



天津津燃公用事業股份有限公司
TIANJIN JINRAN PUBLIC UTILITIES COMPANY LIMITED
(a joint stock limited company incorporated in the People's Republic of China with limited liability)
Stock Code: 1265



Interim Report
2018

The board (the “Board”) of directors (the “Directors”) of Tianjin Jinran Public Utilities Company Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2018 (the “Period”) together with unaudited comparative figures for the last corresponding period as follows:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2018

Renminbi Yuan

| | Note V | 30 June 2018 (Unaudited) | 31 December 2017 (Audited/ Restatement) |
|--|--------|-----------------------------|---|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and bank balances | 1 | 962,093,337.13 | 487,228,014.40 |
| Held-for-trading financial assets | 2 | 203,235,068.49 | – |
| Bills receivable and trade receivables | 3 | 508,256,512.16 | 382,565,865.83 |
| Prepayments | 4 | 10,465,597.52 | 12,330,877.27 |
| Other receivables | 5 | 13,843,792.62 | 13,499,553.24 |
| Inventories | 6 | 2,659,896.49 | 2,634,474.00 |
| Other current assets | 7 | 4,701,321.84 | 627,839,761.12 |
| Total current assets | | 1,705,255,526.25 | 1,526,098,545.86 |
| NON-CURRENT ASSETS | | | |
| Long-term equity investments | 8 | 46,329,005.44 | 45,732,389.46 |
| Fixed assets | 9 | 828,745,655.79 | 849,481,538.16 |
| Construction in progress | 10 | 3,542,863.04 | 3,251,773.50 |
| Intangible assets | 11 | 11,922,691.90 | 12,109,712.19 |
| Deferred tax assets | 12 | 23,576,702.93 | 23,868,683.78 |
| Total non-current assets | | 914,116,919.10 | 934,444,097.09 |
| TOTAL ASSETS | | 2,619,372,445.35 | 2,460,542,642.95 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

30 June 2018

Renminbi Yuan

| | Note V | 30 June 2018 (Unaudited) | 31 December 2017 (Audited/ Restatement) |
|---|--------|-----------------------------|---|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Bills payable and trade payables | 15 | 515,386,729.85 | 305,598,160.10 |
| Advances from customers | | – | 246,139,859.30 |
| Contract liabilities | 16 | 214,690,221.94 | – |
| Employee benefits payable | 17 | 3,975,938.32 | 18,046,699.55 |
| Taxes payable | 18 | 25,692,449.10 | 50,420,556.68 |
| Other payables | | 52,372,440.73 | 23,163,380.47 |
| Current portion of non-current liabilities | 19 | 3,314,685.93 | 3,265,164.61 |
| Provisions | | 1,612,720.00 | 1,779,195.48 |
| Total current liabilities | | 817,045,185.87 | 648,413,016.19 |
| NON-CURRENT LIABILITIES | | | |
| Deferred income | 20 | 65,538,671.20 | 66,589,640.40 |
| Total non-current liabilities | | 65,538,671.20 | 66,589,640.40 |
| Total liabilities | | 882,583,857.07 | 715,002,656.59 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

30 June 2018

Renminbi Yuan

| | Note V | 30 June 2018 (Unaudited) | 31 December 2017 (Audited/ Restatement) |
|---|--------|-----------------------------|---|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 21 | 183,930,780.00 | 183,930,780.00 |
| Capital reserve | 22 | 790,332,352.18 | 790,332,352.18 |
| Surplus reserve | 23 | 115,753,744.82 | 115,753,744.82 |
| Retained earnings | 24 | 650,999,276.91 | 659,620,982.39 |
| Equity attributable to shareholders of the Parent | | 1,741,016,153.91 | 1,749,637,859.39 |
| Non-controlling interests | | (4,227,565.63) | (4,097,873.03) |
| Total shareholders' equity | | 1,736,788,588.28 | 1,745,539,986.36 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 2,619,372,445.35 | 2,460,542,642.95 |

The financial statements are signed by the following persons:

Legal Representative:
Zhao Wei

Chief Financial Officer:
Wang Quanhong

Head of Accounting Department:
An Li

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

Renminbi Yuan

| | Note V | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|---|--------|--|--|
| Revenue | 25 | 760,337,070.47 | 706,511,734.63 |
| Less: Cost of sales | 25 | 740,074,390.05 | 666,419,878.23 |
| Taxes and surcharges | 26 | 699,376.13 | 2,796,143.61 |
| Administrative expenses | | 11,364,823.74 | 10,443,851.23 |
| Finance costs | 27 | (9,615,552.56) | (9,180,809.06) |
| including: interest income | | (9,811,186.72) | (9,409,072.30) |
| Add: Other income | 28 | 5,440,720.13 | 1,294,631.55 |
| Investment income | 29 | 6,858,807.75 | 5,373,176.83 |
| including: share of profit of an associate | | 596,615.98 | 1,546,875.45 |
| Operating profit | | 30,113,560.99 | 42,700,479.00 |
| Add: Non-operating income | 30 | – | 17,000.00 |
| Less: Non-operating expenses | 31 | 65,161.50 | 54,356.70 |
| Total profit | | 30,048,399.49 | 42,663,122.30 |
| Less: Income tax expense | 33 | 7,531,564.97 | 10,597,748.04 |
| Net profit | | 22,516,834.52 | 32,065,374.26 |
| Including: continuing operations | | 22,516,834.52 | 32,065,374.26 |
| Attributable to: | | | |
| Shareholders of the Parent | | 22,646,527.12 | 32,417,488.23 |
| Non-controlling interests | | (129,692.60) | (352,113.97) |
| Other comprehensive income, net of tax | | – | – |
| Total comprehensive income | | 22,516,834.52 | 32,065,374.26 |
| Including: | | | |
| Total comprehensive income attributable to shareholders of the Parent | | 22,646,527.12 | 32,417,488.23 |
| Total comprehensive income attributable to non-controlling interests | | (129,692.60) | (352,113.97) |
| Earnings per share (RMB/Share) | 34 | | |
| Basic | | 0.012 | 0.018 |
| Diluted | | 0.012 | 0.018 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Renminbi Yuan

For the six months ended 30 June 2018

| | Attributable to shareholders of the Parent | | | | | Non-controlling interests | Total shareholders' equity |
|---|--|-----------------|-----------------|-------------------|------------------|---------------------------|----------------------------|
| | Share capital | Capital reserve | Surplus reserve | Retained earnings | Sub-total | | |
| I. At beginning of the period (Audited) | 183,930,780.00 | 790,332,352.18 | 115,753,744.82 | 659,620,982.39 | 1,749,637,859.39 | (4,097,873.03) | 1,745,539,986.36 |
| II. Movements during the period | | | | | | | |
| (i) Total comprehensive income | - | - | - | 22,646,527.12 | 22,646,527.12 | (129,692.60) | 22,516,834.52 |
| (ii) Profit appropriation | | | | | | | |
| 1. Distribution to shareholders | - | - | - | (31,268,232.60) | (31,268,232.60) | - | (31,268,232.60) |
| III. Closing balance (Unaudited) | 183,930,780.00 | 790,332,352.18 | 115,753,744.82 | 650,999,276.91 | 1,741,016,153.91 | (4,227,565.63) | 1,736,788,588.28 |

For the six months ended 30 June 2017

| | Attributable to shareholders of the Parent | | | | | Non-controlling interests | Total shareholders' equity |
|--|--|-----------------|-----------------|-------------------|------------------|---------------------------|----------------------------|
| | Share capital | Capital reserve | Surplus reserve | Retained earnings | Sub-total | | |
| I. At beginning of the period (Audited) | 183,930,780.00 | 790,332,352.18 | 110,209,819.32 | 625,276,444.20 | 1,709,749,395.70 | (2,697,770.77) | 1,707,051,624.93 |
| II. Movements during the period | | | | | | | |
| (i) Total comprehensive income | - | - | - | 32,417,488.23 | 32,417,488.23 | (352,113.97) | 32,065,374.26 |
| (ii) Profit appropriation | | | | | | | |
| 1. Transfer to surplus reserve | - | - | 5,543,925.50 | (5,543,925.50) | - | - | - |
| 2. Transfer to employee bonus and welfare fund | - | - | - | (184,797.52) | (184,797.52) | - | (184,797.52) |
| III. Closing balance (Unaudited) | 183,930,780.00 | 790,332,352.18 | 115,753,744.82 | 651,965,209.41 | 1,741,982,086.41 | (3,049,884.74) | 1,738,932,201.67 |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

Renminbi Yuan

| | Note V | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|---|--------|--|--|
| 1. Cash flows from operating activities | | | |
| Cash received from sale of goods or rendering of services | | 684,131,366.49 | 670,655,013.53 |
| Refunds of taxes | | 3,201,239.25 | 39,140.28 |
| Cash received relating to other operating activities | | 319,055.42 | 12,236.00 |
| Sub-total of cash inflows from operating activities | | 687,651,661.16 | 670,706,389.81 |
| Cash paid for goods and services | | 514,350,814.40 | 714,232,653.94 |
| Cash paid to and on behalf of employees | | 66,581,161.02 | 65,177,708.60 |
| Cash paid for all types of taxes | | 29,973,211.93 | 21,571,090.06 |
| Cash paid relating to other operating activities | | 17,223,730.10 | 17,935,390.11 |
| Sub-total of cash outflows from operating activities | | 628,128,917.45 | 818,916,842.71 |
| Net cash flows from/(used in) operating activities | 35 | 59,522,743.71 | (148,210,452.90) |

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

For the six months ended 30 June 2018

Renminbi Yuan

| Note V | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|--|--|--|
| 2. Cash flows from investing activities | | |
| Cash received from redemption of investments | 800,000,000.00 | 400,000,000.00 |
| Cash received from income on investments | 16,037,884.73 | 12,384,461.81 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | 1,690.00 | 17,200.00 |
| Cash received relating to other investing activities | 6,755,500.00 | - |
| Sub-total of cash inflows from investing activities | 822,795,074.73 | 412,401,661.81 |
| Cash paid for acquisitions of fixed assets, intangible assets, and other long-term assets | 7,553,126.00 | 10,819,316.52 |
| Cash paid for acquisition of investments | 796,500,000.00 | 200,000,000.00 |
| Sub-total of cash outflows from investing activities | 804,053,126.00 | 210,819,316.52 |
| Net cash flows from investing activities | 18,741,948.73 | 201,582,345.29 |

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

For the six months ended 30 June 2018

Renminbi Yuan

| | Note V | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|---|--------|--|--|
| 3. Cash flows from financing activities | | | |
| Sub-total of cash inflows from financing activities | | - | - |
| Sub-total of cash outflows from financing activities | | - | - |
| Net cash flows from financing activities | | - | - |
| 4. Effect of foreign exchange rate changes on cash and cash equivalents | | - | - |
| 5. Net increase in cash and cash equivalents | | 78,264,692.44 | 53,371,892.39 |
| Add: Cash and cash equivalents at beginning of the period | | 286,395,411.22 | 742,041,438.93 |
| 6. Cash and cash equivalents at end of the period | 35 | 364,660,103.66 | 795,413,331.32 |

STATEMENT OF FINANCIAL POSITION

30 June 2018

Renminbi Yuan

| | | 30 June 2018 | 31 December 2017 |
|--|-----------|-------------------------|---------------------------|
| | Note XIII | (Unaudited) | (Audited/ Restatement) |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and bank balances | | 960,816,839.61 | 485,347,138.70 |
| Held-for-trading financial assets | | 203,235,068.49 | – |
| Bills receivable and trade receivables | 1 | 508,256,512.16 | 382,565,865.83 |
| Prepayments | | 10,382,147.27 | 12,277,427.02 |
| Other receivables | 2 | 13,849,633.12 | 13,504,715.74 |
| Inventories | | 2,659,896.49 | 2,634,474.00 |
| Other current assets | | 4,701,321.84 | 627,839,761.12 |
| Total current assets | | 1,703,901,418.98 | 1,524,169,382.41 |
| NON-CURRENT ASSETS | | | |
| Long-term equity investments | 3 | 46,329,005.44 | 45,732,389.46 |
| Fixed assets | | 828,745,655.79 | 849,481,538.16 |
| Construction in progress | | 3,542,863.04 | 3,251,773.50 |
| Intangible assets | | 11,922,691.90 | 12,109,712.19 |
| Deferred tax assets | | 28,576,702.93 | 28,868,683.78 |
| Total non-current assets | | 919,116,919.10 | 939,444,097.09 |
| TOTAL ASSETS | | 2,623,018,338.08 | 2,463,613,479.50 |

STATEMENT OF FINANCIAL POSITION *(continued)*

30 June 2018

Renminbi Yuan

| Note XIII | 30 June 2018 (Unaudited) | 31 December 2017 (Audited/ Restatement) |
|---|---|---|
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| CURRENT LIABILITIES | | |
| Bills payable and trade payables | 515,340,729.85 | 305,552,160.10 |
| Advances from customers | – | 246,139,859.30 |
| Contract liabilities | 214,690,221.94 | – |
| Employee benefits payable | 3,975,646.86 | 18,046,408.09 |
| Taxes payable | 25,691,179.41 | 50,411,221.67 |
| Other payables | 49,711,572.73 | 20,502,512.47 |
| Current portion of non-current liabilities | 3,314,685.93 | 3,265,164.61 |
| Provisions | 1,612,720.00 | 1,779,195.48 |
| Total current liabilities | 814,336,756.72 | 645,696,521.72 |
| NON-CURRENT LIABILITIES | | |
| Deferred income | 65,538,671.20 | 66,589,640.40 |
| Total non-current liabilities | 65,538,671.20 | 66,589,640.40 |
| Total liabilities | 879,875,427.92 | 712,286,162.12 |
| SHAREHOLDERS' EQUITY | | |
| Share capital | 183,930,780.00 | 183,930,780.00 |
| Capital reserve | 790,332,352.18 | 790,332,352.18 |
| Surplus reserve | 115,753,744.82 | 115,753,744.82 |
| Retained earnings | 653,126,033.16 | 661,310,440.38 |
| Total shareholders' equity | 1,743,142,910.16 | 1,751,327,317.38 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 2,623,018,338.08 | 2,463,613,479.50 |

STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

Renminbi Yuan

| | Note XIII | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|--|-----------|--|--|
| Revenue | 4 | 760,337,070.47 | 706,511,734.63 |
| Less: Cost of sales | 4 | 740,074,390.05 | 666,419,878.23 |
| Taxes and surcharges | | 699,376.13 | 2,796,099.92 |
| Administrative expenses | | 10,798,215.75 | 9,202,175.26 |
| Finance costs | | (9,615,935.43) | (9,180,758.84) |
| including: interest income | | (9,809,909.59) | (9,406,587.82) |
| Add: Other income | | 5,440,720.13 | 1,294,631.55 |
| Investment income | 5 | 6,858,807.75 | 5,373,176.83 |
| including: share of profit of an associate | | 596,615.98 | 1,546,875.45 |
| Operating profit | | 30,680,551.85 | 43,942,148.44 |
| Add: Non-operating income | | – | 17,000.00 |
| Less: Non-operating expenses | | 65,161.50 | 54,356.70 |
| Total profit | | 30,615,390.35 | 43,904,791.74 |
| Less: Income tax expense | | 7,531,564.97 | 10,597,748.04 |
| Net profit | | 23,083,825.38 | 33,307,043.70 |
| Including: continuing operations | | 23,083,825.38 | 33,307,043.70 |
| Other comprehensive income, net of tax | | – | – |
| Total comprehensive income | | 23,083,825.38 | 33,307,043.70 |

STATEMENT OF CHANGES IN EQUITY

Renminbi Yuan

For the six months ended 30 June 2018

| | Share capital | Capital reserve | Surplus reserve | Retained earnings | Total shareholders' equity |
|---|----------------|-----------------|-----------------|-------------------|----------------------------|
| I. At beginning of the period (Audited) | 183,930,780.00 | 790,332,352.18 | 115,753,744.82 | 661,310,440.38 | 1,751,327,317.38 |
| II. Movements during the period | | | | | |
| (i) Total comprehensive income | - | - | - | 23,083,825.38 | 23,083,825.38 |
| (ii) Profit appropriation | | | | | |
| 1. Distribution to shareholders | - | - | - | (31,268,232.60) | (31,268,232.60) |
| III. Closing balance (Unaudited) | 183,930,780.00 | 790,332,352.18 | 115,753,744.82 | 653,126,033.16 | 1,743,142,910.16 |

For the six months ended 30 June 2017

| | Share capital | Capital reserve | Surplus reserve | Retained earnings | Total shareholders' equity |
|--|----------------|-----------------|-----------------|-------------------|----------------------------|
| I. At beginning of the period (Audited) | 183,930,780.00 | 790,332,352.18 | 110,209,819.32 | 626,981,297.70 | 1,711,454,249.20 |
| II. Movements during the period | | | | | |
| (i) Total comprehensive income | - | - | - | 33,307,043.70 | 33,307,043.70 |
| (ii) Profit appropriation | | | | | |
| 1. Transfer to surplus reserve | - | - | 5,543,925.50 | (5,543,925.50) | - |
| 2. Transfer to employee bonus and welfare fund | - | - | - | (184,797.52) | (184,797.52) |
| III. Closing balance (Unaudited) | 183,930,780.00 | 790,332,352.18 | 115,753,744.82 | 654,559,618.38 | 1,744,576,495.38 |

STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

Renminbi Yuan

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|---|--|--|
| 1. Cash flows from operating activities | | |
| Cash received from sale of goods or rendering of services | 684,131,366.49 | 670,655,013.53 |
| Refunds of taxes | 3,201,239.25 | 39,140.28 |
| Cash received relating to other operating activities | 317,778.29 | - |
| Sub-total of cash inflows from operating activities | 687,650,384.03 | 670,694,153.81 |
| Cash paid for goods and services | 514,320,814.40 | 714,232,653.94 |
| Cash paid to and on behalf of employees | 66,536,511.02 | 65,111,337.60 |
| Cash paid for all types of taxes | 29,965,146.61 | 21,570,470.37 |
| Cash paid relating to other operating activities | 16,600,159.82 | 17,863,679.48 |
| Sub-total of cash outflows from operating activities | 627,422,631.85 | 818,778,141.39 |
| Net cash flows from/(used in) operating activities | 60,227,752.18 | (148,083,987.58) |

STATEMENT OF CASH FLOWS *(continued)*

For the six months ended 30 June 2018

Renminbi Yuan

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|---|--|--|
| 2. Cash flows from investing activities | | |
| Cash received from redemption of investments | 800,000,000.00 | 400,000,000.00 |
| Cash received from income on investments | 16,037,884.73 | 12,381,977.33 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | 1,690.00 | 17,200.00 |
| Cash received relating to other investing activities | 6,755,500.00 | – |
| Sub-total of cash inflows from investing activities | 822,795,074.73 | 412,399,177.33 |
| Cash paid for acquisitions of fixed assets, intangible assets, and other long-term assets | 7,553,126.00 | 10,819,316.52 |
| Cash paid for acquisition of investments | 796,500,000.00 | 200,000,000.00 |
| Sub-total of cash outflows from investing activities | 804,053,126.00 | 210,819,316.52 |
| Net cash flows from investing activities | 18,741,948.73 | 201,579,860.81 |

STATEMENT OF CASH FLOWS *(continued)*

For the six months ended 30 June 2018

Renminbi Yuan

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|---|--|--|
| 3. Cash flows from financing activities | | |
| Sub-total of cash inflows from financing activities | - | - |
| Sub-total of cash outflows from financing activities | - | - |
| Net cash flows from financing activities | - | - |
| 4. Effect of foreign exchange rate changes on cash and cash equivalents | - | - |
| 5. Net increase in cash and cash equivalents | 78,969,700.91 | 53,495,873.23 |
| Add: Cash and cash equivalents at beginning of the period | 285,347,138.70 | 739,633,467.77 |
| 6. Cash and cash equivalents at end of the period | 364,316,839.61 | 793,129,341.00 |

NOTES TO FINANCIAL STATEMENTS

30 June 2018

Renminbi Yuan

I. BASIC INFORMATION OF THE GROUP

Tianjin Jinran Public Utilities Company Limited, formerly named Tianjin Tianlian Public Utilities Company Limited (天津天聯公用事業股份有限公司), is a joint stock limited company registered in Tianjin, the People's Republic of China (the "PRC") on 16 December 1998. The Company's overseas listed foreign shares ("H Shares") were listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's office address and headquarter is located in No.18 Zhengzhou Road, Heping District, Tianjin.

