.

23. AVAILABLE-FOR-SALE INVESTMENTS

	Other investments HK$'000	Unlisted equity security at cost less impairment HK$'000	Total HK$'000
At 1st January, 2016	2,720	3,581	6,301
Exchange adjustments	–	(227)	(227)
At 31st December, 2016	2,720	3,354	6,074
Exchange adjustments	–	235	235
At 31st December, 2017	2,720	3,589	6,309

The investments in unlisted equity security are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair value cannot be measured reliably.

24. INVENTORIES

	2017 HK$'000	2016 HK$'000
Construction materials	**203,562**	104,403
Finished goods	**5,992**	1,460
	209,554	105,863

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

The Group allows an average credit period of 30 days (2016: 30 days) to its trade customers. The bills receivables are matured within the range of 30 days to 180 days (2016: 30 days to 180 days) as at 31st December, 2017. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates for sales of gas and the billing dates for work performed for construction contracts:

	2017 HK$'000	2016 HK$'000
0 – 30 days	**492,153**	283,813
31 – 90 days	**47,355**	31,727
91 – 180 days	**61,747**	36,598
181 – 360 days	**49,128**	28,630
Trade receivables	**650,383**	380,768
0 – 90 days	**20,276**	15,820
91 – 180 days	**1,363**	14,513
Bills receivables	**21,639**	30,333
Trade and bills receivables	**672,022**	411,101

Trade receivables of HK$492,153,000 (2016: HK$283,813,000) and bills receivables of HK$21,639,000 (2016: HK$30,333,000) were neither past due nor impaired. These customers are mainly local reputable real estate developers and corporate entities in the PRC and no significant counterparty default was noted in the past.

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

As at 31st December, 2017, trade receivables of HK$158,230,000 (2016: HK$96,955,000) were past due but no impairment has been provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable taking into account the debtors' settlement history. The Group does not hold any collateral over these balances. The average age of these trade receivables is 154 days (2016: 151 days).

Ageing of trade receivables which are past due but not impaired

	2017	2016
	HK$'000	HK$'000
31 – 90 days	**47,355**	31,727
91 – 180 days	**61,747**	36,598
181 – 360 days	**49,128**	28,630
	158,230	96,955

Movement in the allowance for doubtful debts

Trade receivables

	2017	2016
	HK$'000	HK$'000
At 1st January	**7,615**	2,049
Allowance recognised in profit or loss	**8,812**	5,566
At 31st December	**16,427**	7,615

Other receivables

	2017	2016
	HK$'000	HK$'000
At 1st January	**30,538**	34,142
Reversal recognised in profit or loss	**(25,806)**	(3,604)
At 31st December	**4,732**	30,538

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

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

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

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

Included in deposits, prepayments and other receivables are advances to suppliers of natural gas and construction materials for customers' gas pipeline construction amounting to HK$217,566,000 (2016: HK$102,096,000).

26. ENTRUSTED LOAN RECEIVABLE

During the year ended 31st December, 2016, Zhongyu Henan entrusted a principal amount of RMB20,000,000 (equivalent to HK$22,359,000) to a specific corporate borrower under the agreements with China CITIC Bank Corporation Limited (the "Bank") with maturity date of 25th October, 2017, carrying interest of 4.35% per annum. During the year ended 31st December, 2017, this entire entrusted loan receivable was settled.

During the year ended 31st December, 2017, Zhongyu Henan entered into an entrusted loan agreement with the Bank. Pursuant to this agreement, Zhongyu Henan entrusted a principal amount of RMB20,000,000 (equivalent to HK$23,926,000) to the same specific corporate borrower with maturity date of 23rd October, 2018, carrying interest of 4.785% per annum.

As at 31st December, 2016 and 2017, the entrusted loan receivable is not past due nor impaired.

27. AMOUNTS DUE FROM AN ASSOCIATE AND RELATED PARTIES

As at 31st December, 2017, amount due from an associate of RMB50,000,000 (equivalent to HK$59,816,000) (2016: RMB50,170,000 (equivalent to HK$56,087,000)) is unsecured, interest bearing at 5.5% per annum (2016: interest bearing at 7.5% per annum) and repayable within one year.

As at 31st December, 2017, amount due from a related party represented amount due from a non-controlling shareholder of a subsidiary of the Group of RMB7,500,000 (equivalent to HK$8,972,000) which is secured by its equity interest of that subsidiary, interest bearing at 7.8% per annum and repayable within one year.

As at 31st December, 2016, amount due from related parties included (i) amount due from non-controlling shareholders of subsidiaries of the Group of RMB7,500,000 (equivalent to HK$8,385,000) and RMB3,000,000 (equivalent to HK$3,354,000) which were unsecured, interest bearing at 7.8% and 5.22% per annum respectively and repayable within one year; (ii) amount due from a non-controlling shareholder of a subsidiary of the Group of RMB10,100,000 (equivalent to HK$11,290,000) which was unsecured, non-interest bearing and repayable on demand; and (iii) amount due from a spouse of a non-controlling shareholder of a subsidiary of the Group of RMB1,674,000 (equivalent to HK$1,872,000) which is unsecured, non-interest bearing and repayable on demand.

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

	2017	2016
	HK$'000	HK$'000
Contracts in progress at the end of the reporting period:		
Contract costs incurred plus recognised profits	**474,401**	285,483
Less: Progress/interim billings	**(412,719)**	(281,949)
Less: Impairment losses recognised net of reversal (Note)	**(40,345)**	(43,218)
	21,337	(39,684)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	**56,821**	1,774
Amounts due to customers for contract work	**(35,484)**	(41,458)
	21,337	(39,684)

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

As at 31st December, 2017, advances received from customers before the contract work is performed amounted to HK$332,929,000 (2016: HK$261,598,000) and were included in "deferred income and advance received" classified as current liabilities.

Note: The Directors reviewed the recoverable amounts of the amounts due from customers for contract work and identified that certain projects are under slow construction progress. In the opinion of the Directors, for amounts that are considered to be irrecoverable, impairment losses were recognised in full. For those amounts previously impaired but subsequently settled, impairment losses were reversed. Accordingly, based on this assessment, during the year ended 31st December, 2017, the Group made a reversal of impairment loss of HK$2,873,000 (2016: recognition of impairment loss of HK$27,010,000).

29. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The bank balances carry interest at market rates which ranged from 0.01% to 0.35% (2016: 0.01% to 0.35%) per annum for the year ended 31st December, 2017. At 31st December, 2017, the bank balances and cash of HK$329,174,000 (2016: HK$680,620,000) are denominated in RMB.