The Company's original registered capital was RMB2 million. Pursuant to a resolution of shareholders' meeting passed on 26 November 2001, the registered capital of the Company was increased from RMB2,000,000.00 to RMB2,849,618.00 with a premium of RMB19,150,382.00 by contribution from existing shareholders and new investors.

Pursuant to a resolution passed on 12 December 2001, the registered capital of the Company was increased from RMB2,849,618.00 to RMB69,500,000.00, divided into 69,500,000 Domestic Shares of RMB1 each, by capitalisation of reserves of the Company as at 30 November 2001. Such transformation of the Company was approved by 津股批[2001]22號《關於同意天津市天聯天然氣有限公司整體變更為天津天聯公用事業股份有限公司的批復》 issued by Tianjin Municipal Government on 26 December 2001.

Pursuant to a resolution of shareholders' meeting passed on 28 August 2002, each of Domestic Shares of RMB1 was sub-divided into 10 Domestic Shares of RMB0.1 each. The registered capital of the Company after sub-division of shares was 695 million Domestic Shares of RMB0.1 each.

The Company issued 300,000,000 H Shares and converted 30,000,000 Domestic Shares into H Shares by way of placing for listing of H Shares on the Growth Enterprise Market (the "GEM") of the Stock Exchange on 9 January 2004. The Company received net proceeds, after deducting all relevant share issue expenses, of RMB64,667,255.43 from the new issue of shares by way of public offer and placing (including share capital of RMB33,000,000.00 and share premium of RMB31,667,255.43).

On 18 April 2005, Tianjin Leason Investment Group Company Limited (天津聯盛投資集團有限公司) ("Leason") and Tianjin Gas Group Company Limited (天津市燃氣集團有限公司) ("Tianjin Gas") entered into a share transfer agreement in relation of the sale of 174,125,000 Domestic Shares (representing 17.5% of the total issued share capital of the Company) by Leason to Tianjin Gas at a price of RMB0.23 per share amounting to a total consideration of RMB40,048,750.00.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

I. BASIC INFORMATION OF THE GROUP *(continued)*

On 28 December 2005, Leason and Tianjin Wanshun Real Estate Company Limited (天津市萬順置業有限公司) (“Tianjin Wanshun”) entered into a share transfer agreement in relation of the sale of 220,025,000 Domestic Shares (representing 22.31% of the total issued share capital of the Company) by Leason to Tianjin Wanshun at a price of RMB0.29 per share amounting to a total consideration of RMB63,807,250.00. On the same day, Ms. Liang Jingqi and Tianjin Wanshun entered into a share transfer agreement in relation of the sale of 13,900,000 Domestic Shares (representing 1.40% of the total issued share capital of the Company) by Ms. Liang to Tianjin Wanshun at a price of RMB0.29 per share amounting to a total consideration of RMB4,031,000.00.

On 29 May 2007, approved by the Ministry of Commerce of the People’s Republic of China, the Company changed to a foreign investment limited liability company. The Company obtained the certificate of approval and the business licence on 4 June 2007 and 2 August 2007, respectively.

On 13 March 2008, the Company issued 154,600,000 H Shares at a price of HKD1.90 per share (par value RMB0.10 each) and converted 15,460,000 Domestic Shares into H Shares by way of placing of new shares on GEM. The Company received net proceeds, after deducting all relevant share issue expenses, of RMB253,009,696.34 (including share capital of RMB17,006,000.00 and the premium of RMB236,003,696.34).

Pursuant to the announcement of the Company dated on 5 October 2009, the Company entered into an Assets Acquisition Agreement with Tianjin Gas, pursuant to which the Company conditionally agreed to acquire assets from Tianjin Gas. To satisfy the consideration, the Company issued 689,707,800 Domestic Shares (par value RMB0.10 each) to Tianjin Gas on 7 April 2011 and the transaction was completed on 11 April 2011. The Domestic Shares enjoy equal interests as that of the H Shares. Upon the completion of transaction, the total issued share capital of the Company increased to RMB183.93 million. For details of share capital contribution, please refer to Note V.21.

The Company’s listing has been transferred from the GEM to the Main Board of the Stock Exchange since 18 October 2011.

Pursuant to a resolution passed on 20 June 2012, the Company changed its name from Tianjin Tianlian Public Utilities Company Limited (天津天聯公用事業股份有限公司) to Tianjin Jinran Public Utilities Company Limited (天津津燃公用事業股份有限公司). A new business licence under the new name of the Company was issued by the Tianjin Administration of Industry and Commerce Bureau (天津市工商行政管理局) on 17 August 2012.

NOTES TO FINANCIAL STATEMENTS *(continued)*

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I. BASIC INFORMATION OF THE GROUP *(continued)*

On 1 September 2014, Tianjin Gas and Tianjin Wanshun entered into a share transfer agreement for the transfer of 235,925,000 Domestic Shares (representing 12.82% of the total issued share capital of the Company) by Tianjin Wanshun to Tianjin Gas at a price of RMB0.50 per share amounting to a total consideration of RMB117,962,500.00. The shares transfer has been completed on 11 February 2015. Since then, Tianjin Gas held 64.12% of the total issued share capital of the Company, and Tianjin Wanshun was no longer the shareholder of the Company.

On 16 October 2014, Tianjin Gas and Tianjin Beacon Coatings Company Limited (天津燈塔塗料有限公司) ("Beacon Coatings") entered into a share transfer agreement for the transfer of 118,105,313 Domestic Shares (representing 6.42% of the total issued share capital of the Company) by Beacon Coatings to Tianjin Gas at nil consideration, subject to the obtaining of the approvals from the relevant government authorities. Upon the completion of the registration procedures of shares transfer, Tianjin Gas held 70.54% of the total issued share capital of the Company, and Beacon Coatings was no longer the shareholder of the Company.

Pursuant to the announcement of the Company dated on 13 January 2015, the registration of the transfer of all equity interests in Tianjin Gas held by State-owned Assets Supervision Commission of Tianjin Municipal Government to Tianjin Energy Investment Company Limited (天津能源投資集團有限公司) ("Tianjin Energy") has been completed. Immediately following the completion of the aforesaid equity transfer, the Company's holding company became Tianjin Gas, the Company's ultimate holding company became Tianjin Energy, and all shares were held by State-owned Assets Supervision Commission of Tianjin Municipal Government.

The principal activities of the Group are the sale and distribution of piped gas, the lease of pipelines, the operation and management of gas pipeline infrastructure, the sale and installation of gas appliances, investment, operation of urban gas (subject to obtaining a valid qualification certificate), import and export according to state regulations for enterprises, pipeline project, investment consultation and mining investment.

These financial statements were approved and authorised for issue by the board of directors of the Company on 29 August 2018.

The scope of the consolidated financial statements shall be determined on the basis of control. Refer to Note VI for the change of scope for the period.

NOTES TO FINANCIAL STATEMENTS *(continued)*

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II. BASIS OF PREPARATION

The interim financial statements have been prepared in accordance with “Accounting Standards for Business Enterprises No. 32 – Interim Financial Reporting” issued by the Ministry of Finance, thus they do not include all the information and disclosures in the audited financial statements for the year ended 2017. Except for the accounting policy changes disclosed in Note III. 23, the accounting policies adopted in these financial statements are consistent with the accounting policies adopted by the Group in preparing the 2017 annual financial statements. The interim financial statements should be read together with the financial statements of the Group for the year ended 2017 prepared pursuant to the accounting standards for business enterprises.

The financial statements have been prepared on a going concern basis.

The financial statements are prepared under the historical cost convention, except for certain financial instruments. If the assets are impaired, corresponding provisions for impairment shall be made according to relevant rules.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Group made specific accounting policies and accounting estimates based on the characteristics of actual production and operation, including the provision for bad debts of trade receivables, depreciation of fixed assets, amortisation of intangible assets, recognition and measurement of revenue, recognition of deferred tax assets, fair value measurement and valuation, etc.

1. Statement of compliance with Accounting Standards for Business Enterprises

The financial statements present fairly and completely the financial position of the Group and the Company as at 30 June 2018 and the financial performance and cash flows for the accounting period for the six months ended 30 June 2018 in accordance with Accounting Standards for Business Enterprises.

2. Accounting period

The accounting year for the Group is from 1 January to 31 December of each calendar year while its accounting period for the interim financial statements is from 1 January to 30 June.

NOTES TO FINANCIAL STATEMENTS *(continued)*

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III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

3. Functional currency

The Group's functional and presentation currency is Renminbi ("RMB"). Unless otherwise stated, the unit of the currency is RMB yuan.

4. Business combinations

A business combination is a transaction or event that brings together two or more separate entities into one reporting entity. Business combinations are classified into business combinations involving entities under common control and business combinations not involving entities under common control.

Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. For a business combination involving entities under common control, the party that, on the combination date, obtains control of another entity participating in the combination is the acquirer, while that other entity participating in the combination is the acquiree. The combination date is the date on which the acquirer effectively obtains control of the acquiree.

Assets and liabilities that are obtained by the acquirer in a business combination involving entities under common control (including the goodwill generated by the ultimate holding party in the acquisition of the acquiree) shall be measured at their carrying amounts at the combination date as recorded by the acquiree. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) shall be adjusted to share premium under capital surplus. If the capital surplus is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

NOTES TO FINANCIAL STATEMENTS *(continued)*

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III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

4. Business combinations *(continued)*

Business combinations not involving entities under common control

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the combination. For a business combination not involving entities under common control, the party that, on the acquisition date, obtains control of another entity participating in the combination is the acquirer, while that other entity participating in the combination is the acquiree. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquirer shall measure the acquiree's identifiable assets, liabilities and contingent liabilities acquired in the business combination at their fair values on the acquisition date.

Goodwill is initially recognised at cost being the excess of the aggregate fair value of the consideration transferred (or the fair value of the equity securities issued) and any fair value of the acquirer's previously held equity interest in the acquiree over the net identifiable assets acquired at the acquisition date. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. In the event that the sum of the fair value of the consolidation consideration paid (or the fair value of the equity securities issued) and the fair value of the equity interests in the acquiree held before the date of acquisition is less than the share of the fair value of the net identifiable assets of the acquiree acquired in the consolidation, the measurement of the fair value of the various identifiable assets, liabilities and contingent liabilities of the acquiree acquired and the fair value of the consolidation consideration paid (or the fair value of the equity securities issued) and the fair value of the equity interests in the acquiree held before the date of acquisition shall first be reviewed. If the sum of this consideration and other items mentioned above is lower than the fair value of the net identifiable assets acquired, the difference is, after reassessment, recognised in profit or loss of the current period.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

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III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

5. Consolidated financial statements

The consolidation scope of consolidated financial statements is determined on the basis of control, including the financial statements for the accounting period for the six months ended 30 June 2018 of the Company and all of its subsidiaries. A subsidiary is an entity that is controlled by the Company (including enterprise, divided part of the investee and a structured entity that is controlled by the Company).

In the preparation of the consolidated financial statements, when the accounting policies of a subsidiary are different from those of the Company, the Company shall make adjustments to the financial statements of the subsidiary based on its own accounting policies. All intra-group assets, liabilities, equities, revenues, expenses and cash flows resulting from intra-group transactions are eliminated on consolidation in full.

Where the amount of losses of a subsidiary attributable to non-controlling shareholders exceeds the opening balance of owners' equity attributable to non-controlling shareholders of the subsidiary, the excess shall still be allocated against non-controlling interests.

For subsidiaries acquired through business combinations not involving entities under common control, the operating results and cash flows of the acquiree shall be included in the consolidated financial statements, from the date on which the Group obtains control, till the Group ceases to have control on it. While preparing the consolidated financial statements, the acquirer shall adjust the subsidiary's financial statements, on the basis of the fair values of the identifiable assets, liabilities and contingent liabilities recognised on the acquisition date.

For subsidiaries acquired through business combinations involving entities under common control, the operating results and cash flows of the acquiree shall be included in the consolidated financial statements from the beginning of the period in which the combination occurs. While preparing the comparative financial statements, adjustments are made to related items in the financial statements for the prior period as if the reporting entity established through combination had been in existence since the ultimate holding party began to exercise control.

The Group shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of elements of control.

NOTES TO FINANCIAL STATEMENTS *(continued)*

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III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

6. Cash and cash equivalents

Cash comprises the Group's cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are short-term highly liquid investments held by the Group that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

7. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition and derecognition of financial instruments

The Group recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of a financial instrument.

The Group derecognises a financial asset (or part of a financial asset, or part of a group of similar financial assets), that is to be written off from the accounts and the statement of financial position when the following criteria are met:

- (1) the rights to receive cash flows from the financial asset have expired; or
- (2) the Group has transferred its rights to receive cash flows from the financial asset, or has an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either (a) has transferred substantially all the risks and rewards of the financial asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the financial asset.

If the underlying obligation of a financial liability has been fulfilled, discharged, cancelled, or has expired, the financial liability is derecognised. If an existing financial liability is replaced by the same creditor with a new financial liability that has substantially different terms, or if the terms of an existing financial liability are substantially revised, such replacement or revision is accounted for as the derecognition of the original liability and the recognition of a new liability, and the resulted difference is recognised in profit or loss of the current period.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

7. Financial instruments *(continued)*

Recognition and derecognition of financial instruments (continued)

Regular way purchase or sale of financial assets is recognised and derecognised using trade date accounting. Regular way purchase or sale of financial assets refers to that the financial assets are delivered to or by the Group under the terms of a contract within a period as specified by law or general practice. The trade date is the date that an asset is delivered to or by the Group.

Classification and measurement of financial assets

The Group's financial assets are, on initial recognition, classified into the following categories based on the business model of the Group's financial asset management and the characteristics of the financial assets' contractual cash flows: financial assets measured at fair value through profit or loss and financial assets measured at amortised cost. A financial asset is initially recognised at fair value. However, if the initial recognition of trade receivables does not include significant financing components or does not consider financing components not exceeding one year, it shall be confirmed at the transaction price.

For financial assets measured at fair value through profit or loss, the related transaction expense is directly recognised in profit or loss for the current period, other types of financial assets related transaction costs are included in their initial recognition amount.

Subsequent measurement of a financial asset is determined by its category as follows:

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

7. Financial instruments *(continued)*

Classification and measurement of financial assets (continued)

Debt instrument investments measured at amortised cost

Financial assets are classified as financial assets measured at amortised cost if the financial assets meet the following conditions: The Group's business model for managing the financial assets is to collect contractual cash flows; the contractual terms of the financial assets stipulate that cash generated on a specific date is only the payment of the principal and the interest based on the outstanding principal amount. For such financial assets, the effective interest method is used for subsequent measurement according to the amortised cost. The gains or losses arising from amortisation or impairment are recognised in profit or loss.

Financial assets measured at fair value through profit or loss

Except for the financial assets measured at amortised cost, other financial assets are classified as financial assets measured at fair value through profit or loss. For such financial assets, fair value is used for subsequent measurement, and all changes in fair value are recognised in profit or loss for the current period.

Only when it is possible to eliminate or significantly reduce accounting mismatches, financial assets can be designated as financial assets measured at fair value through profit or loss.

Once the Company initially designates a financial asset as a financial asset measured at fair value through profit or loss, it cannot be reclassified to other financial assets; other financial assets cannot be reclassified to financial assets measured at fair value through profit or loss after initial recognition.

Only if the Group changes its business model for managing financial assets, all financial assets being affected can be reclassified.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

7. Financial instruments *(continued)*

Classification and measurement of financial liabilities

The Group's financial liabilities are, on initial recognition, classified into other financial liabilities. Transaction costs relating to other financial liabilities are included in the initial recognition amounts.

Subsequent measurement of a financial liability is determined by its category as follows:

Other financial liabilities

After initial recognition, such kind of financial liabilities are measured at amortised cost by using the effective interest method.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on the net basis, or to realise the assets and settle the liabilities simultaneously.

Impairment of financial assets

The Group performs impairment treatment on financial assets measured at amortised cost and provides impairment provision on the basis of expected credit losses.

Credit loss refers to the difference between all contractual cash flows receivable from the contract and all cash flows expected to be received by the Group at the original effective interest rate, that is, the present value of all cash shortages. Among them, financial assets generated or purchased by the Group which have been credit-depleted shall be discounted according to the actual interest rate adjusted by the financial assets.

For trade receivables which do not contain significant financing components, the Group uses a simplified measurement method to provide loss provision based on the amount of expected credit losses equivalent to the entire duration of life.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

7. Financial instruments *(continued)*

Impairment of financial assets (continued)

In addition to the mentioned financial assets other than the simplified measurement method, the Group assesses whether the credit risk of financial assets has increased significantly since the initial recognition on each balance sheet date. If the credit risk has increased significantly since the initial recognition, a provision is made for the impairment amounting to expected credit losses during the lifetime by the Group; if the credit risk has not increased significantly since the initial recognition, a provision is made for the impairment amounting to expected credit loss over the next 12 months by the Group.

The Group considers all reasonable and evidenced information, including forward-looking information, when assessing expected credit losses.

When the Group no longer reasonably expects to be able to fully or partially recover the contractual cash flows of financial assets, the Group writes down the carrying amount of the financial assets directly.

Transfer of financial assets

The financial asset is derecognised if the Group transfers substantially all the risks and rewards of ownership of the financial asset; the financial asset is not derecognised if the Group retains substantially all the risks and rewards of ownership of the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the transaction is accounted for as follows: (i) if the Group has not retained control, the financial asset is derecognised and any resulting assets or liabilities are recognised; or (ii) if the Group has retained control, the financial asset is recognised to the extent of its continuing involvement in the transferred financial asset and an associated liability is recognised.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

8. Inventories

Inventories include natural gas, gas meters, gas cookers and low value consumables.

Inventories are initially carried at actual cost. Cost of inventories comprises all costs of purchase, costs of conversion and other costs. The actual cost of inventories transferred out is determined by using the first-in first-out method. Low value consumables are amortised by using the immediate write-off method.

The Group adopts a perpetual inventory system.

At the end of each reporting period, inventories are measured at the lower of cost and net realisable value. If the cost of inventories is higher than the net realisable value, a provision for decline in value of inventories is recognised in profit or loss. If factors that previously resulted in the provision for decline in value of inventories no longer exist, the amount of the write-down is reversed. The reversal is limited to the amount originally provided for the provision for the decline in value of inventories, and is recognised in profit or loss of the current period.

Net realisable value is the estimated selling price in the ordinary course of business deducted by the estimated costs to completion, the estimated selling expenses and the related taxes. Provision is considered on an individual basis for all inventories.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

9. Long-term equity investments

Long-term equity investments include investments in subsidiaries and associates.

A long-term equity investment is recorded at its initial investment cost on acquisition. For a long-term equity investment acquired through a business combination involving entities under common control, the initial investment cost of the long-term equity investment is the acquirer's share of the carrying amount of acquiree's equity at the combination date in the consolidated financial statements of ultimate holding party; the difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination shall be adjusted to share premium under capital surplus (if the capital surplus is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings). The other comprehensive income before combination date is accounted for in the disposal of such investment under the same accounting basis applied by the acquiree in direct disposal of relevant assets and liabilities. The shareholders' equity recognised due to acquiree's movements other than net profits, other comprehensive income and distribution of profits is recognised in profit or loss of the current period during disposal. If the investment remains to be classified as long-term equity investment after disposal, the equity is carried forward pro rata. If the investment is reclassified as financial instruments after disposal, the equity is carried forward entirely. For a long-term equity investment through a business combination not involving entities under common control, the initial investment cost of the long-term equity investment is the cost of combination (for a business combination not involving entities under common control achieved in stages that involves multiple exchange transactions, the initial investment cost is carried at the aggregate of the carrying amount of the acquirer's previously held equity interest in the acquiree and the new investment cost incurred on the acquisition date). The cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree. Other comprehensive income recognised using equity method that consists of the initial investment cost before the date of acquisition should be accounted for in the disposal of such investment under the same accounting basis applied by the acquiree in direct disposal of relevant assets and liabilities. The shareholders' equity recognised due to acquiree's movements other than net profits, other comprehensive income, and distribution of profits is recognised in profit or loss of the current period during disposal. If the investment remains to be classified as long-term equity investment after disposal, the equity is carried forward pro rata. If the investment is reclassified as financial instruments after disposal, the equity is carried forward entirely. The fair value change accumulated due to the recognition of other comprehensive income in processing previously held equity investment as financial instrument before acquisition date is entirely recognised in profit or loss in current period when switch to cost method. For a long-term equity investment acquired other than through a business combination, the initial investment cost is determined as follows: for a long-term equity investment acquired by paying cash, the initial investment cost is the actual purchase price paid and those costs, taxes and other necessary expenditures directly attributable to the acquisition of the long-term equity investment; for a long-term equity investment acquired by the issue of equity securities, the initial investment cost is the fair value of the securities issued.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

9. Long-term equity investments *(continued)*

For a long-term equity investment where the Company can exercise control over the investee, the long-term investment is accounted for using the cost method in the Company's financial statements. Control is the power over an investee. An investor must have exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns.

Under the cost method, the long-term equity investment is measured at its initial investment cost. The cost of long-term equity investment is adjusted if capital is contributed or withdrawn. The cash dividend or profit distribution declared by the investee is recognised as investment income for the period.

The equity method is adopted when the Group exercises significant influence on the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control with other parties over those policies.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the investing enterprise's interest in the fair values of the investee's identifiable net assets at the acquisition date, no adjustment is made to the initial investment cost. Where the initial investment cost is less than the investing enterprise's interest in the fair values of the investee's identifiable net assets at the acquisition date, the difference is charged to profit or loss of the current period, and the cost of the long-term equity investment is adjusted accordingly.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

9. Long-term equity investments *(continued)*

Under the equity method, the Group recognises its share of the net profits or losses and other comprehensive income made by the investee as investment income or losses and other comprehensive income respectively, and adjusts the carrying amount of the investment accordingly. The Group recognises its share of the investee's net profits or losses after making appropriate adjustments to the investee's net profits and losses based on the fair value of the investee's identifiable assets at the acquisition date, using the Group's accounting policies and periods, and eliminating the portion of the profits or losses arising from internal transactions with its associates, attributable to the investing entity according to its share ratio (but impairment losses for assets arising from internal transactions shall be recognised in full), except for the disposal of assets that consist of operations. The carrying amount of the investment is reduced based on the Group's share of any profit distributions or cash dividends declared by the investee. The Group's share of net losses of the investee is recognised to the extent the carrying amount of the investment together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero, except that the Group has the obligations to assume additional losses. The Group adjusts the carrying amount of the long-term equity investment for any changes in shareholders' equity of the investee (other than net profits or losses, other comprehensive income, and profit distribution) and includes the corresponding adjustments in the shareholders' equity of the Group.

On disposal of a long-term equity investment, the difference between the proceeds actually received and the carrying amount is recognised in profit or loss of the current period; for a long-term equity investment ceased to be accounted for using the equity method, the other comprehensive income relevant to equity method is processed under the same accounting basis applied by the acquiree in direct disposal of relevant assets and liabilities. Changes in shareholders' equity of the investee (other than net profits or losses, other comprehensive income, and profit distribution) should be recognised as profit or loss of the current period; for a long-term equity investment remains to be accounted for using the equity method, the other comprehensive income originally accounted for using the equity method is processed under the same accounting basis applied by the acquiree in direct disposal of relevant assets and liabilities, and is transferred to profit or loss of the current period according to the proportion disposed of. Any changes in the shareholders' equity of the investee (other than net profits or losses, other comprehensive income, and profit distribution) included in the shareholders' equity of the Group is transferred to profit or loss of the current period on a pro-rata basis according to the proportion disposed of.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

10. Fixed assets

A fixed asset is recognised only when the economic benefits associated with the asset will probably flow into the Group and the cost of the asset can be measured reliably. Subsequent expenditure incurred for a fixed asset that meets the recognition criteria shall be included in the cost of the fixed asset, and the carrying amount of the component of the fixed asset that is replaced shall be derecognised. Otherwise, such expenditure shall be recognised in profit or loss for the period in which it is incurred.

Fixed assets are initially measured at cost. The cost of a purchased fixed asset comprises the purchase price, relevant taxes and any directly attributable expenditure for bringing the asset to working condition for intended use.

Depreciation is calculated using the straight-line method. The estimated useful lives, estimated residual value rates and annual depreciation rates of each category of fixed assets are presented as follows:

| | Useful life | Estimated residual value rate | Annual depreciation rate |
|-------------------------------------|-------------|-------------------------------|--------------------------|
| Buildings | 40 years | 10% | 2.25% |
| Pipelines (high-pressure) | 30 years | 10% | 3% |
| Pipelines (medium-pressure) | 25 years | 5% | 3.8% |
| Machinery | 10-25 years | 10% | 3.6-9% |
| Vehicles | 5 years | 10% | 18% |
| Electronics, furniture and fixtures | 5 years | 10% | 18% |
| Mining structures | 6 years | – | 16.67% |

The Group reviews the useful life, estimated net residual value of a fixed asset, and the depreciation method applied at least at each financial year-end, and makes adjustments if necessary.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

11. Construction in progress

The cost of construction in progress is determined according to the actual expenditure incurred for the construction, including all necessary construction expenditure incurred during the construction period and other relevant expenses.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

12. Intangible assets

An intangible asset shall be recognised only when it is probable that the economic benefits associated with the asset will flow to the enterprise and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. However, intangible assets acquired in a business combination with a fair value that can be measured reliably are recognised separately as intangible assets and measured at fair value.

The useful life of an intangible asset is determined according to the period over which it is expected to generate economic benefits for the Group. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group.

The useful lives of the intangible assets are as follows:

| | Useful life |
|-------------------|--------------------|
| Land use rights | 40-70 years |
| Software licences | 10 years |
| Mineral rights | 6 years |

Land use rights that are purchased by the Group are accounted for as intangible assets.

An intangible asset with a finite useful life is amortised using the straight-line method over its useful life. For an intangible asset with a finite useful life, the Group reviews the useful life and the amortisation method at least at each financial year-end and makes adjustment if necessary.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

13. Impairment of assets

The Group determines the impairment of assets, other than the impairment of inventories, deferred income taxes and financial assets, using the following methods:

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset and performs test for impairment. Goodwill arising from a business combination and an intangible asset with an indefinite useful life are tested for impairment at least at each year-end, irrespective of whether there is any indication that the asset may be impaired. Intangible assets that have not been ready for intended use are tested for impairment each year.

The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The Group estimates the recoverable amount on an individual basis. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the asset belongs. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups.

When the recoverable amount of an asset or asset group is less than its carrying amount, the carrying amount is reduced to the recoverable amount. The reduction in carrying amount is treated as impairment loss and recognised in profit or loss of the current period. A provision for impairment loss of the asset is recognised accordingly.

For the purpose of impairment testing, the carrying amount of goodwill acquired in a business combination is allocated from the acquisition date on a reasonable basis, to each of the related asset groups; if it is impossible to allocate to the related asset groups, it is allocated to each of the related sets of asset groups. Each of the related asset groups or sets of asset groups is an asset group or set of asset group that is able to benefit from the synergies of the business combination and shall not be larger than a reportable segment determined by the Group.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

13. Impairment of assets *(continued)*

In testing an asset group or a set of asset groups to which goodwill has been allocated for impairment, if there is any indication of impairment, the Group firstly tests the asset group or set of asset groups excluding the amount of goodwill allocated for impairment, compares the recoverable amount with the carrying amount and recognises impairment loss if any. After that, the Group tests the asset group or set of asset groups including goodwill for impairment. The carrying amount (including the portion of the carrying amount of goodwill allocated) of the related asset group or set of asset groups is compared to its recoverable amount. If the carrying amount of the asset group or set of asset groups is higher than its recoverable amount, the amount of the impairment loss shall firstly charge against the carrying amount of the goodwill allocated to the asset group or set of asset groups, and then charge against the carrying amount of other assets (other than the goodwill) within the asset group or set of asset groups, pro rata on the basis of the carrying amount of each asset.

Once the above impairment loss is recognised, it cannot be reversed in the subsequent accounting periods.

14. Employee benefits

Employee benefits are all forms of considerations given by an entity in exchange for services rendered by employees or for the termination of employment. Employee benefits include short-term benefits, post-employment benefits, termination benefits and other long-term employee benefits. The benefits the Group provided to employees' spouses, children, dependents, and families of deceased employees also belong to employee benefits.

Short-term benefits

The actual short-term benefits occurred during the accounting period that employees provide services are recognised as liability in the costs of the relevant assets or profit or loss of the current period.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

14. Employee benefits *(continued)*

Benefits after demission (Defined contribution plan)

The employees of the Group participate in pension insurance and unemployment insurance which are managed by the local government, along with supplementary pensions, and the relevant expenditure is recognised, when incurred, in the costs of the relevant assets or profit or loss of the current period.

Termination benefits

The Group recognises a liability and expenses for termination benefits at the earlier of the following dates: a) when the Group can no longer withdraw the offer of those benefits; and b) when the Group recognises costs for a restructuring and involves the payment of termination costs.

15. Provisions

Except for contingent consideration transferred and contingent liability assumed in business combinations not involving entities under common control, the Group recognises an obligation related to a contingency as a provision when all of the following conditions are satisfied:

- (1) the obligation is a present obligation of the Group;
- (2) it is probable that an outflow of economic benefits from the Group will be required to settle the obligation; and
- (3) the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation, with comprehensive consideration of factors such as the risks, uncertainty and time value of money relating to a contingency. The carrying amount of a provision is reviewed at the end of each reporting period. If there is clear evidence that the carrying amount does not reflect the current best estimate, the carrying amount is adjusted to the best estimate.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

16. Revenue

The Group recognises revenue when a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Taking control of the relevant goods or services means being able to dominate the use of the goods or the provision of the services and obtain almost all of the economic benefits from them.

Revenue from the sales of goods including natural gas and gas related household appliances

The Group’s contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from the sale of goods should be recognised at the point in time when control of the goods are transferred to customers based on the following considerations: a present right to payment for the goods, the transfer of the significant risks and rewards of the ownership of the goods to the customer, the transfer of the legal title of the goods to the customer, the customer’s physical possession of the goods and the customer’s acceptance of the goods.

Revenue from gas connection contracts

The Group’s contracts with customers for the construction contracts generally include performance obligation in gas connection contracts. As services generated during the Group’s performance have irreplaceable utilisation, and the Group is entitled to collect amounts of cumulative performance part which have been done up to now, the Group accounted for gas connection activities when the outcome of the construction contract for connection can be estimated reliably and the stage of completion at the end of the reporting period can be measured reliably. Revenue from and expenses on construction contracts for gas connection are recognised using the percentage of completion method, measured by reference to the costs incurred during the year relative to the estimated total costs of the contract. When the outcome of a construction contract for gas connection cannot be estimated reliably, revenue is recognised only to the extent of contract cost incurred that is probable to be recoverable.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

16. Revenue *(continued)*

Interest income

Interest income is recognised on a time proportion basis for which the Group's currency fund is used by others and the effective interest rate.

Lease income

Lease income from operating leases is recognised on the straight-line basis over the lease term. Contingent rents are charged to profit or loss in the period in which they actually arise.

17. Government grants

Government grant is recognised when the Group can comply with the conditions attached to it and it can be received. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value; if fair value is not reliably determinable, it is measured at a nominal amount.

Pursuant to government documents, if the government grant is a compensation for constructing or forming long-term assets, the government grant is recognised as government grants related to assets. When government documents are not stated clearly, the fundamental conditions attached to the grant should be the criterion for judgements. If the fundamental conditions attached to the grant are for constructing or forming long-term assets, the government grant is recognised as government grants related to assets. Otherwise, the government grant is recognised as government grant related to income.

A government grant related to income is accounted as follows: (a) if the grant is a compensation for related costs, expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss or offset the related costs over the periods in which the related costs, expenses or losses are recognised; (b) if the grant is a compensation for related costs, expenses or losses already incurred, it is recognised immediately in profit or loss or offset the related costs of the current period.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

17. Government grants *(continued)*

A government grant related to an asset shall offset the book value of related assets, or be recognised as deferred income, and reasonably and systematically amortised to profit or loss over the useful life of the related asset. However, a government grant measured at a nominal amount is recognised immediately in profit or loss of the current period. If related assets have been sold, disposed of, scrapped or damaged, the unamortised deferred income should be recognised in profit or loss in the period of disposal.

18. Income tax

Income tax comprises current and deferred tax. Income tax is recognised as income or expense in profit or loss of the current period, or recognised directly in shareholders' equity if it arises from adjustments for goodwill from a business combination or relates to a transaction or event which is recognised directly in shareholders' equity.

The Group measures a current tax asset or liability arising from the current and prior periods based on the amount of income tax expected to be paid by the Group or returned by the tax authority calculated according to related tax laws.

For temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts, and temporary differences between the carrying amounts and the tax bases of items, the tax bases of which can be determined for tax purposes but which have not been recognised as assets and liabilities, deferred taxes are provided using the liability method.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

18. Income tax *(continued)*

A deferred tax liability is recognised for all taxable temporary differences, except:

- (1) Where the taxable temporary differences arise from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which contains both of the following characteristics: (i) the transaction is not a business combination; and (ii) at the time of the transaction, it affects neither accounting profit nor taxable profit or deductible loss.
- (2) In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

A deferred tax asset is recognised for deductible temporary differences, carryforward of unused deductible tax losses and tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of deductible tax losses and tax credits can be utilised, except:

- (1) Where the deferred tax asset arises from a transaction that is not a business combination and, at the time of the transaction, neither the accounting profit nor taxable profit or deductible loss is affected.
- (2) In respect of the deductible temporary differences associated with investments in subsidiaries and associates, a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised in the future.

At the end of each reporting period, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, according to the requirements of tax laws. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects at the end of each reporting period, to recover the assets or settle the liabilities.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

18. Income tax *(continued)*

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 profit will be available in future periods to allow the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities; the deferred taxes relate to the same taxable entity's income tax collected by the same taxation authority; or the deferred tax assets and deferred tax liabilities relate to different taxable entities, but for each important reverse period in the future, the current income tax assets and current income tax liabilities are intended to be set off or settled simultaneously.