As at 31st December, 2017, the bank balances and cash consisted of HK$96,461,000 and HK$38,712,000, (2016: HK$71,780,000 and HK$15,541,000) are denominated in United States Dollars ("US$") and HK$ respectively, which are foreign currencies of the respective group entities.

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

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

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

	2017	2016
	HK$'000	HK$'000
0 – 30 days	**438,374**	343,673
31 – 90 days	**82,844**	61,532
91 – 180 days	**53,471**	40,515
Over 180 days	**152,585**	130,777
Trade and bills payables	**727,274**	576,497

30. DEFERRED INCOME AND ADVANCE RECEIVED, TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES *(Continued)*

As at 31st December, 2017, the trade and bills payables balance included trade debts due to a related company, a subsidiary of the controlling shareholder of the Company of HK$24,965,000 (2016: nil).

The average credit period on purchase of goods is 90 days (2016: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Deferred income and advance received classified as current liabilities represent amounts received from customers before the contract work is performed and receipts in advance from customers for purchase of natural gas from the Group. Deferred income and advance received classified as non-current liabilities are government grants of HK$6,048,000 (2016: HK$5,652,000) received by the Group, and will be released to profit or loss when the related costs (for which the grants are intended to compensate) are recognised in profit or loss. Due to redevelopment of Jiaozuo City, Jiaozuo government subsidised the Group for enhancement and relocation of certain pipelines in Jiaozuo City.

As at 31st December, 2017, included in other payables and accrued charges are (i) refundable deposits received from customers in relation to gas supply of HK$47,953,000 (2016: HK$43,433,000); (ii) accrued expenses of HK$28,881,000 (2016: HK$32,445,000); (iii) unsettled consideration for the acquisition of assets and liabilities through acquisition of a subsidiary of RMB600,000, equivalent to HK$718,000 (2016: RMB600,000, equivalent to HK$671,000); and (iv) unsettled consideration for the acquisition of subsidiaries of RMB67,830,000, equivalent to HK$81,146,000 as disclosed in note 38 (2016: RMB51,183,000, equivalent to HK$57,220,000).

31. AMOUNT DUE TO AN ASSOCIATE

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

32. BORROWINGS

	2017 HK$'000	2016 HK$'000
Secured bank borrowings	**291,901**	317,451
Unsecured bank borrowings	**4,931,609**	3,759,888
Unsecured other borrowings	**35,275**	32,091
	5,258,785	4,109,430
Carrying amount repayable:		
Within one year	**1,581,936**	571,616
More than one year, but not exceeding two years	**3,325,000**	839,136
More than two years but not exceeding five years	**302,082**	2,613,267
More than five years	**49,767**	85,411
	5,258,785	4,109,430
Less: Amounts due within one year shown under current liabilities	**(1,581,936)**	(571,616)
	3,676,849	3,537,814

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

	2017	2016
Effective interest rate:		
Fixed-rate borrowings	**3.81% – 5.90%**	4.35% – 5.90%
Variable-rate borrowings	**2.52% – 12.02%**	3.14% – 11.13%

The Group's certain variable-rate borrowings bear interest at a range of 100% to 133% (2016: 100% to 125%) of People's Bank of China ("PBOC") Prescribed Interest Rate per annum. Interest of London Interbank Offered Rate ("LIBOR") plus a premium ranging from 1.5% to 3% (2016: 2% to 3%) per annum and interest of Hong Kong Interbank Offered Rate ("HIBOR") plus a premium of 1.75% to 2% (2016: 2.8%) per annum is charged on remaining outstanding variable-rate loan balances.

32. BORROWINGS *(Continued)*

As at 31st December, 2017, the bank borrowing balances consisted of HK$1,944,367,000 (2016: HK$1,464,879,000) and HK$345,248,000 (2016: nil) are denominated in US$ and HK$ respectively, which are foreign currencies of the respective group entities.

As at 31st December, 2017, certain bank borrowings were secured by the Group's prepaid lease payments and buildings with the carrying amounts of HK$40,291,000 (2016: HK$46,225,000) and HK$2,927,000 (2016: HK$2,807,000) respectively.

33. OBLIGATIONS UNDER FINANCE LEASE

	2017	2016
	HK$'000	HK$'000
Analysed for reporting purpose as:		
Current liabilities	**188,373**	100,306
Non-current liabilities	**258,583**	214,789
	446,956	315,095

	Minimum lease payments		**Present value of minimum lease payments**	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amount payable under finance leases:				
Within one year	**205,374**	111,809	**188,373**	100,306
In more than one year but not more than two years	**201,740**	108,899	**194,226**	101,682
In more than two years but not more than five years	**65,701**	114,991	**64,357**	113,107
	472,815	335,699	**446,956**	315,095
Less: Future finance charges	**(25,859)**	(20,604)	**N/A**	N/A
Present value of lease obligations	**446,956**	315,095	**446,956**	315,095
Less: Amount due for settlement within one year (shown under current liabilities)			**(188,373)**	(100,306)
Amount due for settlement after one year			**258,583**	214,789

33. OBLIGATIONS UNDER FINANCE LEASE *(Continued)*

The Group leased certain of its pipelines under finance lease. The lease term is ranged from three to five years. Interest rates underlying all obligations under finance lease were ranged from 4.28% to 4.99% per annum. No arrangement was entered into for contingent rental payments.

As at 31st December 2017, the Group's obligations under finance lease are secured by the Group's pipelines with an aggregate carrying amount of RMB420,838,000 (equivalent to HK$503,455,000) (2016: RMB416,222,000 (equivalent to HK$465,312,000)) and 50% of the equity interests of a subsidiary of the Group.

34. SHARE CAPITAL

	Number of shares 2017 & 2016	**Amount 2017 & 2016**
	'000	HK$'000
Ordinary shares of HK$0.01 each		
Authorised	10,000,000	100,000
Issued and fully paid		
At 1st January and 31st December	2,525,008	25,250

35. DEFERRED TAXATION

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

	Revaluation of investment properties and pipelines	Other intangible assets	Undistributed profits of subsidiaries	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January, 2016	1,607	121,203	(1,570)	121,240
Exchange adjustments	(102)	(4,308)	101	(4,309)
Acquisitions of subsidiaries (note 38)	–	25,226	–	25,226
Charge (credit) to profit or loss (note 10)	1,555	(7,195)	2,800	(2,840)
Charge to property revaluation reserve	211,057	–	–	211,057
At 31st December, 2016	214,117	134,926	1,331	350,374
Exchange adjustments	15,009	9,460	94	24,563
Acquisitions of subsidiaries (note 38)	–	2,186	–	2,186
Credit to profit or loss (note 10)	(7,883)	(6,560)	–	(14,443)
Charge to property revaluation reserve	96,685	–	–	96,685
At 31st December, 2017	317,928	140,012	1,425	459,365

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1st January, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed profits amounting to HK$1,646,522,000 (2016: HK$1,252,469,000) of certain PRC subsidiaries in relation to the owners of the Company. The Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At 31st December, 2017, the Group had unused estimated tax losses of HK$473,951,000 (2016: HK$259,076,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unrecognised estimated tax losses due to unpredictability of future profit stream. Included in unrecognised tax losses are losses of PRC subsidiaries of HK$177,883,000 (2016: HK$197,063,000) that will expire in various dates up to 2022 (2016: 2021), other losses may be carried forward indefinitely.

36. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option schemes

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

Outstanding options under the Old Share Option Scheme shall continue to be valid and exercisable in accordance with the Old Share Option after its termination.

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

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

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

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

Equity-settled share option schemes *(Continued)*

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

Up to 31st December, 2017, no share option has been granted since the adoption of the New Share Option Scheme on 3rd May, 2013.

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

Category of grantee	Exercise price per share HK$	Date of grant	Exercisable period	At 1st January, 2016, 31st December, 2016, 1st January, 2017 and 31st December, 2017
Directors	0.49	11th April, 2011	11th April, 2011 to to 10th April, 2021	2,000,000
Exercisable at the end of the year				2,000,000
Weighted average exercise price				HK$0.49

37. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES

Year ended 31st December, 2017

(a) On 30th March, 2017, Zhongyu Gas Investment (Beijing) Limited ("Zhongyu Gas Beijing") (a wholly owned subsidiary of the Company) and a shareholder of Harmony Gas ("Vendor 1") entered into a sale and purchase agreement pursuant to which Zhongyu Gas Beijing agreed to acquire further 11.3% interests in Harmony Gas held by Vendor 1 at the consideration of US$18,000,000 (approximately HK$140,072,000) which shall be satisfied by cash at the completion date. The completion of the acquisition took place on 7th April, 2017. Following the completion of the acquisition, the Group's shareholding in Harmony Gas is 61.3%. The difference between the consideration paid and the carrying amount of the Group's additional interest in Harmony Gas of HK$70,535,000 was debited to equity as other reserve during the year ended 31st December, 2017.

(b) On 8th December, 2015, Zhongyu Gas Beijing, which was an existing 50% shareholder of Harmony Gas, on that day, entered into the first amended and restated shareholders agreement ("Revised Shareholders Agreement") with Harmony Gas and another joint venture partner, an existing 38.7% shareholder of Harmony Gas (the "Vendor").

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

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

37. ACQUISITION OF ADDITIONAL INTERESTS IN SUBSIDIARIES *(Continued)*

Year ended 31st December, 2017 *(Continued)*

(b) *(Continued)*

As at 31st December, 2016, the carrying amount of the liability is HK$575,791,000 and recorded as "obligation arising from forward contract with non-controlling interests". During the year ended 31st December, 2017, an imputed interest of HK$34,371,000 (2016: HK$62,947,000) is charged to profit or loss.

The completion of the acquisition took place on 14th July, 2017. The difference between the consideration paid and the carrying amount of the Group's additional interest in Harmony Gas of HK$299,278,000 in total was debited to equity as other reserve, property revaluation reserve, translation reserve and accumulated profits during the year ended 31st December, 2017.

(c) During the year ended 31st December, 2017, the Group acquired additional 49% of the equity interests in 臨沂中裕能源壓縮天然氣有限公司 at a consideration of RMB3,000,000 (equivalent to HK$3,589,000). The difference between the consideration paid and the carrying amount of the Group's additional interest in 臨沂中裕能源壓縮天然氣有限公司 of HK$833,000 was debited to equity as other reserve, accumulated profits during the year ended 31st December, 2017.

Year ended 31st December, 2016

On 30th August, 2016, a non-wholly owned subsidiary, Gas Investment China Co., Limited ("GICC") and AMP Capital Asian Giants Infrastructure Fund ("AMP Capital"), the non-controlling shareholder of Sino Gas Construction Limited ("SGCL") entered into an equity transfer agreement, pursuant to which AMP Capital has agreed to transfer its 49% equity interest in SGCL to GICC for a cash consideration of US$9,000,000 (equivalent to HK$70,331,000). Thereafter, the Group's effective interest in SGCL increased from 13% to 37.5%. The Group maintained control over SGCL as at 31st December, 2016 as detailed in note 46. The transaction was accounted for as an equity transaction.

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

38. ACQUISITION OF BUSINESS

Year ended 31st December, 2017

Acquisition of a subsidiary – Gucheng Minghua

On 31st January, 2017, the Group acquired 100% of the equity interest in 故城明華燃氣有限公司 ("Gucheng Minghua") for consideration of RMB53,300,000 (equivalent to HK$60,280,000) from independent third parties, on that date, control in Gucheng Minghua was passed to the Group. This acquisition has been accounted for using the purchase method. Gucheng Minghua is principally engaged in the sales of piped gas. Gucheng Minghua was acquired so as to continue the expansion of the Group's operations.

Considered transferred:

	HK$'000
Cash	60,280

Assets acquired and liabilities of Gucheng Minghua recognised at the date of acquisition are as follows:

	HK$'000
Property, plant and equipment	50,023
Other intangible assets – exclusive right of operation in sales of piped gas	8,742
Interest in a joint venture	5,655
Trade and bills receivables	34
Inventories	225
Deposits, prepayments and other receivables	1,293
Bank balances and cash	139
Trade and bills payables	(78)
Other payables and accrued charges	(6,006)
Deferred tax liability	(2,186)
	57,841

The fair value as well as the gross contractual amounts of the trade and bills receivables and other receivables acquired amounted to HK$1,222,000 at the date of acquisition. The best estimate at acquisition date of the contractual cash flow not expected to be collected is nil.

38. ACQUISITION OF BUSINESS *(Continued)*

Year ended 31st December, 2017 *(Continued)*

Acquisition of a subsidiary – Gucheng Minghua (Continued)

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	60,280
Less: Fair value of identifiable net assets acquired	(57,841)
	2,439

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

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

Net cash outflow on acquisition of Gucheng Minghua during the year ended 31st December, 2017:

	HK$'000
Total cash consideration	60,280
Less: cash and cash equivalents balances acquired	(139)
Unsettled consideration (included in other payables and accrued charges as at 31st December, 2017) (RMB31,980,000)	(36,168)
	23,973

Included in the profit for the year ended 31st December, 2017 is profit of HK$6,401,000 attributable to Gucheng Minghua. Revenue for the year ended 31st December, 2017 includes HK$15,214,000 generated from Gucheng Minghua.

Had the acquisition of Gucheng Minghua been completed on 1st January, 2017, total group revenue for the year would have been HK$5,048,265,000 and profit for the year would have been HK$591,580,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2017, nor is it intended to be a projection of future results.