19. Leases

A finance lease is a lease that transfers in substance all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

In the case of the lessee of an operating lease

Lease payments under an operating lease are recognised by a lessee on the straight-line basis over the lease term, and either included in the cost of the related asset or charged to profit or loss of the current period. Contingent rents are charged to profit or loss in the period in which they actually arise.

In the case of the lessor of an operating lease

Rent income under an operating lease is recognised by a lessor on the straight-line basis over the lease term, through profit or loss. Contingent rents are charged to profit or loss in the period in which they actually arise.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

20. Distribution of profit

The cash dividends of the Company are recognised as a liability after being approved in a shareholders' meeting.

21. Fair value measurement

The Group measures held-for-trading financial assets at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability or in the most advantageous market for the asset or liability when a principal market is absent. The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole: Level 1 – based on quoted prices unadjusted in active markets for identical assets or liabilities; Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly; Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

21. Fair value measurement *(continued)*

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

The Group's financial department uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets is shown in Note VIII to the financial statements.

22. Significant accounting judgements and estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that will affect the reported amounts and disclosure of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the financial statements:

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

22. Significant accounting judgements and estimates *(continued)*

Judgements (continued)

Measurement of progress towards completion of performance obligation in construction contracts

The Group adopts the input method to determine the progress towards completion of performance obligation in gas connection contracts. Specifically, the progress of completion is measured with reference to the actual construction costs incurred as a percentage of the total estimated construction costs, and the actual construction costs incurred till the end of the reporting period contain direct costs and related indirect costs. The Group considered that contract price of a gas connection contract is determined with reference to the total construction costs, and the progress towards completion of performance obligation can be reasonably reflected by reference to the actual construction costs incurred as a percentage of the total estimated construction costs. The Group recognises revenue from gas connection contracts using the percentage of completion. Since the duration of construction contracts usually falls into different accounting periods, the Group reviews and revises the estimates in the total budget for the construction costs prepared by each contract along with the contract progresses, and the revenue will be adjusted accordingly.

The contractual cash flow characteristics

The classification of financial assets at initial recognition depends on the contractual cash flow characteristics of the financial assets. When it is necessary to judge whether the contractual cash flow is only the payment of the principal and the interest based on the outstanding principal, the correction of the time value of the currency is included. In the assessment, it is necessary to judge whether there is a significant difference compared with the benchmark cash flow, and for the financial assets including the prepayment characteristics, it is necessary to judge whether the fair value of the early repayment characteristics is very small.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

22. Significant accounting judgements and estimates *(continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the future accounting periods, are described below.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profit together with future tax planning strategies.

Impairment of financial instruments

The Group uses the expected credit loss model to assess the impairment of financial instruments. The application of the expected credit loss model requires significant judgements and estimations, and all reasonable and evidenced information, including forward-looking information, should be considered. In making such judgements and estimations, the Group infers the expected changes in the debtor's credit risk based on the historical repayment data in combination with economic policies, macroeconomic indicators, and industry risks.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

23. Changes in accounting policies and accounting estimates

Changes in accounting policies

In 2017, the Ministry of Finance announced the revised “Accounting Standard for Business Enterprises No.14 – Revenue” (the “New Revenue Standard”), “Accounting Standard for Business Enterprises No.22 – Recognition and measurement for financial instruments”, “Accounting Standard for Business Enterprises No.23 – Transfer of financial assets”, “Accounting Standard for Business Enterprises No.24 – Hedging” and “Accounting Standard for Business Enterprises No.37 – Presentation of financial instruments” (the “New Financial Instruments Standard”). The Group began to implement the accounting treatment to the above newly revised standards from 1 January 2018. According to the convergence rules, the information for the comparative period will not be adjusted and profit or other comprehensive income will be retrospectively adjusted since the difference between the implementation of the new standards and the current standards on the first day.

The New Revenue Standard

The New Revenue Standard establishes a new revenue recognition model for regulating revenue generated from contracts with customers. According to the New Revenue Standard, the way in which the revenue is recognised should reflect the mode in which the entity transfers goods or services to customers. The amount of revenue should reflect the amount of consideration that the entity is expected to receive due to the transfer of such goods and services to the customer. At the same time, the New Revenue Standard also regulates the judgements and estimates required for each aspect of revenue recognition. The Group only adjusts the cumulative impact of contracts that have not been completed on 1 January 2018. For changes to contracts that occurred before 1 January 2018, the Group adopted a simplified treatment method that all contracts were changed according to the contract and the final arrangement identifies the performance obligations that have been and have not been fulfilled, determines the transaction price, and apportions the transaction price between the fulfilled and outstanding performance obligations.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

23. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

The New Revenue Standard (continued)

- (1) Impacts of the adoption of the new standards for revenue on relevant items of the statement of financial position at the beginning of the current period are as follows:

| Item | 31 December 2017 (Audited) | Reclassification | Remeasurement | 1 January 2018 (Unaudited) |
|----------------------------|-------------------------------|------------------|---------------|-------------------------------|
| Current liabilities | | | | |
| Advances from customers | 246,139,859.30 | (246,139,859.30) | - | - |
| Contract liabilities | - | 246,139,859.30 | - | 246,139,859.30 |

- (2) Impacts of the adoption of the new standards for revenue on relevant items of the statement of financial position at the end of the current period are as follows:

| Item | 30 June 2018 under new standards for revenue (Unaudited) | Adjustment | 30 June 2018 assuming implementing the original standards for revenue (Unaudited) |
|----------------------------|---|------------------|--|
| Current liabilities | | | |
| Advances from customers | - | 214,690,221.94 | 214,690,221.94 |
| Contract liabilities | 214,690,221.94 | (214,690,221.94) | - |

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

23. Changes in accounting policies and accounting estimates *(continued)*

Changes in accounting policies (continued)

The New Financial Instruments Standard

The New Financial Instruments Standard changes the classification and measurement of financial assets and requires three measurement categories: financial assets are measured at amortised cost, fair value through other comprehensive income, or fair value through profit or loss, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Equity investments shall be measured at fair value through profit or loss. However, the Company can elect to designate equity investments measured at fair value through other comprehensive income at the date of initial application and the election is irrevocable. (Under this election, only qualifying dividends are recognised in profit or loss. Changes in fair value are never reclassified to profit or loss, even if the asset is sold or otherwise derecognised.)

The New Financial Instruments Standard requires an "expected credit loss" model for recognition and measurement of impairment in financial assets instead of an "objective evidence of impairment" model. The expected credit loss model is applied in financial assets measured at amortised cost or fair value through other comprehensive income, loan commitments and guarantee contracts.

The new hedge accounting model provides a better contact between an entity's risk management strategy and the financial statements and allows more hedging instruments and hedged items to qualify for hedge accounting. The new model cancels the revisiting effective test and introduces the concept of rebalancing mechanism and hedge costs.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

23. Changes in accounting policies and accounting estimates *(continued)*

Changes in accounting policies (continued)

The New Financial Instruments Standard (continued)

If the recognition and measurement of financial instruments before 1 January 2018 is inconsistent with the New Financial Instruments Standard, the Group will make connection and adjustment as required by the new standard. In case of inconsistency between the comparative figures in financial statements in prior period and requirements of the new standard for financial instruments, the Group will not make adjustment. The shortfall between the original carrying amount of the financial instrument and the new carrying amount at the adoption date of the new standard shall be recognised in retained earnings or other comprehensive income at 1 January 2018. There was no significant impact on the adoption of the New Financial Instruments Standard at 1 January 2018.

As at 1 January 2018, the Group recognized a provision for credit loss impairment of trade receivables and others classified as financial assets at amortised cost according to the new standard for financial instruments. Specifically, the effects include the following:

For trade receivables that do not contain a significant financing component or for which the financing component in the contract within 1 year is not considered, the Group adopts a simple method to measure the expected credit losses according to the new standard for financial instruments, i.e., the provision is assessed at an amount equivalent to the expected loss for its whole life. The remeasurement of expected credit losses has had no significant impact on the carrying amount of trade receivables.

For other financial assets at amortised cost (mainly include other receivables and other current assets), the Group adopts a three-phase model to measure the expected credit losses according to the new standards for financial instruments. Based on whether the credit risk has increased significantly after the initial recognition of relevant items, the provision for credit loss is assessed according to the expected credit losses for 12 months or its whole life. The remeasurement of expected credit losses has had no significant impact on the carrying amount of other financial assets at amortised cost.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(continued)*

23. Changes in accounting policies and accounting estimates *(continued)*

Changes in accounting policies (continued)

Presentation of financial statements

According to 《關於修訂印發2018年度一般企業財務報表格式的通知》(財會[2018]15號), except for the presentation changes of financial statements resulted from the implementation of the New Financial Instruments Standard and the New Revenue Standard, the Group consolidated the “Bills receivable” and “Trade receivables” to the newly added “Bills receivable and trade receivables” item, consolidated the “Dividends receivable” and “Interest receivable” to “Other receivables”, consolidated the “Bills payable” and “Trade payables” to the newly added “Bills payable and trade payables” item, and the “Interest expense” and “Interest income” are spilt from the “Finance costs” item. Accordingly, certain prior year adjustments have been made, and certain comparative amounts have been reclassified and restated to conform with the current year’s presentation and accounting treatment. This change of accounting policy has had no impact on the consolidated and company net profit and equity.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

IV. TAXES

1. Major categories of taxes and respective tax rates

| | |
|---------------------------------------|---|
| Value-added tax (VAT) | – Before 1 May 2018, the Group's revenue from sales of piped gas, gas connection and gas transportation and rent were taxable to output VAT at a tax rate of 11% and other revenues were taxable to output VAT at a tax rate of 17% which was levied after deducting deductible input VAT for the current period. Since 1 May 2018, the Group's revenue from sales of piped gas, gas connection and gas transportation and rent are taxable to output VAT at a tax rate of 10% and other revenues are taxable to output VAT at a tax rate of 16%. |
| City maintenance and construction tax | – It is levied at 7% on the turnover taxes paid. |
| Education supplementary tax | – It is levied at 3% on the turnover taxes paid. |
| Local education supplementary tax | – It is levied at 2% on the turnover taxes paid. |
| Corporate income tax | – It is levied at 25% on the taxable profit. |

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|----------------------|---|-------------------------------|
| Cash | 16,202.19 | 13,478.65 |
| Cash in bank | 961,143,901.47 | 486,381,932.57 |
| Other monetary funds | 933,233.47 | 832,603.18 |
| | 962,093,337.13 | 487,228,014.40 |

As at 30 June 2018, the cash and bank balances amounting to RMB200,000,000.00 were structural deposits which cannot be terminated prematurely within the maturity periods (31 December 2017: RMB200,000,000.00). The unpledged fixed deposit with terms over 3 months by the Group was RMB396,500,000.00 (31 December 2017: Nil).

As at 30 June 2018, the cash and bank balances amounting to RMB933,233.47 were restricted as guarantee deposits for environment protection (31 December 2017: RMB832,603.18). Refer to Note V.14 for the details.

Interest income earned on current deposits is calculated by using the current deposit interest rate. The deposit periods for time deposits vary from several days to 6 months depending on the cash requirements of the Group and earn interest at the respective bank deposit rates.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Held-for-trading financial assets

| | 30 June 2018 (Unaudited) | Profit or loss recognised during current period |
|---|-----------------------------|---|
| Financial assets measured at fair value through profit or loss | | |
| Debt instrument investment | 203,235,068.49 | 3,235,068.49 |
| | 203,235,068.49 | 3,235,068.49 |

At 30 June 2018, the Group purchased wealth management products amounting to RMB203,235,068.49. These products were issued by licenced financial institutions with a guaranteed principal, floating income and not redeemable before the maturity date by the Group. The expected annual return rate of these products is 4.8% per annum and the maturity periods are within 60 days. These products are classified as held-for-trading financial assets on initial recognition.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3. Bills receivable and trade receivables

| | 30 June 2018 | 31 December 2017 |
|-------------------------------|-----------------------|---------------------------|
| | (Unaudited) | (Audited/ Restatement) |
| Bills receivable | 326,591,034.11 | 192,759,059.65 |
| Trade receivables | 196,936,883.07 | 205,078,211.20 |
| | 523,527,917.18 | 397,837,270.85 |
| Less: Provision for bad debts | 15,271,405.02 | 15,271,405.02 |
| | 508,256,512.16 | 382,565,865.83 |

Bills receivable

| | 30 June 2018 | 31 December 2017 |
|-----------------------------|-----------------------|------------------|
| | (Unaudited) | (Audited) |
| Commercial acceptance bills | 246,368,212.24 | 52,769,831.74 |
| Bank acceptance bills | 80,222,821.87 | 139,989,227.91 |
| | 326,591,034.11 | 192,759,059.65 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Bills receivable and trade receivables (continued)

Trade receivables

The credit period of trade receivables is usually 90 to 180 days. The trade receivables bear no interest.

The aging of trade receivables is analysed below:

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|--|---|-------------------------------|
| Within 1 year | 169,065,257.93 | 183,235,734.08 |
| 1 to 2 years | 12,650,509.96 | 8,222,071.26 |
| 2 to 3 years | 2,937,910.20 | 3,148,752.88 |
| Over 3 years | 12,283,204.98 | 10,471,652.98 |
| | 196,936,883.07 | 205,078,211.20 |
| Less: Provision for bad debts of trade receivables | 15,271,405.02 | 15,271,405.02 |
| | 181,665,478.05 | 189,806,806.18 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Bills receivable and trade receivables (continued)

The movements in the provision for bad debts of bills receivable and trade receivables are as follows:

| | Opening balance | Provision for the period/year | Reversal during the period/year | Closing balance |
|---------------------------------------|-----------------|-------------------------------|---------------------------------|-----------------|
| For the six months ended 30 June 2018 | | | | |
| (Unaudited) | 15,271,405.02 | – | – | 15,271,405.02 |
| 2017 (Audited) | 10,477,402.01 | 4,884,053.01 | (90,050.00) | 15,271,405.02 |

For the six months ended 30 June 2018, the Group provided no bad debts (2017: RMB4,884,053.01), and reversed no bad debts (2017: RMB90,050.00).

4. Prepayments

The aging of prepayments is analysed below:

| | 30 June 2018 (Unaudited) | | 31 December 2017 (Audited) | |
|---------------|-----------------------------|----------------|-------------------------------|----------------|
| | Carrying amount | Percentage (%) | Carrying amount | Percentage (%) |
| Within 1 year | 6,292,998.09 | 60 | 10,525,201.79 | 85 |
| 1 to 2 years | 4,172,599.43 | 40 | 1,805,675.48 | 15 |
| | 10,465,597.52 | 100 | 12,330,877.27 | 100 |

Prepayments aged over one year were mainly prepayments for gas connection contracts and purchases of gas meters. The related gas connection services or gas meters installation have not started yet which resulted in the corresponding prepayments not being settled.

NOTES TO FINANCIAL STATEMENTS (continued)

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Other receivables

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|-------------------------------|-----------------------------|-------------------------------|
| Interest receivable | 7,499,178.08 | 3,004,109.59 |
| Employees' borrowings | 6,281,860.63 | 1,999,275.87 |
| Subsidy | – | 6,755,500.00 |
| Others | 2,910,042.23 | 4,587,956.10 |
| | 16,691,080.94 | 16,346,841.56 |
| Less: Provision for bad debts | 2,847,288.32 | 2,847,288.32 |
| | 13,843,792.62 | 13,499,553.24 |

The aging of other receivables is analysed below:

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|--|-----------------------------|-------------------------------|
| Within 1 year | 13,480,526.05 | 13,380,887.17 |
| 1 to 2 years | 440,823.66 | 203,413.16 |
| 2 to 3 years | 104,788.00 | 186,873.77 |
| Over 3 years | 2,664,943.23 | 2,575,667.46 |
| | 16,691,080.94 | 16,346,841.56 |
| Less: Provision for bad debts of other receivables | 2,847,288.32 | 2,847,288.32 |
| | 13,843,792.62 | 13,499,553.24 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Other receivables (continued)

The movements in the provision for bad debts of other receivables are as follows:

| | Opening balance | Provision in the year/period | Reversal in the year/period | Write-off in the year/period | Closing balance |
|--------------------------|--------------------|------------------------------------|-----------------------------------|------------------------------------|--------------------|
| For the six months ended | | | | | |
| 30 June 2018 | | | | | |
| (Unaudited) | 2,847,288.32 | - | - | - | 2,847,288.32 |
| 2017 (Audited) | 2,284,717.46 | 562,570.86 | - | - | 2,847,288.32 |

6. Inventories

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|----------------|-----------------------------|-------------------------------|
| Gas | 201,978.85 | 207,936.59 |
| Gas appliances | 2,457,917.64 | 2,426,537.41 |
| | 2,659,896.49 | 2,634,474.00 |

As of 30 June 2018, there was no provision for impairment of inventories (31 December 2017: Nil).

NOTES TO FINANCIAL STATEMENTS *(continued)*

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Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

7. Other current assets

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|----------------------------|---|-------------------------------|
| Wealth management products | – | 608,013,698.64 |
| Input VAT | 4,701,321.84 | 19,826,062.48 |
| | 4,701,321.84 | 627,839,761.12 |

At 31 December 2017, the Group purchased wealth management products amounting to RMB608,013,698.64. These products were issued by licenced financial institutions and were unredeemable before maturity date. The expected annual return rates of these products range from 3.75% to 3.90% per annum and the maturity periods are all within 60 days. These products are classified as other current assets on initial recognition.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Long-term equity investments

For the six months ended 30 June 2018 (Unaudited)

| | Current period movements | | | | | Closing carrying amount | Period-end provision for impairment |
|--------------------------|--------------------------|------------------------|------------------------|--|--------------------------|-------------------------|-------------------------------------|
| | Opening balance | Increase in investment | Decrease in investment | Investment income/loss under equity method | Cash dividends announced | | |
| Associate 天津市濱海燃氣有限公司 | 45,732,389.46 | - | - | 596,615.98 | - | 46,329,005.44 | - |

2017 (Audited)

| | Current year movements | | | | | Closing carrying amount | Year-end provision for impairment |
|--------------------------|------------------------|------------------------|------------------------|--|--------------------------|-------------------------|-----------------------------------|
| | Opening balance | Increase in investment | Decrease in investment | Investment income/loss under equity method | Cash dividends announced | | |
| Associate 天津市濱海燃氣有限公司 | 45,412,860.30 | - | - | 2,439,519.37 | (2,119,990.21) | 45,732,389.46 | - |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Fixed assets

For the six months ended 30 June 2018 (Unaudited)

| | Buildings | Pipelines | Machinery | Vehicles | Electronics, furniture and fixtures | Mining structures | Total |
|--|---------------|------------------|----------------|--------------|---|----------------------|------------------|
| Cost | | | | | | | |
| Opening balance | 47,631,489.54 | 1,148,980,208.96 | 102,934,984.51 | 7,250,687.78 | 8,269,684.18 | 4,558,482.24 | 1,319,625,537.21 |
| Purchase | - | 379,920.52 | 6,251,512.66 | 75,504.71 | 29,436.84 | - | 6,736,374.73 |
| Transferred from construction in progress | - | - | - | - | - | - | - |
| Decrease | - | 1,496,903.90 | - | 662,515.00 | - | - | 2,159,418.90 |
| Closing balance | 47,631,489.54 | 1,147,863,225.58 | 109,186,497.17 | 6,663,677.49 | 8,299,121.02 | 4,558,482.24 | 1,324,202,493.04 |
| Accumulated depreciation | | | | | | | |
| Opening balance | 12,301,245.35 | 401,111,135.06 | 35,751,941.51 | 5,170,454.84 | 5,183,850.63 | 2,747,063.24 | 462,265,690.63 |
| Provision | 529,627.50 | 22,836,243.22 | 2,051,928.03 | 222,208.00 | 269,094.95 | - | 25,909,101.70 |
| Disposal or scrap | - | - | - | 596,263.50 | - | - | 596,263.50 |
| Closing balance | 12,830,872.85 | 423,947,378.28 | 37,803,869.54 | 4,796,399.34 | 5,452,945.58 | 2,747,063.24 | 487,578,528.83 |
| Impairment provision | | | | | | | |
| Opening balance | - | - | 5,994,508.25 | 59,716.88 | 12,664.29 | 1,811,419.00 | 7,878,308.42 |
| Provision | - | - | - | - | - | - | - |
| Disposal or scrap | - | - | - | - | - | - | - |
| Closing balance | - | - | 5,994,508.25 | 59,716.88 | 12,664.29 | 1,811,419.00 | 7,878,308.42 |
| Net carrying amount | | | | | | | |
| 30 June 2018 | 34,800,616.69 | 723,915,847.30 | 65,388,119.38 | 1,807,561.27 | 2,833,511.15 | - | 828,745,655.79 |
| 31 December 2017 | 35,330,244.19 | 747,869,073.90 | 61,188,534.75 | 2,020,516.06 | 3,073,169.26 | - | 849,481,538.16 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Fixed assets (continued)

2017 (Audited)

| | Buildings | Pipelines | Machinery | Vehicles | Electronics, furniture and fixtures | Mining structures | Total |
|---|---------------|------------------|----------------|--------------|---|----------------------|------------------|
| Cost | | | | | | | |
| Opening balance | 45,513,789.54 | 1,117,761,887.84 | 94,273,914.15 | 6,729,261.91 | 7,092,843.13 | 4,558,482.24 | 1,275,930,178.81 |
| Purchase | - | 1,314,921.32 | 8,668,497.16 | 521,425.87 | 1,183,916.05 | - | 11,688,760.40 |
| Transferred from construction in progress | 2,117,700.00 | 37,565,503.58 | - | - | - | - | 39,683,203.58 |
| Disposal or scrap | - | 7,662,103.78 | 7,426.80 | - | 7,075.00 | - | 7,676,605.58 |
| Closing balance | 47,631,489.54 | 1,148,980,208.96 | 102,934,984.51 | 7,250,687.78 | 8,269,684.18 | 4,558,482.24 | 1,319,625,537.21 |
| Accumulated depreciation | | | | | | | |
| Opening balance | 11,241,990.38 | 360,360,752.20 | 31,118,488.72 | 4,751,899.96 | 4,624,552.01 | 2,072,657.45 | 414,170,340.72 |
| Provision | 1,069,254.97 | 45,795,429.93 | 4,636,598.37 | 418,554.88 | 559,298.62 | 674,405.79 | 53,143,542.56 |
| Disposal or scrap | - | 5,045,047.07 | 3,145.58 | - | - | - | 5,048,192.65 |
| Closing balance | 12,301,245.35 | 401,111,135.06 | 35,751,941.51 | 5,170,454.84 | 5,183,850.63 | 2,747,063.24 | 462,265,690.63 |
| Impairment provision | | | | | | | |
| Opening balance | - | - | 136,803.56 | 30,178.04 | 5,952.06 | 674,405.67 | 847,339.33 |
| Provision | - | - | 5,857,704.69 | 29,538.84 | 6,712.23 | 1,137,013.33 | 7,030,969.09 |
| Disposal or scrap | - | - | - | - | - | - | - |
| Closing balance | - | - | 5,994,508.25 | 59,716.88 | 12,664.29 | 1,811,419.00 | 7,878,308.42 |
| Net carrying amount | | | | | | | |
| 31 December 2017 | 35,330,244.19 | 747,869,073.90 | 61,188,534.75 | 2,020,516.06 | 3,073,169.26 | - | 849,481,538.16 |
| 31 December 2016 | 34,271,799.16 | 757,401,135.64 | 63,018,621.87 | 1,947,183.91 | 2,462,339.06 | 1,811,419.12 | 860,912,498.76 |

As at 30 June 2018, the Group had no fixed assets pending certificates of property ownership (31 December 2017: Nil).

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Construction in progress

| | 30 June 2018 (Unaudited) | | | 31 December 2017 (Audited) | | |
|-------------------------|--------------------------|--------------------------|---------------------|----------------------------|--------------------------|-----------------|
| | Gross carrying amount | Provision for impairment | Carrying amount | Gross carrying amount | Provision for impairment | Carrying amount |
| Building | 2,138,040.00 | - | 2,138,040.00 | 2,138,040.00 | - | 2,138,040.00 |
| Pipeline reconstruction | 291,089.54 | - | 291,089.54 | - | - | - |
| Gas station and others | 1,113,733.50 | - | 1,113,733.50 | 1,113,733.50 | - | 1,113,733.50 |
| Mine | 408,920.27 | (408,920.27) | - | 408,920.27 | (408,920.27) | - |
| | 3,951,783.31 | (408,920.27) | 3,542,863.04 | 3,660,693.77 | (408,920.27) | 3,251,773.50 |

The movements of construction in progress for the six months ended 30 June 2018 are as follows: (Unaudited)

| | Opening balance | Addition | Transferred to fixed assets | Other transfer out | Closing balance |
|----------------------------|---------------------|-------------------|-----------------------------|--------------------|---------------------|
| Building | 2,138,040.00 | - | - | - | 2,138,040.00 |
| Pipeline reconstruction | - | 308,300.35 | - | 17,210.81 | 291,089.54 |
| Gas station and others | 1,113,733.50 | - | - | - | 1,113,733.50 |
| Connecting pipe renovation | - | 508,450.92 | - | 508,450.92 | - |
| Mine | 408,920.27 | - | - | - | 408,920.27 |
| | 3,660,693.77 | 816,751.27 | - | 525,661.73 | 3,951,783.31 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Construction in progress (continued)

The movements of construction in progress in 2017 are as follows: (Audited)

| | Opening balance | Addition | Transferred to fixed assets | Other transfer out | Closing balance |
|-------------------------------------|--------------------|---------------|--------------------------------|-----------------------|--------------------|
| Building | 4,255,740.00 | - | 2,117,700.00 | - | 2,138,040.00 |
| Pipeline reconstruction | 3,974,141.57 | 34,013,504.62 | 36,617,228.82 | 1,370,417.37 | - |
| Gas station and others | 1,410,433.53 | - | - | 296,700.03 | 1,113,733.50 |
| Connecting pipe renovation | - | 1,163,971.68 | - | 1,163,971.68 | - |
| 鄞陽南路審思路 medium pressure pipeline | - | 948,274.76 | 948,274.76 | - | - |
| Mine | 408,920.27 | - | - | - | 408,920.27 |
| | 10,049,235.37 | 36,125,751.06 | 39,683,203.58 | 2,831,089.08 | 3,660,693.77 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Intangible assets

For the six months ended 30 June 2018 (Unaudited)

| | Land use rights | Software licences | Mineral rights | Total |
|---------------------------------|--------------------|----------------------|-------------------|---------------|
| Cost | | | | |
| Opening balance | 14,316,891.30 | 718,271.28 | 16,765,984.00 | 31,801,146.58 |
| Purchase | – | – | – | – |
| Closing balance | 14,316,891.30 | 718,271.28 | 16,765,984.00 | 31,801,146.58 |
| Accumulated amortisation | | | | |
| Opening balance | 2,791,036.27 | 134,414.12 | 7,243,935.07 | 10,169,385.46 |
| Provision | 151,106.69 | 35,913.60 | – | 187,020.29 |
| Closing balance | 2,942,142.96 | 170,327.72 | 7,243,935.07 | 10,356,405.75 |
| Impairment provision | | | | |
| Opening balance | – | – | 9,522,048.93 | 9,522,048.93 |
| Provision | – | – | – | – |
| Closing balance | – | – | 9,522,048.93 | 9,522,048.93 |
| Net carrying amount | | | | |
| 30 June 2018 | 11,374,748.34 | 547,943.56 | – | 11,922,691.90 |
| 31 December 2017 | 11,525,855.03 | 583,857.16 | – | 12,109,712.19 |

The land use rights related to the land located in Mainland China which were acquired through a long- term agreement of land use rights.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Intangible assets (continued)

2017 (Audited)

| | Land use rights | Software licences | Mineral rights | Total |
|---------------------------------|--------------------|----------------------|-------------------|---------------|
| Cost | | | | |
| Opening balance | 14,316,891.30 | 461,861.01 | 16,765,984.00 | 31,544,736.31 |
| Purchase | – | 256,410.27 | – | 256,410.27 |
| Closing balance | 14,316,891.30 | 718,271.28 | 16,765,984.00 | 31,801,146.58 |
| Accumulated amortisation | | | | |
| Opening balance | 2,488,822.90 | 86,091.17 | 5,967,394.85 | 8,542,308.92 |
| Provision | 302,213.37 | 48,322.95 | 1,276,540.22 | 1,627,076.54 |
| Closing balance | 2,791,036.27 | 134,414.12 | 7,243,935.07 | 10,169,385.46 |
| Impairment provision | | | | |
| Opening balance | – | – | 8,675,238.61 | 8,675,238.61 |
| Provision | – | – | 846,810.32 | 846,810.32 |
| Closing balance | – | – | 9,522,048.93 | 9,522,048.93 |
| Net carrying amount | | | | |
| 31 December 2017 | 11,525,855.03 | 583,857.16 | – | 12,109,712.19 |
| 31 December 2016 | 11,828,068.40 | 375,769.84 | 2,123,350.54 | 14,327,188.78 |

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

12. Deferred tax assets

Deferred tax assets balances are as follows:

| | 30 June 2018 (Unaudited) | | 31 December 2017 (Audited) | |
|--|----------------------------------|----------------------|----------------------------------|---------------------|
| | Deductible temporary differences | Deferred tax assets | Deductible temporary differences | Deferred tax assets |
| Provision for bad debts | 18,118,693.34 | 4,529,673.34 | 18,118,693.34 | 4,529,673.34 |
| Provision for impairment of fixed assets | 5,722,041.27 | 1,430,510.32 | 5,722,041.27 | 1,430,510.32 |
| Provisions | 1,612,720.00 | 403,180.00 | 1,779,195.48 | 444,798.87 |
| Deferred income | 68,853,357.13 | 17,213,339.27 | 69,854,805.01 | 17,463,701.25 |
| | 94,306,811.74 | 23,576,702.93 | 95,474,735.10 | 23,868,683.78 |

Deductible losses and deductible temporary differences of unrecognised deferred tax assets are as follows:

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|----------------------------------|--------------------------|----------------------------|
| Deductible temporary differences | 12,087,236.35 | 12,087,236.35 |
| Deductible losses | 13,642,240.86 | 13,075,250.00 |
| | 25,729,477.21 | 25,162,486.35 |

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

12. Deferred tax assets *(continued)*

Deductible losses of unrecognised deferred tax assets will expire in the following years:

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|------|---|-------------------------------|
| 2018 | 4,731,058.71 | 4,731,058.71 |
| 2019 | 2,398,814.17 | 2,398,814.17 |
| 2020 | 659,278.95 | 659,278.95 |
| 2021 | 2,716,949.82 | 2,716,949.82 |
| 2022 | 2,569,148.35 | 2,569,148.35 |
| 2023 | 566,990.86 | – |
| | 13,642,240.86 | 13,075,250.00 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Provision for impairment of assets

For the six months ended 30 June 2018 (Unaudited)

| | Opening balance | Provision | Decrease | | Closing balance |
|---|----------------------|-----------|----------|-----------|----------------------|
| | | | Reversal | Write-off | |
| Provision for bad debts | | | | | |
| – Trade receivables | 15,271,405.02 | – | – | – | 15,271,405.02 |
| – Other receivables | 2,847,288.32 | – | – | – | 2,847,288.32 |
| Provision for impairment of fixed assets | 7,878,308.42 | – | – | – | 7,878,308.42 |
| Provision for impairment of construction in progress | 408,920.27 | – | – | – | 408,920.27 |
| Provision for impairment of intangible assets | 9,522,048.93 | – | – | – | 9,522,048.93 |
| | 35,927,970.96 | – | – | – | 35,927,970.96 |

2017 (Audited)

| | Opening balance | Provision | Decrease | | Closing balance |
|---|----------------------|----------------------|--------------------|-----------|----------------------|
| | | | Reversal | Write-off | |
| Provision for bad debts | | | | | |
| – Trade receivables | 10,477,402.01 | 4,884,053.01 | (90,050.00) | – | 15,271,405.02 |
| – Other receivables | 2,284,717.46 | 562,570.86 | – | – | 2,847,288.32 |
| Provision for impairment of fixed assets | 847,339.33 | 7,030,969.09 | – | – | 7,878,308.42 |
| Provision for impairment of construction in progress | – | 408,920.27 | – | – | 408,920.27 |
| Provision for impairment of intangible assets | 8,675,238.61 | 846,810.32 | – | – | 9,522,048.93 |
| | 22,284,697.41 | 13,733,323.55 | (90,050.00) | – | 35,927,970.96 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Assets restricted by ownership

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|----------------------|---|-------------------------------|
| Other monetary funds | 933,233.47 | 832,603.18 |

At 30 June 2018, deposits of RMB933,233.47 were restricted as guarantee deposits for environment protection by the government in Industrial and Commercial Bank of China (31 December 2017: RMB832,603.18).

15. Bills payable and trade payables

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited/ Restatement) |
|----------------|---|---|
| Bills payable | – | – |
| Trade payables | 515,386,729.85 | 305,598,160.10 |
| Within 1 year | 489,867,468.96 | 275,152,192.58 |
| 1 to 2 years | 21,848,188.16 | 20,706,123.66 |
| Over 2 years | 3,671,072.73 | 9,739,843.86 |
| | 515,386,729.85 | 305,598,160.10 |

The trade payables are non-interest-bearing and generally have an average payment term of 60 days.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Contract liabilities

| | Opening balance under new revenue standard (Unaudited) | Increase (Unaudited) | Recognised as income (Unaudited) | Other movements (Unaudited) | Closing balance (Unaudited) |
|--|--|-------------------------|--|-----------------------------------|-----------------------------------|
| Advances from sales of piped gas | 135,775,786.36 | 253,119,342.24 | 265,863,355.51 | - | 123,031,773.09 |
| Advances from gas connection | 94,978,518.58 | 23,301,121.90 | 43,476,498.46 | 1,238,033.00 | 73,565,109.02 |
| Advances from sales of gas appliances | 15,113,668.00 | 6,030,500.00 | 3,380,500.00 | - | 17,763,668.00 |
| Others | 271,886.36 | 57,785.47 | - | - | 329,671.83 |
| | 246,139,859.30 | 282,508,749.61 | 312,720,353.97 | 1,238,033.00 | 214,690,221.94 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Employee benefits payable

For the six months ended 30 June 2018 (Unaudited)

| | Opening balance | Increase | Decrease | Closing balance |
|---|----------------------|----------------------|----------------------|---------------------|
| Short-term employee benefits | 18,051,651.98 | 44,562,555.46 | 58,716,711.11 | 3,897,496.33 |
| Benefits after demission (defined contribution plan) | (4,952.43) | 7,911,799.87 | 7,828,405.45 | 78,441.99 |
| Termination compensation | - | 5,112.20 | 5,112.20 | - |
| | 18,046,699.55 | 52,479,467.53 | 66,550,228.76 | 3,975,938.32 |

2017 (Audited)

| | Opening balance | Increase | Decrease | Closing balance |
|---|----------------------|-----------------------|-----------------------|----------------------|
| Short-term employee benefits | 20,725,292.65 | 109,489,821.87 | 112,163,462.54 | 18,051,651.98 |
| Benefits after demission (defined contribution plan) | 1,017,737.24 | 15,428,312.03 | 16,451,001.70 | (4,952.43) |
| Termination compensation | - | 5,000.00 | 5,000.00 | - |
| | 21,743,029.89 | 124,923,133.90 | 128,619,464.24 | 18,046,699.55 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Employee benefits payable (continued)

Details of short-term benefits are as follows:

For the six months ended 30 June 2018 (Unaudited)

| | Opening balance | Increase | Decrease | Closing balance |
|--|--------------------|---------------|---------------|--------------------|
| Salaries, bonuses, allowances and subsidies | 14,246,557.46 | 34,404,392.26 | 47,985,292.26 | 665,657.46 |
| Employee bonus and welfare fund | 3,001,223.34 | – | – | 3,001,223.34 |
| Social insurance | 25,896.30 | 4,680,713.47 | 4,664,114.08 | 42,495.69 |
| Including: Medical insurance | 26,696.30 | 4,218,759.55 | 4,202,160.16 | 43,295.69 |
| Work injury insurance | (800.00) | 251,027.70 | 251,027.70 | (800.00) |
| Maternity insurance | – | 210,926.22 | 210,926.22 | – |
| Housing fund | (1,576.00) | 4,659,979.05 | 4,790,178.05 | (131,775.00) |
| Union fund and employee education fund | 779,550.88 | 817,470.68 | 1,277,126.72 | 319,894.84 |
| | 18,051,651.98 | 44,562,555.46 | 58,716,711.11 | 3,897,496.33 |