38. ACQUISITION OF BUSINESS *(Continued)*

Year ended 31st December, 2016

Acquisition of a subsidiary – Sihong Wo Jin

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

Considered transferred:

	HK$'000
Cash	35,705

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

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

38. ACQUISITION OF BUSINESS *(Continued)*

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

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

Goodwill arising on acquisition:

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

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

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

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

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

38. ACQUISITION OF BUSINESS *(Continued)*

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

Acquisition of a subsidiary – Sihong Wo Jin (Continued)

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

Had the acquisition of Sihong Wo Jin been completed on 1st January, 2016, total group revenue for the year would have been HK$3,728,593,000 and profit for the year would have been HK$104,329,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2016, nor is it intended to be a projection of future results.

Acquisition of a subsidiary – Henan Yicheng

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

Considered transferred:

	HK$'000
Cash	94,360

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

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

38. ACQUISITION OF BUSINESS *(Continued)*

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

Acquisition of a subsidiary – Henan Yicheng (Continued)

Goodwill arising on acquisition:

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

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

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

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

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

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

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

Had the acquisition of Henan Yicheng been completed on 1st January, 2016, total group revenue for the year would have been HK$3,753,979,000 and profit for the year would have been HK$103,295,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2016, nor is it intended to be a projection of future results.

39. OPERATING LEASES

The Group as lessee

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

	2017 **HK$'000**	2016 HK$'000
Within one year	**11,154**	9,358
In the second to fifth year inclusive	**10,373**	8,993
Over five years	**6,708**	2,818
	28,235	21,169

Operating lease payments represent rental payable by the Group in respect of leasehold land and buildings and equipment. Leases for rented premises and equipment are negotiated for a period of one to twenty-five years (2016: one to twenty-five years) with fixed rental.

The Group as lessor

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

	2017 **HK$'000**	2016 HK$'000
Within one year	**1,534**	3,005
In the second to fifth year inclusive	**450**	1,854
	1,984	4,859

Leases are negotiated for an average term of five years (2016: five years).

The Group's completed investment properties with a carrying amount of HK$44,516,000 (2016: HK$43,748,000) are held for rental purposes. All of the properties held have committed tenants for the next two to five years (2016: two to five years).

40. RETIREMENT BENEFITS PLANS

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

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

41. RELATED PARTY TRANSACTIONS

During the year, the Group purchased gas and kitchen appliances of RMB57,729,000 (equivalent to HK$66,630,000) (2016: nil) from Gasbo Electrical and Gas Appliance Co., Ltd., a subsidiary of the controlling shareholder of the Company. Details of the outstanding balances with this related company are set out in note 30.

Compensation of key management personnel

The Directors considered that they are the only key management personnel of the Group. Their emoluments are set out in note 12.

42. CAPITAL AND OTHER COMMITMENTS

As at 31st December, 2017, the capital expenditure in respect of the acquisition of property, plant and equipment and prepaid lease payments contracted for but not provided in the consolidated financial statements is HK$120,529,000 (2016: HK$76,859,000).

43. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2016, the Group has derecognised certain prepaid lease payments at the carrying amount of HK$8,666,000 due to redevelopment of Sanmenxia City. As the local government of Sanmexia City compensated another leasehold land and agreed to pay cash compensation to the Group, the Group has recognised the new leasehold land as prepaid lease payments of HK$2,753,000 and the difference of HK$5,913,000 was recognised as other receivables and included in "deposits, prepayments and other receivables" as at 31st December, 2016. During the year ended 31st December, 2017, the cash compensation is finalised at HK$37,791,000. A gain on disposal of prepaid lease payment of HK$31,687,000 is credited to profit or loss.

44. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Capital risk management

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

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

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

Categories of financial instruments

	2017	2016
	HK$'000	HK$'000
Financial assets		
Available-for-sale investments	**3,589**	3,354
Loans and receivables (including cash and cash equivalents)	**1,460,487**	1,442,519
Financial liabilities		
Amortised cost	**6,289,416**	5,461,258

Financial risk management objectives and policies

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

44. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk

Interest rate risk

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

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

The sensitivity analysis has been determined based on the exposure to the variable-rate bank balances and bank borrowings at the end of the reporting period and management's assessment of the reasonably possible change interest rates. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. If interest rates on bank borrowings and bank balances had been 50 basis points and 20 basis points respectively (2016: 50 basis points for bank borrowings and 20 basis points for bank balances) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by HK$18,353,000 (2016: decrease/increase HK$13,329,000).

Foreign currency risk

The Group collects most of its revenue in RMB and incurs most of the expenditures as well as capital expenditures in RMB. The Directors consider that the Group's exposure to foreign currency exchange risk is insignificant, except for certain bank balances, investments in life insurance contracts, bank borrowings and obligation arising from forward contract with non-controlling interests which are denominated in US$ or HK$, as the majority of the Group's transactions are denominated in the functional currency of the respective group entities. The equivalent amount of HK$ are set out below:

	Assets		Liabilities	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**173,544**	147,327	**1,944,367**	2,040,670
HK$	**38,712**	15,541	**345,248**	–
	212,256	162,868	**2,289,615**	2,040,670

44. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

Foreign currency risk (Continued)

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

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% (2016: 5%) increase and decrease in RMB against US$ or HK$. 5% (2016: 5%) represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis includes respective US$ and HK$ bank balances, investments in life insurance contracts, bank borrowings and obligation arising from forward contract with non-controlling interests, and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates increase in post-tax profit where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit or loss.

	2017	2016
	HK$'000	HK$'000
US$	**66,406**	69,992
HK$	**11,495**	(583)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at the end of reporting period, in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. As at 31st December, 2017, other than the concentration of credit risk on the amounts due from an associate and related parties and entrusted loan receivable (2016: other than the concentration of credit risk on the amounts due from an associate and related parties and entrusted loan receivable), the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

44. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

The credit risk on liquid funds is limited because the counterparties are reputable banks in the PRC or banks with high credit-ratings assigned by international credit-rating agencies and the Group has limited exposure to any single financial institution.

The policy of allowances for doubtful debts of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's estimate. In determining whether impairment is required, the Group takes into consideration the aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flows expected to receive discounted using the original effective interest rate and the carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

Liquidity risk

As at 31st December, 2017, the Group has net current liabilities of HK$1,665,593,000. As explained in note 1, the Directors are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future, taking into account that the new bank borrowings facilities amounting to HK$1,197,300,000 and US$236,500,000 (equivalent to HK$1,850,116,000), respectively, have been obtained subsequent to 31st December, 2017, in which the borrowings are due after one year from the date of draw down.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on bank borrowings as significant sources of liquidity. The management monitors the utilisation of bank borrowings and ensures compliance with the relevant covenants.

44. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

The following table details the Group's remaining contractual maturity based on the agreed repayment terms for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest (estimated based on interest rate at the end of the reporting period) and principal cash flows.

Liquidity tables

	Weighted average effective interest rate	On demand or less than 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2017 HK$'000
2017							
Non-derivative financial liabilities							
Trade and bills payables	–	727,274	–	–	–	727,274	727,274
Other payables and accrued charges	–	302,120	–	–	–	302,120	302,120
Amount due to an associate	–	1,236	–	–	–	1,236	1,236
Obligations under finance lease	4.70%	81,576	123,798	267,441	–	472,815	446,956
Bank borrowings							
– fixed rate	4.69%	–	103,956	72,666	22,181	198,803	178,834
– variable rate	5.90%	484,768	1,040,633	4,036,849	49,875	5,612,125	5,079,951
		1,596,974	1,268,387	4,376,956	72,056	7,314,373	6,736,371

44. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity tables (Continued)

	Weighted average effective interest rate	On demand or less than 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	More than 5 years HK$'000	Total undiscounted cash flow HK$'000	Carrying amount at 31.12.2016 HK$'000
2016							
Non-derivative financial liabilities							
Trade and bills payables	–	394,046	182,451	–	–	576,497	576,497
Other payables and accrued charges	–	198,385	–	–	–	198,385	198,385
Obligation arising from forward contract with non-controlling interests	12.295%	–	610,162	–	–	610,162	575,791
Amount due to an associate	–	1,155	–	–	–	1,155	1,155
Obligations under finance lease	4.42%	27,952	83,857	223,890	–	335,699	315,095
Bank borrowings							
– fixed rate	4.52%	38,006	113,485	98,444	23,381	273,316	247,854
– variable rate	5.43%	32,320	407,120	3,927,159	98,573	4,465,172	3,861,576
		691,864	1,397,075	4,249,493	121,954	6,460,386	5,776,353

Note: The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Fair value

The fair value of financial assets and financial liabilities are determined by in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

45. 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.

	Amount due to an associate HK$'000	Obligation arising from forward contract with non-controlling interests HK$'000	Dividend payables to non-controlling interests of subsidiaries HK$'000	Interest payables HK$'000	Borrowings HK$'000 (Note 32)	Obligations under finance leases HK$'000 (Note 33)	Total HK$'000
At 1st January, 2017	1,155	575,791	–	3,902	4,109,430	315,095	5,005,373
Financing cash flows	–	(610,162)	(13,315)	(227,158)	909,789	(137,911)	(78,757)
Dividend declared	–	–	12,846	–	–	–	12,846
New finance leases	–	–	–	–	–	230,840	230,840
Foreign exchange translation							
– profit or loss	–	–	469	25	(113,430)	–	(112,936)
Foreign exchange translation							
– other comprehensive income	81	–	–	–	331,666	25,685	357,432
Interest expenses	–	34,371	–	227,521	21,330	13,247	296,469
At 31st December, 2017	1,236	–	–	4,290	5,258,785	446,956	5,711,267

46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

As at 31st December, 2017 and 2016

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2017 %	2016 %	Principal activities
Zhongyu Gas Investment Limited	Hong Kong	Limited liability company	1 ordinary share of HK$1 each	**100#**	100#	Investment holding
Zhongyu Gas Investment Limited###	British Virgin Islands	Incorporated	1 ordinary share of US$1 each	**100#**	100#	Investment holding
Zhongyu Gas Investment (Beijing) Limited###	British Virgin Islands	Incorporated	1 ordinary share of US$1 each	**100#**	100#	Investment holding
China City Gas Construction Holdings Co., Ltd.###	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	**100##**	100##	Investment holding
China City Gas Construction Explore Co., Ltd.###	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	**100##**	100##	Investment holding
China Gas Construction Expansion Co., Ltd.###	British Virgin Islands	Incorporated	1,330,000 ordinary shares of US$1 each	**100##**	100##	Investment holding
China City Gas Construction Development Co., Ltd.###	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	**100##**	100##	Investment holding
China City Gas Construction Investment Co., Ltd.###	British Virgin Islands	Incorporated	100 ordinary shares of US$1 each	**100##**	100##	Investment holding
浙江中裕燃氣有限公司	PRC	Wholly-foreign owned enterprise	Registered capital US$8,500,000	**100##**	100##	Trading of natural gas, gas pipeline construction and operation of CNG/LNG vehicle filling stations

46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2017 and 2016 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2017 %	2016 %	Principal activities
中裕城市能源投資控股（深圳）有限公司	PRC	Wholly-foreign owned enterprise	Registered capital US$100,000,000	100##	100##	Investment holding
三門峽中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital HK$50,000,000	90##	90##	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
新密中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital HK$15,000,000	97##	97##	Trading of natural gas and gas pipeline construction
新密中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB63,000,000	99.8##	99.8##	Operation of CNG/LNG vehicle filling stations
偃師中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital HK$25,000,000	95##	95##	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
永城中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital HK$50,000,000	100##	100##	Trading of natural gas and gas pipeline construction
永城中裕運輸有限公司	PRC	Limited liability company	Registered capital RMB600,000	100##	100##	Dangerous goods transportation
臨沂中裕能源有限公司	PRC	Wholly-foreign owned enterprise	Registered capital HK$210,000,000	100##	100##	Trading of natural gas and gas pipeline construction

46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2017 and 2016 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2017 %	2016 %	Principal activities
臨沂中裕能源壓縮天然氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	**100##**	51##	Operation of CNG/LNG vehicle filling stations
臨沭中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB15,160,000	**100##**	100##	Trading of natural gas and gas pipeline construction
東海縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB68,000,000	**100##**	100##	Trading of natural gas and gas pipeline construction
濟源中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital RMB40,280,000	**92.9##**	92.9##	Trading of natural gas and gas pipeline construction
漯河中裕燃氣有限公司 ("Luohe Zhongyu")	PRC	Sino-foreign joint venture	Registered capital RMB95,468,511	**77.3##**	77.3##	Trading of natural gas and gas pipeline construction
漯河中裕燃氣工程安裝有限公司	PRC	Sino-foreign joint venture	Registered capital RMB5,000,000	**73.4##**	73.4##	Gas pipeline construction
焦作中裕燃氣有限公司	PRC	Sino-foreign joint venture	Registered capital HK$80,000,000	**93.2##**	93.2##	Trading of natural gas, coal gas and liquefied petroleum gas and gas pipeline construction
焦作中裕燃氣工程安裝有限公司	PRC	Limited liability company	Registered capital RMB100,000,000	**93.2##**	93.2##	Gas pipeline construction