NOTES TO FINANCIAL STATEMENTS (continued)

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Employee benefits payable (continued)

Details of short-term benefits are as follows: (continued)

2017 (Audited)

| | Opening balance | Increase | Decrease | Closing balance |
|--|----------------------|-----------------------|-----------------------|----------------------|
| Salaries, bonuses, allowances and subsidies | 16,537,154.88 | 88,871,992.93 | 91,162,590.35 | 14,246,557.46 |
| Employee bonus and welfare fund | 2,816,425.82 | 184,797.52 | – | 3,001,223.34 |
| Social insurance | 608,358.70 | 9,428,480.14 | 10,010,942.54 | 25,896.30 |
| Including: Medical insurance | 558,763.11 | 8,592,458.71 | 9,124,525.52 | 26,696.30 |
| Work injury insurance | 25,251.47 | 441,423.42 | 467,474.89 | (800.00) |
| Maternity insurance | 24,344.12 | 394,598.01 | 418,942.13 | – |
| Housing fund | – | 8,880,378.95 | 8,881,954.95 | (1,576.00) |
| Union fund and employee education fund | 763,353.25 | 2,124,172.33 | 2,107,974.70 | 779,550.88 |
| | <u>20,725,292.65</u> | <u>109,489,821.87</u> | <u>112,163,462.54</u> | <u>18,051,651.98</u> |

NOTES TO FINANCIAL STATEMENTS (continued)

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Employee benefits payable (continued)

Details of defined contribution plan are as follows:

For the six months ended 30 June 2018 (Unaudited)

| | Opening balance | Increase | Decrease | Closing balance |
|-------------------------|--------------------|--------------|--------------|--------------------|
| Basic pension insurance | 3,047.87 | 7,708,145.67 | 7,627,981.51 | 83,212.03 |
| Unemployment insurance | (8,000.30) | 203,654.20 | 200,423.94 | (4,770.04) |
| | (4,952.43) | 7,911,799.87 | 7,828,405.45 | 78,441.99 |

2017 (Audited)

| | Opening balance | Increase | Decrease | Closing balance |
|-------------------------|--------------------|---------------|---------------|--------------------|
| Basic pension insurance | 979,260.56 | 14,938,871.43 | 15,915,084.12 | 3,047.87 |
| Unemployment insurance | 38,476.68 | 489,440.60 | 535,917.58 | (8,000.30) |
| | 1,017,737.24 | 15,428,312.03 | 16,451,001.70 | (4,952.43) |

NOTES TO FINANCIAL STATEMENTS (continued)

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Taxes payable

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|----------------------|---|-------------------------------|
| Value-added tax | 21,230,899.91 | 38,512,309.75 |
| Corporate income tax | 4,318,494.78 | 10,202,241.66 |
| Business tax | (1,493.01) | (45,819.29) |
| Others | 144,547.42 | 1,751,824.56 |
| | 25,692,449.10 | 50,420,556.68 |

19. Current portion of non-current liabilities

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|--|---|-------------------------------|
| Current portion of government grants (Note V.20) | 3,314,685.93 | 3,265,164.61 |

NOTES TO FINANCIAL STATEMENTS *(continued)*

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

20. Deferred income

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|--|---|-------------------------------|
| Government grants related to assets/income | | |
| Opening balance | 69,854,805.01 | 52,812,978.53 |
| Increase | 1,238,033.00 | 24,645,500.00 |
| Recognised | 2,239,480.88 | 4,743,961.91 |
| Decrease | - | 2,859,711.61 |
| Closing balance | 68,853,357.13 | 69,854,805.01 |
| Less: Current portion | 3,314,685.93 | 3,265,164.61 |
| Closing balance | 65,538,671.20 | 66,589,640.40 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. Deferred income (continued)

Liabilities relevant to government grants as at 30 June 2018 are listed as follows: (Unaudited)

| | Opening balance | Increase | Recognised as other income | Transfer to others | Current portion | Closing balance | Relevant to asset/income |
|---------------------------------------|-----------------|--------------|----------------------------|--------------------|-----------------|-----------------|--------------------------|
| 河畔皇城 medium pressure pipeline | 3,619,941.69 | - | (90,499.50) | - | (180,999.00) | 3,348,443.19 | Asset |
| 富力桃园 medium pressure pipeline | 5,207,407.52 | - | (274,074.06) | - | (548,148.12) | 4,385,185.34 | Asset |
| Pipeline reconstruction of 2014 | 9,270,895.27 | - | (204,922.75) | - | (409,845.50) | 8,656,127.02 | Asset/income |
| Pipeline reconstruction of 2015 | 11,314,056.85 | - | (241,560.19) | - | (483,120.37) | 10,589,376.29 | Asset/income |
| Pipeline reconstruction of 2017 | 16,161,507.55 | - | (426,404.69) | - | (852,809.37) | 14,882,293.49 | Asset/income |
| Pipeline reconstruction of 2018 | 20,113,707.14 | - | (382,073.22) | - | (740,720.93) | 18,990,912.99 | Asset/income |
| Connecting pipe renovation 鄞阳南路曹忠路 | 2,949,889.87 | - | (549,791.27) | - | - | 2,400,098.60 | Income |
| 鄞阳南路曹忠路 medium pressure pipeline | 1,217,399.12 | 1,238,033.00 | (70,155.20) | - | (99,042.64) | 2,286,234.28 | Asset |
| | 69,854,805.01 | 1,238,033.00 | (2,239,480.88) | - | (3,314,685.93) | 65,538,671.20 | |

Liabilities relevant to government grants as at 31 December 2017 are listed as follows: (Audited)

| | Opening balance | Increase | Recognised as other income | Transfer to others | Current portion | Closing balance | Relevant to asset/income |
|---------------------------------------|-----------------|---------------|----------------------------|--------------------|-----------------|-----------------|--------------------------|
| 河畔皇城 medium pressure pipeline | 3,800,940.69 | - | (180,999.00) | - | (180,999.00) | 3,438,942.69 | Asset |
| 富力桃园 medium pressure pipeline | 5,755,555.64 | - | (548,148.12) | - | (548,148.12) | 4,659,259.40 | Asset |
| Pipeline reconstruction of 2014 | 13,141,190.46 | - | (1,010,583.58) | (2,859,711.61) | (409,845.50) | 8,861,049.77 | Asset/income |
| Pipeline reconstruction of 2015 | 11,840,972.94 | - | (526,916.09) | - | (483,120.37) | 10,830,936.48 | Asset/income |
| Pipeline reconstruction of 2017 | 17,036,285.80 | - | (874,778.25) | - | (852,809.37) | 15,308,698.18 | Asset/income |
| Pipeline reconstruction of 2018 | - | 20,437,000.00 | (323,292.86) | - | (740,720.93) | 19,372,986.21 | Asset/income |
| Connecting pipe renovation 鄞阳南路曹忠路 | - | 4,208,500.00 | (1,258,610.13) | - | - | 2,949,889.87 | Income |
| 鄞阳南路曹忠路 medium pressure pipeline | 1,238,033.00 | - | (20,633.88) | - | (49,521.32) | 1,167,877.80 | Asset |
| | 52,812,978.53 | 24,645,500.00 | (4,743,961.91) | (2,859,711.61) | (3,265,164.61) | 66,589,640.40 | |

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

21. Share capital

The registered capital of the Company is RMB183,930,780.00, which was entirely contributed till 11 April 2011.

The investments by investor according to the articles of association of the Company were as follows:

| | 30 June 2018 (Unaudited) | | 31 December 2017 (Audited) | |
|---------------|--------------------------|----------------|----------------------------|----------------|
| | RMB | Percentage (%) | RMB | Percentage (%) |
| Tianjin Gas | 129,754,780.00 | 70.54 | 129,754,780.00 | 70.54 |
| Public shares | 50,006,000.00 | 27.19 | 50,006,000.00 | 27.19 |
| Tang Jie | 4,170,000.00 | 2.27 | 4,170,000.00 | 2.27 |
| | 183,930,780.00 | 100.00 | 183,930,780.00 | 100.00 |

Note 1: The above share capital has been verified by Tianjian (2001) Yan Zi No.026 capital verification report issued by Pan-China Certified Public Accountants LLP, Jin Guangxin Yan Wai H Zi (2007) No.034 capital verification report issued by Tianjin Guangxin Accounting Firm, Wuzhou Songde Yan Zi (2009) No.0004 and (2011) No.1-0052 capital verification reports issued by Wuzhou Songde Union Accounting Firm.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. Capital reserve

For the six months ended 30 June 2018 (Unaudited) and 2017 (Audited)

| | Opening balance | Increase | Decrease | Closing balance |
|------------------------|--------------------|----------|----------|--------------------|
| Share premium (note 1) | 788,701,906.45 | - | - | 788,701,906.45 |
| Others (note 2) | 1,630,445.73 | - | - | 1,630,445.73 |
| | 790,332,352.18 | - | - | 790,332,352.18 |

Note 1: The Company issued 300,000,000 H Shares and converted 30,000,000 Domestic Shares into H Shares by way of placing for listing of H Shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 January 2004. The Company received net proceeds, after deducting all relevant share issue expenses, of RMB64,667,255.43 from the new issue of shares by way of public offer and placing which included share capital of RMB33,000,000.00 and share premium of RMB31,667,255.43. On 13 March 2008, the Company issued 154,600,000 H Shares at a price of HKD1.90 per share (par value of RMB0.10 each) and converted 15,460,000 Domestic Shares into H Shares by way of placing of new shares on GEM. The Company received net proceeds, after deducting all relevant share issue expenses, of RMB253,009,696.34 which included share capital of RMB17,006,000.00 and the premium of RMB236,003,696.34. On 7 April 2011, pursuant to the Assets Acquisition Agreement which the Company entered into with Tianjin Gas, the Company conditionally agreed to acquire assets from Tianjin Gas. To satisfy the consideration, the Company issued 689,707,800 Domestic Shares to Tianjin Gas which represented share capital of RMB68,970,780.00 and the premium of RMB521,030,954.68. The transaction was completed on 11 April 2011.

Note 2: Others were transferred from unsettled payables before the transformation, which could be used to increase capital.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. Surplus reserve

For the six months ended 30 June 2018 (Unaudited)

| | Opening balance | Increase | Decrease | Closing balance |
|---------------------------|--------------------|----------|----------|--------------------|
| Reserve fund | 80,781,511.31 | - | - | 80,781,511.31 |
| Enterprise expansion fund | 34,972,233.51 | - | - | 34,972,233.51 |
| | 115,753,744.82 | - | - | 115,753,744.82 |

2017 (Audited)

| | Opening balance | Increase | Decrease | Closing balance |
|---------------------------|--------------------|--------------|----------|--------------------|
| Reserve fund | 77,085,560.98 | 3,695,950.33 | - | 80,781,511.31 |
| Enterprise expansion fund | 33,124,258.34 | 1,847,975.17 | - | 34,972,233.51 |
| | 110,209,819.32 | 5,543,925.50 | - | 115,753,744.82 |

In accordance with the regulations for the implementation of the law of the People's Republic of China on Chinese-foreign equity joint ventures and the articles of association of the Company, the proportion of appropriation of reserve fund and enterprise expansion fund is decided by the board of directors.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. Retained earnings

| | For the six months ended 30 June 2018 (Unaudited) | 2017 (Audited) |
|---|--|-------------------|
| Retained earnings at the beginning of the period/year | 659,620,982.39 | 625,276,444.20 |
| Net profit attributable to shareholders of the Parent | 22,646,527.12 | 40,073,261.21 |
| Less: Appropriation to reserve fund | – | 3,695,950.33 |
| Enterprise expansion fund | – | 1,847,975.17 |
| Employee bonus and welfare fund | – | 184,797.52 |
| Dividend payable on ordinary shares in cash | 31,268,232.60 | – |
| Retained earnings at the end of the period/year | 650,999,276.91 | 659,620,982.39 |

Pursuant to the shareholders' meeting held on 26 June 2018, a dividend of RMB0.017 will be paid on each of the 1,839,307,800 shares in issue, amounting to cash dividends of RMB31,268,232.60 in total.

25. Revenue and cost of sales

| | For the six months ended 30 June 2018 (Unaudited) | | For the six months ended 30 June 2017 (Unaudited) | |
|----------------------|--|-----------------------|--|----------------|
| | Revenue | Cost of sales | Revenue | Cost of sales |
| Principal operations | 760,337,070.47 | 740,074,390.05 | 706,511,734.63 | 666,419,878.23 |
| | 760,337,070.47 | 740,074,390.05 | 706,511,734.63 | 666,419,878.23 |

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

25. Revenue and cost of sales *(continued)*

Revenue is stated as follows:

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|------------------------------------|--|--|
| Sales of piped gas | 710,123,335.64 | 662,638,262.51 |
| Gas connection income | 39,858,822.93 | 31,837,409.38 |
| Gas transportation and rent income | 5,370,851.91 | 5,434,063.89 |
| Sales of gas appliances and others | 4,984,059.99 | 6,601,998.85 |
| | 760,337,070.47 | 706,511,734.63 |

For details of the reporting segment information, please refer to Note XII.1. Segment reporting.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. Taxes and surcharges

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|---------------------------------------|--|--|
| Business tax | 44,326.28 | 71,355.80 |
| City maintenance and construction tax | 21,345.04 | 1,150,542.98 |
| Education supplementary tax | 15,342.59 | 820,431.17 |
| Tenure tax | 230,967.62 | 226,351.37 |
| Vehicle use tax | 13,617.08 | 17,167.25 |
| Stamp duty | 178,045.92 | 147,848.36 |
| Property tax | 192,963.20 | 197,579.45 |
| Flood prevention surcharge | 2,768.40 | 164,867.23 |
| | 699,376.13 | 2,796,143.61 |

27. Finance costs

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|-----------------|--|--|
| Interest income | (9,811,186.72) | (9,409,072.30) |
| Others | 195,634.16 | 228,263.24 |
| | (9,615,552.56) | (9,180,809.06) |

All the interest income of the Group is generated from current deposits, time deposits, certificates of deposit and structural deposits.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. Other income

Government grants related to daily operation:

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) | Relevant to asset/income |
|--------------------------|--|--|-----------------------------|
| Tax refund (Note 1) | 3,201,239.25 | 39,140.28 | Income |
| Deferred income (Note 2) | 2,239,480.88 | 1,255,491.27 | Asset/income |
| | 5,440,720.13 | 1,294,631.55 | |

Note 1: According to 《南政發(1998)54號》 issued by the General Office of Changqing Science, Industry & Trade Zone in Jinnan District, Tianjin, the Group is eligible for tax preference treatment from 1 April 2012 to 31 March 2022 which contained 10% refund on VAT and 60% refund on local remaining part of business tax in five years. The Group recognised the refund of business tax and VAT actually received of RMB3,201,239.25 (for the six months ended 30 June 2017: RMB39,140.28).

Note 2: The deferred income was related to the Group's daily operation and pipelines reconstruction projects. Please refer to Note V.20.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. Investment income

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|---|--|--|
| Income from long-term equity investments under equity method | 596,615.98 | 1,546,875.45 |
| Income from wealth management products | 6,262,191.77 | 3,826,301.38 |
| | 6,858,807.75 | 5,373,176.83 |

30. Non-operating income

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|--|--|--|
| Government grants not related to daily operation | – | 17,000.00 |
| | – | 17,000.00 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. Non-operating expenses

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|---------------------------------------|--|--|
| Losses on scrap of non-current assets | 64,561.50 | 300.00 |
| Others | 600.00 | 54,056.70 |
| | 65,161.50 | 54,356.70 |

32. Expenses by nature

The supplementary information for the cost of sales and administrative expenses of the Group classified by nature is as follows:

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|---------------------------------|--|--|
| Cost of piped gas purchased | 640,915,114.83 | 574,355,535.52 |
| Cost of gas connection services | 19,326,300.78 | 13,635,507.95 |
| Employee benefits | 52,479,467.53 | 49,121,889.45 |
| Depreciation and amortisation | 26,096,121.99 | 27,251,217.08 |
| Maintenance expenses | 2,668,077.95 | 1,866,244.55 |
| Agency fees | 2,449,347.60 | 2,497,056.19 |
| Transportation expenses | 1,218,848.45 | 681,604.49 |
| Rental | 4,800.00 | 4,800.00 |
| Others | 6,281,134.66 | 7,449,874.23 |
| | 751,439,213.79 | 676,863,729.46 |

NOTES TO FINANCIAL STATEMENTS (continued)

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. Income tax expense

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|----------------------------|--|--|
| Current income tax expense | 7,239,584.12 | 10,283,875.22 |
| Deferred tax expense | 291,980.85 | 313,872.82 |
| | 7,531,564.97 | 10,597,748.04 |

The reconciliation from total profit to income tax expense is as follows:

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|--|--|--|
| Total profit | 30,048,399.49 | 42,663,122.30 |
| Income tax expense at statutory or applicable tax rate (note 1) | 7,512,099.88 | 10,665,780.58 |
| Income not subject to tax | (149,154.00) | (386,718.86) |
| Expenses not deductible for tax | 3,313.75 | 7,351.36 |
| Adjustments in respect of current tax of previous periods | 23,557.62 | 917.60 |
| Deductible temporary differences and tax losses not recognised | 141,747.72 | 310,417.36 |
| Tax expense at the Group's effective tax rate | 7,531,564.97 | 10,597,748.04 |

Note 1: The income tax of the Group is calculated based on the estimated taxable income gained in China and the applicable tax rate.

NOTES TO FINANCIAL STATEMENTS *(continued)*

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

34. Earnings per share

The calculation of the basic earnings per share is based on the net profit for the period attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares in issue. The number of newly issued ordinary shares is determined according to the specific terms of the issue contract and calculated from the date of consideration receivable (normally the stock issue date).