46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2017 and 2016 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2017 %	2016 %	Principal activities
修武中裕燃氣發展有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	**96.7##**	96.7##	Trading of natural gas and gas pipeline construction
臨沂中裕燃氣有限公司 ("Linyi Zhongyu")	PRC	Sino-foreign joint venture	Registered capital RMB42,000,000	**51#**	51#	Trading of natural gas and gas pipeline construction
中裕(河南)能源控股有限公司	PRC	Wholly-foreign owned enterprise	Registered capital HK$600,000,000	**100#**	100#	Investment holding
邵武中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB6,000,000	**100##**	100##	Operation of CNG/LNG vehicle filling stations
濟源中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	**100##**	100##	Operation of CNG/LNG vehicle filling stations
三門峽中裕能源有限公司	PRC	Limited liability company	Registered capital RMB8,000,000	**100##**	100##	Operation of CNG/LNG vehicle filling stations
南京晶橋中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	**100##**	100##	Trading of natural gas and gas pipeline construction
西平中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	**100##**	100##	Research and development of natural gas technology
鄭州中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB200,000,000	**100##**	100##	Not yet commenced business

46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2017 and 2016 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2017 %	2016 %	Principal activities
靈寶中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB35,000,000	**100##**	100##	Trading of natural gas and gas pipeline construction
德州中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB25,000,000	**100##**	100##	Trading of natural gas, gas pipeline construction and operation of CNG/LNG vehicle filling stations
陝縣中裕燃氣有限公司	PRC	Wholly-foreign owned enterprise	Registered capital RMB10,000,000	**-**	100##	Trading of natural gas and gas pipeline construction
温縣中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	**80##**	80##	Trading of natural gas and gas pipeline construction
深圳市鵬凱吉星貿易有限公司	PRC	Limited liability company	Registered capital RMB100,000	**100##**	100##	Not yet commenced business
沁陽中裕燃氣有限公司	PRC	Wholly-foreign owned enterprise	Registered capital RMB10,000,000	**100##**	100##	Trading of natural gas and gas pipeline construction
武夷山中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB30,000,000	**99.8##**	99.8##	Trading of natural gas and gas pipeline construction
武陟中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB26,000,000	**100##**	100##	Trading of natural gas, gas pipeline construction and operation of CNG/LNG vehicle filling stations
鐵力中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	**100##**	100##	Trading of natural gas and gas pipeline construction

46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2017 and 2016 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2017 %	2016 %	Principal activities
焦作中裕壓縮氣有限公司	PRC	Limited liability company	Registered capital RMB15,000,000	100##	100##	Operation of CNG/LNG vehicle filling stations
修武縣寧城能源利用有限公司	PRC	Limited liability company	Registered capital RMB5,246,014	100##	100##	Not yet commenced business
漯河中裕壓縮氣有限公司	PRC	Sino-foreign joint venture	Registered capital RMB5,000,000	100##	100##	Operation of CNG/LNG vehicle filling stations
漯河裕聯加氣站經營有限公司	PRC	Limited liability company	Registered capital RMB9,300,000	100##	100##	Operation of CNG/LNG vehicle filling stations
南京中裕壓縮氣體有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	100##	Operation of CNG/LNG vehicle filling stations
南京中裕天然氣加氣有限公司	PRC	Limited liability company	Registered capital RMB7,000,000	70##	70##	Operation of CNG/LNG vehicle filling stations
上海宣閶能源投資管理有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100##	100##	Investment holding
邵武中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	100##	100##	Trading of natural gas and gas pipeline construction
河南怡誠大有燃氣有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	70##	70##	Trading of natural gas and gas pipeline construction
泗洪沃金燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	100##	Trading of natural gas and gas pipeline construction

46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2017 and 2016 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2017 %	2016 %	Principal activities
漯河中裕能源有限公司	PRC	Limited liability company	Registered capital RMB100,000,000	**88.9##**	88.9##	Not yet commenced business
樂清中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	**85##**	85##	Not yet commenced business
故城明華燃氣有限公司	PRC	Limited liability company	Registered capital RMB47,600,000	**100##**	–	Trading of natural gas and gas pipeline construction
臨江中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	**100##**	–	Not yet commenced business
河南中裕燃氣工程設計有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	**100##**	–	Design of gas pipeline construction project
中裕(河南)能源貿易有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	**100##**	–	Trading of natural gas
偃師中裕能源有限公司	PRC	Limited liability company	Registered capital RMB20,000,000	**100##**	–	Not yet commenced business
原陽縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB55,000,000	**100##**	–	Trading of natural gas and gas pipeline construction
河南中裕智慧能源有限公司	PRC	Limited liability company	Registered capital RMB200,100,000	**100##**	–	Not yet commenced business
輝縣市中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	**100##**	–	Not yet commenced business
灌南中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB132,095,804	**100##**	50*	Trading of natural gas and gas pipeline construction

46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2017 and 2016 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				2017 %	2016 %	
Harmony Gas Holdings Limited###	Cayman Islands	Limited liability company	78,287,805 ordinary shares of US$0.0001 each	100##	50*	Investment holding
Prosperity Gas Holdings Ltd.###	Cayman Islands	Limited liability company	201 ordinary shares of US$1 each	100##	50*	Investment holding
Prosperity Gas 2 Co., Ltd.	Hong Kong	Limited liability company	1 ordinary shares of HK$1 each	100##	50*	Investment holding
Sino Gas International Holdings, Inc###	United States of America	Incorporated	1,000 common stock without par value	100##	50*	Investment holding
Sino Gas Investment Development Limited###	British Virgin Islands	Incorporated	25,500 ordinary shares of US$1 each	–	50*	Investment holding
Gas Investment China Co. Ltd.###	British Virgin Islands	Incorporated	21,500,000 ordinary shares of US$1 each	100##	50*	Investment holding
Tongyuan International Holding Limited	Hong Kong	Limited liability company	10,000 ordinary shares of HK$1 each	51##	25.5*	Investment holding
Sino Gas Construction Limited###	British Virgin Islands	Incorporated	1,909,730 ordinary shares of US$1 each	97.3##	37.5*	Investment holding
北京中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB206,000,000	100##	50*	Trading of natural gas