The calculation of the basic earnings per share and diluted earnings per share is as follows:

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|--|--|--|
| Earnings | | |
| Net profit for the period attributable to ordinary shareholders of the Company | 22,646,527.12 | 32,417,488.23 |
| Shares | | |
| Weighted average number of ordinary shares in issue of the Company | 1,839,307,800.00 | 1,839,307,800.00 |

The Company did not have potentially dilutive ordinary shares as at the date of approval of the financial statements.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. Supplementary information to the statement of cash flows

(1) Adjustment of net profit to cash flows from operating activities:

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|--|--|--|
| Net profit | 22,516,834.52 | 32,065,374.26 |
| Add: Depreciation of fixed assets | 25,909,101.70 | 26,369,233.78 |
| Amortisation of intangible assets | 187,020.29 | 881,983.30 |
| Decrease in provisions | (166,475.48) | – |
| Losses on scrap of fixed assets | 64,561.50 | 300.00 |
| Interest income from structural deposits and certificates of deposit | (9,492,131.30) | (9,409,072.30) |
| Investment income | (6,858,807.75) | (5,373,176.83) |
| Decrease in deferred tax assets | 291,980.85 | 313,872.82 |
| Increase in inventories | (25,422.49) | (107,386.75) |
| Increase in operating receivables | (110,880,265.39) | (132,246,239.52) |
| Increase/(decrease) in operating payables | 137,976,347.26 | (60,705,341.66) |
| Net cash flows from operating activities | 59,522,743.71 | (148,210,452.90) |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. Supplementary information to the statement of cash flows (continued)

(1) Adjustment of net profit to cash flows from operating activities: (continued)

Movement in cash and cash equivalents:

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|---|--|--|
| Closing balance of cash | 364,660,103.66 | 795,413,331.32 |
| Less: Opening balance of cash | 286,395,411.22 | 742,041,438.93 |
| Net increase in cash and cash equivalents | 78,264,692.44 | 53,371,892.39 |

(2) Cash and cash equivalents

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|-------------------------|-----------------------------|-------------------------------|
| Cash | 364,660,103.66 | 286,395,411.22 |
| Including: Cash on hand | 16,202.19 | 13,478.65 |
| Bank deposits on demand | 364,643,901.47 | 286,381,932.57 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

VI. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Details of subsidiaries of the Company are as follows:

| | Place of registration/ principal place of business | Nature of business | Registered capital | Proportion of shareholding Direct/Indirect | Proportion of votes |
|---|--|-----------------------|-----------------------|--|------------------------|
| Newly established or invested | | | | | |
| 天津天聯投資有限公司 | Tianjin | Investment | 20,000,000.00 | 100% | 100% |
| 烏盟乾生津燃公用事業 有限責任公司 | Inner Mongolia | Dormant | 1,000,000.00 | 60% | 60% |
| Business combination not involving entities under common control | | | | | |
| 貴州津維礦業投資有限公司 | Guizhou | Mining business | 16,000,000.00 | 88% | 88% |
| 貴州省台江縣國新鉛鋅選礦 有限責任公司 | Guizhou | Mining business | 5,000,000.00 | 70% | 70% |

2. Interests in associates

| | Place of registration/ principal place of business | Nature of business | Registered capital | Proportion of shareholding Direct/Indirect | Accounting method |
|-------------|--|---------------------------------|-----------------------|--|----------------------|
| 天津市濱海燃氣有限公司 | Tianjin | Gas sales and transportation | 7,200,000.00 | 30.55% | Equity |

天津市濱海燃氣有限公司, as an important associate of the Group, engages in the same industry with the Group. The Group adopted equity method to measure this investment and it is not strategic to the Group's operation.

NOTES TO FINANCIAL STATEMENTS (continued)

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VI. INTERESTS IN OTHER ENTITIES (continued)

2. Interests in associates (continued)

The table below demonstrates the financial information of 天津市濱海燃氣有限公司, which is adjusted according to accounting differences and adjusted to the carrying amount of the financial statements:

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|--|--|---|
| Current assets | 126,205,116.83 | 133,308,682.42 |
| Non-current assets | 302,913,227.14 | 306,640,787.77 |
| Total assets | 429,118,343.97 | 439,949,470.19 |
| Current liabilities | 157,986,033.48 | 174,919,629.03 |
| Non-current liabilities | 131,253,479.81 | 127,103,926.95 |
| Total liabilities | 289,239,513.29 | 302,023,555.98 |
| Net assets | 139,878,830.68 | 137,925,914.21 |
| Net assets portion based on shareholding | 42,731,772.09 | 42,135,156.11 |
| Adjustment | 3,597,233.35 | 3,597,233.35 |
| Carrying amount of investment | 46,329,005.44 | 45,732,389.46 |
| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
| Revenue | 84,896,432.13 | 80,341,951.21 |
| Income tax expense | 1,312,088.76 | 1,852,717.75 |
| Net profit | 1,952,916.47 | 5,063,422.11 |
| Other comprehensive income | - | - |
| Total comprehensive income | 1,952,916.47 | 5,063,422.11 |
| Dividends received | - | - |

NOTES TO FINANCIAL STATEMENTS (continued)

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VII. RISKS RELATED TO FINANCIAL INSTRUMENTS

1. Classification of financial instruments

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

30 June 2018 (Unaudited)

Financial assets

| | Financial assets measured at fair value through profit or loss | Financial assets measured at amortised cost | Total |
|--|---|---|------------------|
| Cash and bank balances | - | 962,093,337.13 | 962,093,337.13 |
| Held-for-trading financial assets | 203,235,068.49 | - | 203,235,068.49 |
| Bills receivable and trade receivables | - | 508,256,512.16 | 508,256,512.16 |
| Other receivables | - | 13,843,792.62 | 13,843,792.62 |
| | 203,235,068.49 | 1,484,193,641.91 | 1,687,428,710.40 |

Financial liabilities

| | Financial liabilities measured at amortised cost | Total |
|----------------------------------|---|----------------|
| Bills payable and trade payables | 515,386,729.85 | 515,386,729.85 |
| Other payables | 52,372,440.73 | 52,372,440.73 |
| | 567,759,170.58 | 567,759,170.58 |

NOTES TO FINANCIAL STATEMENTS (continued)

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VII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

1. Classification of financial instruments (continued)

31 December 2017 (Audited)

Financial assets

| | Loans and receivables | Total |
|--|--------------------------|-------------------------|
| Cash and bank balances | 487,228,014.40 | 487,228,014.40 |
| Bills receivable and trade receivables | 382,565,865.83 | 382,565,865.83 |
| Other receivables | 13,499,553.24 | 13,499,553.24 |
| Other current assets | 608,013,698.64 | 608,013,698.64 |
| | <u>1,491,307,132.11</u> | <u>1,491,307,132.11</u> |

Financial liabilities

| | Other financial liabilities | Total |
|----------------------------------|--------------------------------|-----------------------|
| Bills payable and trade payables | 305,598,160.10 | 305,598,160.10 |
| Other payables | 23,163,380.47 | 23,163,380.47 |
| | <u>328,761,540.57</u> | <u>328,761,540.57</u> |

NOTES TO FINANCIAL STATEMENTS *(continued)*

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VII. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)*

2. Risks arising from financial instruments

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, and market risk (including interest rate risk). The Group's principal financial instruments comprise cash and bank balances, held-for-trading financial assets, bills receivable and trade receivables and bills payable and trade payables. In this regard, risks arising from financial instruments and the Group's risk management policies which aims at mitigation of these risks are outlined below.

The board of directors is responsible for planning and establishing the Group's risk management framework, developing the Group's risk management policies and related guidelines and overseeing the implementation of risk management measures. The Group has developed risk management policies to identify and analyse the risks faced by the Group. These risk management policies define specific risks which cover many aspects such as market risk, credit risk and liquidity risk management. The Group evaluates the market environment and changes in the Group's operations to determine whether to update the risk management policies and systems on a regular basis.

The Group uses appropriate diversification and portfolio to diversify the risk of financial instruments and reduce the risk of focusing on any single industry, specific region or specific counterparty by developing appropriate risk management policies.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, balances of trade receivables are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not settled in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Department of Credit Control in the Group.

Since the Group trades with creditworthy and high credit rating banks, the related credit risk of cash and bank balances is rather low.

NOTES TO FINANCIAL STATEMENTS *(continued)*

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VII. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)*

2. Risks arising from financial instruments *(continued)*

Credit risk (continued)

The credit risk of the Group's other financial assets, which comprise cash and bank balances, held-for-trading financial assets and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed according to customers, geographic areas and industries. As at 30 June 2018, the Group had certain concentrations of credit risk as 30% (31 December 2017: 37%) and 65% (31 December 2017: 66%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively. The Group did not hold any collateral or other credit enhancements over the balances of trade receivables.

Principles for assessing whether the credit risk has increased significantly since the initial recognition, basis for determining the impairment of financial assets and the method of using financial instruments to assess expected credit risk are listed below:

Significant increase of credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- Whether internal price indicator resulted from change in credit risk has changed significantly;
- If the existing financial instruments are derived into or issued as new financial instruments at the end of each period, whether interest rates or other terms of the above financial instruments have changed significantly (including harsher contractual terms, increase in collateral or higher yield rate etc.);

NOTES TO FINANCIAL STATEMENTS *(continued)*

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VII. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)*

2. Risks arising from financial instruments *(continued)*

Credit risk *(continued)*

Significant increase of credit risk (continued)

- Whether external market indicators of credit risk for the same financial instrument or financial instruments with shared expected life have changed significantly. Indicators include: length and extent of time when fair value of financial assets is less than amortised cost, other market information related to the borrower (including price changes in borrower's debt instruments or equity instruments);
- Whether external credit rating of the financial instrument has actually changed significantly or is expected to change significantly;
- Whether the borrower's internal credit rating is actually lowered or is expected to be lowered;
- Whether expected detrimental changes in business, financial and economic conditions of the borrower which will affect borrower's ability to perform repayment obligation have changed significantly;
- Whether the actual or expected financial performance of the borrower has changed significantly;
- Whether credit risk of other financial instruments issued by the same borrower has increased significantly;
- Whether supervisory, economic or technical environment for the borrower has significant detrimental changes;
- Whether the economic motive that will lower the borrower's repayment based on contractual stipulation has changed significantly;
- Whether the borrower's expected performance and repayment activities have changed significantly;

NOTES TO FINANCIAL STATEMENTS *(continued)*

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VII. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)*

2. Risks arising from financial instruments *(continued)*

Credit risk *(continued)*

Significant increase of credit risk (continued)

- Whether the Group's financial instrument management measures have changed;
- Past due period of contract payment exceeds (includes) 30 days.

At the balance sheet date, the Group assumes that credit risk of the financial instrument has not increased significantly since initial recognition when the Group determines that the financial instrument is only exposed to lower credit risk.

Credit-impaired financial assets

A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the expected future cash flows of the financial asset have occurred. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisations;
- The disappearance of an active market for that financial asset because of financial difficulties of the issuer;
- The purchase and derivative of a financial asset at a deep discount that reflects the incurred credit losses.

NOTES TO FINANCIAL STATEMENTS *(continued)*

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VII. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)*

2. Risks arising from financial instruments *(continued)*

Credit risk (continued)

Recognition of expected credit loss

The Group recognises credit loss of related financial instruments for trade receivables on a collective basis using a provision matrix. The Group classifies financial instruments into different groups based on shared credit risk characteristics. Shared credit risk characteristics include type of financial instruments, credit risk rating, contractual maturity, etc.

Expected credit loss of relevant financial instruments is recognised based on the following methods:

- For a financial asset, credit loss is the present value of difference between the contractual cash flows receivable and the expected cash flows to be received;
- For credit-impaired financial assets other than the purchase or original of credit-impaired financial assets at the balance sheet date, credit loss is the difference between the carrying amount of financial assets and the present value of expected future cash flows discounted at the original effective interest rate.

The Group's measurement of expected credit loss of financial instruments reflects factors including unbiased probability weighted average amount recognised by assessing a series of possible results, time value of money, reasonable and supportable information related to historical events, current condition and forecast of future economic position that is available without undue cost or effort at the balance sheet date.

The above-mentioned expected average loss rate is based on historical actual bad debt rate and takes current conditions and forecasts of future economic conditions into consideration. From 1 January 2018 to 30 June 2018, the Group's assessment methods and major assumptions have not changed.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

VII. RISKS RELATED TO FINANCIAL INSTRUMENTS (continued)

2. Risks arising from financial instruments (continued)

Liquidity risk

The Group's management monitors the liquidity position of the Group on an ongoing basis to ensure the availability of sufficient cash and cash equivalents to meet operation needs and decrease the influence of cash flow fluctuations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

30 June 2018 (Unaudited)

| | On demand | Within 3 months | 3 months to 1 year | Total |
|----------------------------------|---------------|--------------------|-----------------------|----------------|
| Bills payable and trade payables | - | 515,386,729.85 | - | 515,386,729.85 |
| Other payables | 42,243,172.31 | 10,129,268.42 | - | 52,372,440.73 |
| | 42,243,172.31 | 525,515,998.27 | - | 567,759,170.58 |

31 December 2017 (Audited)

| | On demand | Within 3 months | 3 months to 1 year | Total |
|----------------------------------|---------------|--------------------|-----------------------|----------------|
| Bills payable and trade payables | - | 305,598,160.10 | - | 305,598,160.10 |
| Other payables | 10,974,939.71 | 12,188,440.76 | - | 23,163,380.47 |
| | 10,974,939.71 | 317,786,600.86 | - | 328,761,540.57 |

NOTES TO FINANCIAL STATEMENTS *(continued)*

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VII. RISKS RELATED TO FINANCIAL INSTRUMENTS *(continued)*

2. Risks arising from financial instruments *(continued)*

Market risk

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank deposits. As the bank deposits of the Group are mainly current deposits, fixed deposits with terms over 3 months and structural deposits, the Group is not exposed to any significant interest rate risk.

3. Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business development and maximise shareholders' value.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or dispose assets to settle the liabilities.

The Group's total capital refers to shareholders' equity listed in the statement of financial position. The Group is not subject to any externally imposed capital requirements and monitors capital using a gearing ratio.

The gearing ratios as at the end of the reporting period were as follows:

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|---------------|---|-------------------------------|
| Gearing ratio | 34% | 29% |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

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VIII. FAIR VALUE

1. Assets and liabilities measured at fair value

30 June 2018 (Unaudited)

| | Inputs used in financial instruments measured at fair value | | | Total |
|-----------------------------------|---|---|---|----------------|
| | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | |
| Held-for-trading financial assets | - | 203,235,068.49 | - | 203,235,068.49 |

31 December 2017 (Audited)

| | Inputs used in financial instruments measured at fair value | | | Total |
|-----------------------------------|---|---|---|-------|
| | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | |
| Held-for-trading financial assets | - | - | - | - |

NOTES TO FINANCIAL STATEMENTS *(continued)*

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VIII. FAIR VALUE *(continued)*

2. Fair value evaluation

Management has assessed cash and bank balances, bills receivable and trade receivables, other receivables, bills payable and trade payables and other payables, etc. and considers that their fair values approximate to their carrying amounts due to the short term maturities of these instruments.

The Group's finance team is led by the finance manager, and is responsible for formulating policies and procedures for the fair value measurement of financial instruments. The finance team reports directly to the chief financial officer and the audit committee. At the end of each reporting period, the finance team analyses movements in the fair value of financial instruments and determines the major inputs applicable to the valuation. The valuation must be reviewed and approved by the finance manager. The finance team discusses the valuation process and results twice a year with the Audit Committee for interim and annual financial reporting.

The fair value of financial assets and financial liabilities is determined based on the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, other than in a forced or liquidation sale.

NOTES TO FINANCIAL STATEMENTS (continued)

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IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Parent company

| | Place of registration | Nature of business | Registered capital | Proportion of shareholding (%) | Proportion of votes (%) |
|-------------|-----------------------|--------------------|--------------------|--------------------------------|-------------------------|
| Tianjin Gas | Tianjin | Gas sales | 1.308 billion | 70.54% | 70.54% |

The Company's holding company is Tianjin Gas and its ultimate holding company is Tianjin Energy Investment Company Limited.

2. Subsidiaries

For details of the subsidiaries, please refer to Note VI.1. Interests in subsidiaries.

3. Associates

For details of associates, please refer to Note VI.2. Interests in associates.