46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2017 and 2016 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2017 %	2016 %	Principal activities
江蘇中裕能源有限公司	PRC	Limited liability company	Registered capital RMB127,558,290	100##	50*	Investment holding
江蘇偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB59,482,501	–	50*	Trading of natural gas and gas pipeline construction
泗洪偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB36,613,250	100##	50*	Trading of natural gas and gas pipeline construction
五河中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,991,870	100##	50*	Trading of natural gas and gas pipeline construction
泗縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	50*	Trading of natural gas and gas pipeline construction
北京晨光燃氣有限公司	PRC	Limited liability company	Registered capital RMB35,239,600	100##	50*	Trading of natural gas and gas pipeline construction
昌黎中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	100##	50*	Trading of natural gas and gas pipeline construction
玉田縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB30,000,000	100##	50*	Trading of natural gas and gas pipeline construction
蔚縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB9,500,000	100##	50*	Trading of natural gas and gas pipeline construction
張家口市下花園中裕燃氣有限責任公司	PRC	Limited liability company	Registered capital RMB5,000,000	100##	50*	Trading of natural gas and gas pipeline construction

46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2017 and 2016 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2017 %	2016 %	Principal activities
石家莊市藁城區偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	100##	50*	Trading of natural gas and gas pipeline construction
石家莊鹿泉區晨光燃氣有限公司	PRC	Limited liability company	Registered capital RMB6,000,000	100##	50*	Trading of natural gas and gas pipeline construction
成安中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	50*	Trading of natural gas and gas pipeline construction
白山市偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB80,000,000	100##	50*	Trading of natural gas and liquefied petroleum gas and gas pipeline construction
白山中裕車用燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	50*	Operation of CNG/LNG vehicle filling stations
白山市偉業燃氣物資有限公司	PRC	Limited liability company	Registered capital RMB1,000,000	100##	50*	Sales of gas equipment and materials
撫松縣偉業燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	100##	50*	Trading of natural gas and gas pipeline construction
白山市意和建設工程有限公司	PRC	Limited liability company	Registered capital RMB6,000,000	100##	50*	Gas pipeline construction
白山市偉業管道天然氣有限公司	PRC	Limited liability company	Registered capital RMB50,000,000	100##	50*	Not yet commenced business

46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2017 and 2016 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company 2017 %	2016 %	Principal activities
河北中燃偉業燃氣集團有限公司	PRC	Limited liability company	Registered capital RMB90,204,536	100##	50*	Trading of natural gas
吳橋中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB8,800,000	100##	50*	Trading of natural gas and gas pipeline construction
寧晉縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB11,700,000	100##	50*	Trading of natural gas and gas pipeline construction
臨漳中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB7,700,000	100##	50*	Trading of natural gas and gas pipeline construction
衡水中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB6,927,000	100##	50*	Trading of natural gas and gas pipeline construction
隆堯中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,825,000	100##	50*	Trading of natural gas and gas pipeline construction
行唐中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB7,135,000	100##	50*	Trading of natural gas and gas pipeline construction
故城中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB14,500,000	100##	50*	Trading of natural gas and gas pipeline construction
南宮中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB7,439,000	100##	50*	Trading of natural gas and gas pipeline construction
雞澤中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,500,000	100##	50*	Trading of natural gas and gas pipeline construction

46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

As at 31st December, 2017 and 2016 *(Continued)*

Name of subsidiary	Place/country of incorporation/ registration/ operation	Form of business structure	Paid up issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
				2017	2016	
				%	%	
新河縣中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB10,000,000	**100##**	50*	Trading of natural gas and gas pipeline construction
廊坊開發區偉業危險貨物運輸有限公司	PRC	Limited liability company	Registered capital RMB1,000,000	**100##**	50*	Dangerous goods transportation
徐州中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB30,000,000	**100##**	–	Trading of natural gas and gas pipeline construction
邢台中裕燃氣有限公司	PRC	Limited liability company	Registered capital RMB5,000,000	**100##**	–	Trading of natural gas and gas pipeline construction

\# The nominal value of issued share capital/registered capital directly held by the Company.

\## The nominal value of issued share capital/registered capital indirectly held by the Company.

\### The place of operation of the company is Hong Kong.

* Regarding these companies, of which the nominal value of issued share capital/registered capital held by the Company are less than 50% as at 31st December, 2016, the Group obtained control through investment in non-wholly owned subsidiaries of Harmony Gas with the following reasons:

(a) Zhongyu Gas Beijing has the right to appoint 4 directors out of 7 of Harmony Gas which simple majority vote is required for decisions impacting the key relevant activities of Harmony Gas;

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

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

(i) declaration or payment of any dividends;

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

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

None of the subsidiaries had issued any debt securities at the end of the both years.

47. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Total comprehensive income (expense) attributable to non-controlling interests		Accumulated non-controlling interests	
		2017	2016	**2017**	2016	**2017**	2016
				HK$'000	HK$'000	**HK$'000**	HK$'000
Linyi Zhongyu	PRC – Shandong province	**49%**	49%	**55,828**	48,143	**274,828**	219,000
Luohe Zhongyu	PRC – Henan province	**22.71%**	22.71%	**32,823**	27,379	**93,365**	71,465
Harmony Gas	PRC	**–**	50%	**(35,410)**	(102,858)	**–**	293,653 (Note)
Individually immaterial subsidiaries with non-controlling interests, including Harmong Gas' subsidiaries						**181,072**	176,424
						549,265	760,542
Other (note 37)						**–**	(507,817)
						549,265	252,725

Note: The amount shown excludes those attributable to non-controlling interests of Harmony Gas's subsidiaries.

47. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

Summarised financial information in respect of each of the Group's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

(i) Linyi Zhongyu

	2017	2016
	HK$'000	HK$'000
Current assets	**156,058**	111,688
Non-current assets	**603,049**	530,498
Current liabilities	**(172,961)**	(178,214)
Non-current liabilities	**(25,273)**	(17,033)
Equity attributable to owners of the Company	**286,045**	227,939
Non-controlling interests	**274,828**	219,000

47. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

(i) Linyi Zhongyu *(Continued)*

	2017 HK$'000	2016 HK$'000
Revenue	**463,526**	431,985
Expenses	**(404,208)**	(358,921)
Profit for the year	**59,318**	73,064
Profit attributable to owners of the Company	**30,252**	37,263
Profit attributable to the non-controlling interests	**29,066**	35,801
Profit for the year	**59,318**	73,064
Other comprehensive income attributable to owners of the Company	**27,854**	12,845
Other comprehensive income attributable to the non-controlling interests	**26,762**	12,342
Other comprehensive income for the year	**54,616**	25,187
Total comprehensive income attributable to owners of the Company	**58,106**	50,108
Total comprehensive income attributable to the non-controlling interests	**55,828**	48,143
Total comprehensive income for the year	**113,934**	98,251
Dividends paid to non-controlling interests	**–**	–
Net cash generated from operating activities	**56,159**	71,931
Net cash used in investing activities	**(29,076)**	(31,445)
Net cash used in financing activities	**(25,364)**	(32,006)
Net cash inflow	**1,719**	8,480

47. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

(ii) Luohe Zhongyu

	2017	2016
	HK$'000	HK$'000
Current assets	**381,569**	343,686
Non-current assets	**672,461**	529,660
Current liabilities	**(369,337)**	(353,502)
Non-current liabilities	**(328,169)**	(259,753)
Equity attributable to owners of the Company	**263,159**	188,626
Non-controlling interests	**93,365**	71,465

47. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

(ii) Luohe Zhongyu *(Continued)*

	2017	2016
	HK$'000	HK$'000
Revenue	**448,069**	365,302
Expenses	**(357,238)**	(311,820)
Profit for the year	**90,831**	53,482
Profit attributable to owners of the Company	**70,203**	41,336
Profit attributable to the non-controlling interests	**20,628**	12,146
Profit for the year	**90,831**	53,482
Other comprehensive income attributable to owners of the Company	**41,504**	51,843
Other comprehensive income attributable to the non-controlling interests	**12,195**	15,233
Other comprehensive income for the year	**53,699**	67,076
Total comprehensive income attributable to owners of the Company	**111,707**	93,179
Total comprehensive income attributable to the non-controlling interests	**32,823**	27,379
Total comprehensive income for the year	**144,530**	120,558
Dividends paid to non-controlling interests	**10,923**	9,709
Net cash generated from operating activities	**135,542**	60,560
Net cash (used in) generated from investing activities	**(79,100)**	44,544
Net cash used in financing activities	**(55,162)**	(108,939)
Net cash inflow (outflow)	**1,280**	(3,835)

47. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

(iii) Harmony Gas and its subsidiaries

	2016 HK$'000
Current assets	37,376
Non-current assets	1,868,466
Current liabilities	(1,150,237)
Non-current liabilities	(154,735)
Equity attributable to owners of the Company	293,653
Non-controlling interests of Harmony Gas	293,653
Non-controlling interests of Harmony Gas' subsidiaries	13,564
	600,870
Revenue	566,635
Expenses	(926,420)
Loss for the year	(359,785)
Loss for the year attributable to	
– the owners of the Company	(177,818)
– non-controlling interests of Harmony Gas	(177,818)
– non-controlling interests of Harmony Gas' subsidiaries	(4,149)
Loss for the year	(359,785)
Other comprehensive income (expense) for the year attributable to	
– the owners of the Company	74,960
– non-controlling interests of Harmony Gas	74,960
– non-controlling interests of Harmony Gas' subsidiaries	(596)
Other comprehensive income for the year	149,324
Total comprehensive expense for the year attributable to	
– the owners of the Company	(102,858)
– non-controlling interests of Harmony Gas	(102,858)
– non-controlling interests of Harmony Gas' subsidiaries	(4,745)
Total comprehensive expense for the year	(210,461)
Net cash generated from operating activities	62,474
Net cash used in investing activities	(110,996)
Net cash generated from financing activities	122,812
Net cash inflow	74,290
Dividend paid to non-controlling interests of Harmony Gas' subsidiaries	–

48. EVENT AFTER THE REPORTING PERIOD

On 5th January, 2018, the Company has granted 126,000,000 share options to certain eligible participants (the "Grantees"), which are employees of the Group. Subject to acceptance by such Grantees, under the share option scheme adopted by the Company on 3rd May, 2013 to subscribe for a total of 126,000,000 ordinary shares of HK$0.01 each of the Company at exercise price of HK$5.5 per share expiring on 4th January, 2028. The details of the grant of options are set out in the Company's announcement dated 5th January, 2018. The options are granted as an inducement of the Grantees' services for the year 2018. Up to the date of the financial statements are authorised for issue, the Directors were in the progress of estimating the fair value of the share options granted and there is no share option being exercised.

49. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2017 HK$'000	2016 HK$'000
Non-current assets		
Unlisted investments in subsidiaries	**1,408,311**	1,073,531
Investments in life insurance contracts	**77,083**	75,547
Available-for-sale investment	**2,720**	2,720
Amounts due from group companies	**3,219,924**	2,713,503
	4,708,038	3,865,301
Current assets		
Other receivables	**5,766**	5,593
Tax recoverable	**15,517**	–
Bank balances and cash	**127,614**	174,408
	148,897	180,001
Current liabilities		
Other payables and accrued charges	**5,092**	6,280
Bank borrowings	**786,664**	127,633
	791,756	133,913
Net current (liabilities) assets	**(642,859)**	46,088
Total assets less current liabilities	**4,065,179**	3,911,389
Capital and reserves		
Share capital (note 34)	**25,250**	25,250
Reserves (Note)	**1,052,181**	947,423
Total equity	**1,077,431**	972,673
Non-current liabilities		
Bank borrowings	**2,987,748**	2,938,716
	4,065,179	3,911,389

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 21st March, 2018 and are signed on its behalf by:

MR. WANG WENLIANG
DIRECTOR

MR. LUI SIU KEUNG
DIRECTOR

49. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

Reserves of the Company

	Share premium HK$'000	Share option reserve HK$'000	Translation reserve HK$'000	Accumulated (losses) profit HK$'000	Total HK$'000
At 1st January, 2016	895,736	319	29,283	(221,379)	703,959
Profit for the year	–	–	–	225,477	225,477
Other comprehensive income for the year	–	–	17,987	–	17,987
Total comprehensive income for the year	–	–	17,987	225,477	243,464
At 31st December, 2016	895,736	319	47,270	4,098	947,423
Profit for the year	–	–	–	68,677	68,677
Other comprehensive income for the year	–	–	36,081	–	36,081
Total comprehensive income for the year	–	–	36,081	68,677	104,758
At 31st December, 2017	895,736	319	83,351	72,775	1,052,181

	For the year ended 31st December,				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**5,048,100**	3,722,507	3,276,666	3,412,690	3,130,885
Profit for the year attributable to					
Owners of the Company	**557,959**	206,150	93,390	324,351	262,248
Non-controlling interests	**33,637**	(102,549)	56,478	65,429	62,569
	591,596	103,601	149,868	389,780	324,817

	As at 31st December,				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Total assets	**11,800,731**	9,623,663	8,709,309	6,898,822	4,698,914
Total liabilities	**(8,077,514)**	(6,817,732)	(6,436,915)	(4,606,082)	(2,770,240)
	3,723,217	2,805,931	2,272,394	2,292,740	1,928,674
Equity attributable to the owners of the Company	**3,173,952**	2,553,206	2,006,664	1,994,048	1,692,480
Non-controlling interests	**549,265**	252,725	265,730	298,692	236,194
	3,723,217	2,805,931	2,272,394	2,292,740	1,928,674

腾飞中裕 同心筑梦

中裕燃氣
ZHONGYU GAS
(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立之有限公司）

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