4. Other related parties

Relationship with related parties

| | |
|--------------------|--|
| 津燃華潤燃氣有限公司 | A joint venture of the controlling shareholder |
| 天津濱海燃氣集團有限公司 | A subsidiary of the controlling shareholder |
| 天津市燃氣熱力規劃設計研究院有限公司 | A subsidiary of the controlling shareholder |
| 天津泰華燃氣有限公司 | A subsidiary of the controlling shareholder |
| 天津市液化氣工程有限公司 | A subsidiary of the controlling shareholder |
| 天津市裕民燃氣表具有限公司 | A subsidiary of the controlling shareholder |
| 天津市聯寅煤氣通信技術有限責任公司 | A subsidiary of the controlling shareholder |
| 天津濱海中油燃氣有限責任公司 | A subsidiary of the controlling shareholder |
| 天津市益銷燃氣工程發展有限公司 | A subsidiary of the controlling shareholder |
| 天津市熱力有限公司 | A subsidiary of the controlling shareholder |
| 天津市津能工程管理有限公司 | A subsidiary of the controlling shareholder |
| 天津市眾元天然氣工程有限公司 | A subsidiary of the controlling shareholder |
| 天津市聯益燃氣配套工程有限責任公司 | A subsidiary of the controlling shareholder |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

5. Major transactions between the Group and its related parties

(1) Goods and services between related parties

Purchase of piped gas from a related party

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|------------|--|--|
| 津燃華潤燃氣有限公司 | 652,811,575.74 | 572,243,906.22 |

Gas transportation and rent services provided to related parties

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|--------------|--|--|
| 天津濱海燃氣集團有限公司 | 2,710,892.71 | 2,702,702.70 |
| 津燃華潤燃氣有限公司 | 2,659,959.20 | 2,731,361.19 |
| | 5,370,851.91 | 5,434,063.89 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

5. Major transactions between the Group and its related parties (continued)

(1) Goods and services between related parties (continued)

Sales of gas to related parties

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|----------------|--|--|
| 天津泰華燃氣有限公司 | 88,178,789.11 | 86,484,591.39 |
| 天津市熱力有限公司 | 382,800.88 | 8,551.10 |
| 天津濱海中油燃氣有限責任公司 | 88,332.44 | 77,151.03 |
| 天津市液化氣工程有限公司 | 2,396.58 | 3,419.92 |
| | 88,652,319.01 | 86,573,713.44 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

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IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

5. Major transactions between the Group and its related parties (continued)

(1) Goods and services between related parties (continued)

Gas connection services and gas meter installation services received from related parties

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|--|--|--|
| Gas connection services received | | |
| 天津市益銷燃氣工程發展有限公司 | 498,354.14 | – |
| 天津市眾元天然氣工程有限公司 | – | 602,929.00 |
| | 498,354.14 | 602,929.00 |
| Gas meter installation services received | | |
| 天津市益銷燃氣工程發展有限公司 | 1,963,287.27 | 1,226,240.00 |

Purchase of gas meters from a related party

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|---------------|--|--|
| 天津市裕民燃氣表具有限公司 | 3,378,980.27 | 3,642,735.06 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

5. Major transactions between the Group and its related parties (continued)

(1) Goods and services between related parties (continued)

Purchase of internet services from a related party

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|-----------------|--|--|
| 天津市益銷燃氣工程發展有限公司 | – | 81,132.08 |

Construction design services received from a related party

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|------------------------|--|--|
| 天津市燃氣熱力規劃設計研究院 有限公司 | 886,454.52 | 341,185.00 |

The terms of above transactions were negotiated by both parties according to the market prices.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

5. Major transactions between the Group and its related parties *(continued)*

(2) Remuneration of key management

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|--------------------------------|--|--|
| Remuneration of key management | 969,096.80 | 887,108.08 |

6. Commitments of gas transportation between the Group and related parties

- (1) On 31 January 2016, Tianjin Binhai Gas Group Company Limited (天津濱海燃氣集團有限公司) ("Binhai Gas Group"), a subsidiary of the controlling shareholder, made a written promise of the lease of the high pressure gas pipelines of the Group for natural gas transmission from 1 May 2016.
- (2) On 25 April 2016, the Group and Binhai Gas Group entered into a gas pipeline lease agreement (the "Gas Pipeline Lease Agreement") in respect of the lease of the high pressure gas pipelines to Binhai Gas Group for natural gas transmission for the period from 1 May 2016 to 30 April 2019. The Group shall have an option, the exercise of which is at its absolute discretion, to renew the Gas Pipeline Lease Agreement based on the same terms and conditions for a further term of two years upon expiration of the original term, from 1 May 2019 to 30 April 2021. The gas pipeline lease fee is RMB6,000,000.00 per year.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

7. Accounts due from related parties

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|--|---|--------------------------------------|
| Bills receivable and trade receivables | | |
| 天津泰華燃氣有限公司 | 59,488,675.41 | 30,465,380.86 |
| 天津濱海燃氣集團有限公司 | 13,000,000.00 | 10,000,000.00 |
| 津燃華潤燃氣有限公司 | 9,799,246.13 | 6,846,174.42 |
| | 82,287,921.54 | 47,311,555.28 |
| Other receivables | | |
| 津燃華潤燃氣有限公司 | - | 1,794,204.87 |
| Prepayments | | |
| 天津市裕民燃氣表具有限公司 | 5,944,225.66 | 5,524,588.48 |
| 天津市燃氣熱力規劃設計研究院有限公司 | 35,398.00 | 35,398.00 |
| | 5,979,623.66 | 5,559,986.48 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

8. Accounts due to related parties

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|----------------------------------|---|--------------------------------------|
| Bills payable and trade payables | | |
| 津燃華潤燃氣有限公司 | 437,817,777.29 | 197,372,496.75 |
| 天津市液化氣工程有限公司 | 9,774,208.07 | 12,722,855.29 |
| 天津市益銷燃氣工程發展有限公司 | 8,492,282.04 | 7,859,527.63 |
| 天津市裕民燃氣表具有限公司 | 5,548,544.02 | 3,989,644.02 |
| 天津市燃氣熱力規劃設計研究院有限公司 | 3,122,393.02 | 2,443,485.66 |
| 天津市眾元天然氣工程有限公司 | 501,447.00 | 501,447.00 |
| 天津市聯寅煤氣通信技術有限責任公司 | 28,760.00 | 28,760.00 |
| 天津市津能工程管理有限公司 | 5,805.00 | 5,805.00 |
| 天津市聯益燃氣配套工程有限責任公司 | 0.45 | 190,247.85 |
| | 465,291,216.89 | 225,114,269.20 |
| | | |
| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
| Advances from customers | | |
| 天津濱海中油燃氣有限責任公司 | - | 92,006.51 |
| | | |
| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
| Contract liabilities | | |
| 天津市熱力有限公司 | 3,479,437.24 | - |
| 天津濱海中油燃氣有限責任公司 | 21,628.08 | - |
| | 3,501,065.32 | - |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

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IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

8. Accounts due to related parties (continued)

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|-----------------------|-----------------------------|-------------------------------|
| Other payables | | |
| Tianjin Gas (Note 1) | 22,058,312.60 | – |
| Public Share (Note 1) | 8,501,020.00 | – |
| 津燃華潤燃氣有限公司 | 1,938,797.36 | 1,938,797.36 |
| Tang Jie (Note 1) | 708,900.00 | – |
| | 33,207,029.96 | 1,938,797.36 |

Note 1: Pursuant to the shareholders' meeting held on 26 June 2018, cash dividends in total amounting to RMB31,268,232.60 will be paid. As at 30 June 2018, the dividends have not been paid.

Accounts due from and due to related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

X. COMMITMENTS AND CONTINGENCIES

1. Commitments

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|--|---|-------------------------------|
| Contracted but not provided for Capital commitments | 805,000.00 | 805,000.00 |
| | 805,000.00 | 805,000.00 |

XI. POST BALANCE SHEET EVENTS

As at the date of approval of the financial statements, the Group had no post balance sheet events which need to be disclosed.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

XII. OTHER SIGNIFICANT EVENTS

1. Segment reporting

Operating segments

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (1) Sales of piped gas;
- (2) Gas connection;
- (3) Gas transportation and rent;
- (4) Sales of gas appliances and others.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted total profit from continuing operations. The adjusted total profit from continuing operations is measured consistently with the Group's total profit from continuing operations except that interest income, finance costs, dividend income, fair value gains from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

XII. OTHER SIGNIFICANT EVENTS (continued)

1. Segment reporting (continued)

Operating segments (continued)

For the six months ended 30 June 2018 (Unaudited)

| | Sales of piped gas | Gas connection | Gas transportation and rent | Sales of gas appliances and others | Total |
|---------------------------------|-----------------------|-------------------|-----------------------------------|--|----------------|
| Revenue from external customers | 710,123,335.64 | 39,858,822.93 | 5,370,851.91 | 4,984,059.99 | 760,337,070.47 |
| Operating profit/(loss) | (4,652,071.72) | 20,495,859.06 | 2,124,168.30 | 1,595,348.65 | 19,563,304.29 |
| Add: Other income | | | | | 5,440,720.13 |
| Investment income | | | | | 6,858,807.75 |
| Less: Administrative expenses | | | | | 11,364,823.74 |
| Finance costs | | | | | (9,615,552.56) |
| Add: Non-operating income | | | | | - |
| Less: Non-operating expenses | | | | | 65,161.50 |
| Total profit | | | | | 30,048,399.49 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

XII. OTHER SIGNIFICANT EVENTS (continued)

1. Segment reporting (continued)

Operating segments (continued)

For the six months ended 30 June 2017 (Unaudited)

| | Sales of piped gas | Gas connection | Gas transportation and rent | Sales of gas appliances and others | Total |
|---------------------------------|-----------------------|-------------------|-----------------------------------|--|----------------|
| Revenue from external customers | 662,638,262.51 | 31,837,409.38 | 5,434,063.89 | 6,601,998.85 | 706,511,734.63 |
| Operating profit | 15,015,716.22 | 17,813,924.35 | 2,170,814.27 | 2,295,257.95 | 37,295,712.79 |
| Add: Other income | | | | | 1,294,631.55 |
| Investment income | | | | | 5,373,176.83 |
| Less: Administrative expenses | | | | | 10,443,851.23 |
| Finance costs | | | | | (9,180,809.06) |
| Add: Non-operating income | | | | | 17,000.00 |
| Less: Non-operating expenses | | | | | 54,356.70 |
| Total profit | | | | | 42,663,122.30 |

No analysis of the Group's assets and liabilities by operating segment is disclosed as it is not regularly provided to the board of the directors for review.

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

XII. OTHER SIGNIFICANT EVENTS *(continued)*

1. Segment reporting *(continued)*

Other information

Information about products and services

For the revenue classified by category, please refer to Note V.25 Revenue and cost of sales.

Geographical information

All the Group's operations and customers are located in Mainland China; all of its revenue is generated from Mainland China; and all the non-current assets are located in Mainland China.

Information about major customers

For the six months ended 30 June 2018, the Group's operating revenue of RMB277,411,215.01 (which accounted for more than 10% of the Group's total revenue) was derived from sales to a single customer (including sales to a group of entities which are known to be under the control of that customer) (for the six months ended 30 June 2017: RMB259,708,125.99 from all the entities).

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

XII. OTHER SIGNIFICANT EVENTS (continued)

2. Operating lease

As leasee

Significant operating leases: according to the lease contracts entered into with lessors, the minimum lease payables under irrevocable leases are as follows:

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|--------------------------|-----------------------------|-------------------------------|
| Within 1 year, inclusive | 5,250.00 | 32,250.00 |
| 1 to 2 years, inclusive | – | – |
| | 5,250.00 | 32,250.00 |

3 Comparative amounts

As further explained in Note III.23, due to the adoption of 財會[2018]15號, the accounting treatment and presentation of several items in the financial statements, as well as the amounts in the financial statements, have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made, and certain comparative amounts have been reclassified and restated to conform with the current period's presentation and accounting treatment.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS

1. Bills receivable and trade receivables

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|-------------------------------|-----------------------------|-------------------------------|
| Bills receivable | 326,591,034.11 | 192,759,059.65 |
| Trade receivables | 196,936,883.07 | 205,078,211.20 |
| | 523,527,917.18 | 397,837,270.85 |
| Less: Provision for bad debts | 15,271,405.02 | 15,271,405.02 |
| | 508,256,512.16 | 382,565,865.83 |

Bills receivable

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|-----------------------------|-----------------------------|-------------------------------|
| Commercial acceptance bills | 246,368,212.24 | 52,769,831.74 |
| Bank acceptance bills | 80,222,821.87 | 139,989,227.91 |
| | 326,591,034.11 | 192,759,059.65 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

1. Bills receivable and trade receivables (continued)

Trade receivables

The credit period of trade receivables is usually 90 to 180 days. The trade receivables bear no interest.

The aging of trade receivables is analysed below:

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|--|---|-------------------------------|
| Within 1 year | 169,065,257.93 | 183,235,734.08 |
| 1 to 2 years | 12,650,509.96 | 8,222,071.26 |
| 2 to 3 years | 2,937,910.20 | 3,148,752.88 |
| Over 3 years | 12,283,204.98 | 10,471,652.98 |
| | 196,936,883.07 | 205,078,211.20 |
| Less: Provision for bad debts of trade receivables | 15,271,405.02 | 15,271,405.02 |
| | 181,665,478.05 | 189,806,806.18 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

1. Bills receivable and trade receivables (continued)

Trade receivables (continued)

The movements in the provision for bad debts of bills receivable and trade receivables are as follows:

| | Opening balance | Provision for the period/year | Reversal during the period/year | Closing balance |
|--------------------------|--------------------|----------------------------------|------------------------------------|-----------------|
| For the six months ended | | | | |
| 30 June 2018 (Unaudited) | 15,271,405.02 | - | - | 15,271,405.02 |
| 2017 (Audited) | 10,477,402.01 | 4,884,053.01 | (90,050.00) | 15,271,405.02 |

For the six months ended 30 June 2018, the Company provided no bad debts (2017: RMB4,884,053.01), and reversed no bad debts (2017: RMB90,050.00).

2. Other receivables

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|-------------------------------|-----------------------------|-------------------------------|
| Interest receivable | 7,499,178.08 | 3,004,109.59 |
| Employees' borrowings | 6,281,860.63 | 1,999,275.87 |
| Subsidy | - | 6,755,500.00 |
| Others | 2,915,882.73 | 4,593,118.60 |
| | 16,696,921.44 | 16,352,004.06 |
| Less: Provision for bad debts | 2,847,288.32 | 2,847,288.32 |
| | 13,849,633.12 | 13,504,715.74 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

2. Other receivables (continued)

The aging of other receivables is analysed below:

| | 30 June 2018 (Unaudited) | 31 December 2017 (Audited) |
|--|-----------------------------|-------------------------------|
| Within 1 year | 13,486,416.55 | 13,386,099.67 |
| 1 to 2 years | 640,823.66 | 403,413.16 |
| 2 to 3 years | 104,788.00 | 186,873.77 |
| Over 3 years | 2,464,893.23 | 2,375,617.46 |
| | 16,696,921.44 | 16,352,004.06 |
| Less: Provision for bad debts of other receivables | 2,847,288.32 | 2,847,288.32 |
| | 13,849,633.12 | 13,504,715.74 |

The movements in the provision for bad debts of other receivables are as follows:

| | Opening balance | Provision in the year/period | Reversal in the year/period | Write-off in the year/period | Closing balance |
|--|--------------------|---------------------------------|--------------------------------|---------------------------------|--------------------|
| For the six months ended 30 June 2018 (Unaudited) | 2,847,288.32 | - | - | - | 2,847,288.32 |
| 2017 (Audited) | 2,284,717.46 | 562,570.86 | - | - | 2,847,288.32 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

3. Long-term equity investments

For the six months ended 30 June 2018 (Unaudited)

| | Opening balance | Current period movements | | Closing balance | Impairment at the end of the period |
|--------------------|-----------------|--------------------------|----------|-----------------|-------------------------------------|
| | | Increase | Decrease | | |
| Associate | | | | | |
| - 天津市濱海燃氣有限公司 | 45,732,389.46 | 596,615.98 | - | 46,329,005.44 | - |
| Subsidiaries | | | | | |
| - 天津天聯投資有限公司 | 20,000,000.00 | - | - | 20,000,000.00 | (20,000,000.00) |
| - 烏盟乾生津燃公用事業有限責任公司 | 600,000.00 | - | - | 600,000.00 | (600,000.00) |
| | 20,600,000.00 | - | - | 20,600,000.00 | (20,600,000.00) |

2017 (Audited)

| | Opening balance | Current year movements | | Closing balance | Impairment at the end of the year |
|--------------------|-----------------|------------------------|----------------|-----------------|-----------------------------------|
| | | Increase | Decrease | | |
| Associate | | | | | |
| - 天津市濱海燃氣有限公司 | 45,412,860.30 | 2,439,519.37 | (2,119,990.21) | 45,732,389.46 | - |
| Subsidiaries | | | | | |
| - 天津天聯投資有限公司 | 20,000,000.00 | - | - | 20,000,000.00 | (20,000,000.00) |
| - 烏盟乾生津燃公用事業有限責任公司 | 600,000.00 | - | - | 600,000.00 | (600,000.00) |
| | 20,600,000.00 | - | - | 20,600,000.00 | (20,600,000.00) |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

3. Long-term equity investments (continued)

Provision for impairment of long-term equity investments is as follows:

For the six months ended 30 June 2018 (Unaudited)

| | Opening balance | Increase | Decrease | Closing balance |
|----------------------|--------------------|----------|----------|--------------------|
| 天津天聯投資有限公司 | 20,000,000.00 | - | - | 20,000,000.00 |
| 烏盟乾生津燃公用事業 有限責任公司 | 600,000.00 | - | - | 600,000.00 |
| | 20,600,000.00 | - | - | 20,600,000.00 |

2017 (Audited)

| | Opening balance | Increase | Decrease | Closing balance |
|----------------------|--------------------|--------------|----------|--------------------|
| 天津天聯投資有限公司 | 15,000,000.00 | 5,000,000.00 | - | 20,000,000.00 |
| 烏盟乾生津燃公用事業 有限責任公司 | 600,000.00 | - | - | 600,000.00 |
| | 15,600,000.00 | 5,000,000.00 | - | 20,600,000.00 |

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2018

Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

4. Revenue and cost of sales

| | For the six months ended 30 June 2018 (Unaudited) | | For the six months ended 30 June 2017 (Unaudited) | |
|----------------------|--|-----------------------|--|----------------|
| | Revenue | Cost of sales | Revenue | Cost of sales |
| Principal operations | 760,337,070.47 | 740,074,390.05 | 706,511,734.63 | 666,419,878.23 |
| | 760,337,070.47 | 740,074,390.05 | 706,511,734.63 | 666,419,878.23 |

Revenue is stated as follows:

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|------------------------------------|--|--|
| Sales of piped gas | 710,123,335.64 | 662,638,262.51 |
| Gas connection income | 39,858,822.93 | 31,837,409.38 |
| Gas transportation and rent income | 5,370,851.91 | 5,434,063.89 |
| Sales of gas appliances and others | 4,984,059.99 | 6,601,998.85 |
| | 760,337,070.47 | 706,511,734.63 |

NOTES TO FINANCIAL STATEMENTS *(continued)*

30 June 2018

Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS *(continued)*

5. Investment income

| | For the six months ended 30 June 2018 (Unaudited) | For the six months ended 30 June 2017 (Unaudited) |
|---|--|--|
| Income from long-term equity investments under equity method | 596,615.98 | 1,546,875.45 |
| Income from wealth management products | 6,262,191.77 | 3,826,301.38 |
| | 6,858,807.75 | 5,373,176.83 |

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2018, in order to maintain the sustainable development of the Group, the Board and the management have committed to, on one hand, developing new markets, and as the consumption of original users decreases, explore new gas users and, on the other hand, enhancing internal control and cost management, as well as taking the initiative to optimize its management in business development, daily operations and compliance matters.

FINANCIAL REVIEW

For the Period, the Group reported a revenue of approximately RMB760,337,000 (for the six months ended 30 June 2017: approximately RMB706,512,000), representing an increase of approximately 8% as compared with the corresponding period of last year. The gross profit margin decreased from approximately 5.28% for the six months ended 30 June 2017 to approximately 2.57% for the Period. Profit before tax from continuing operations of the Group amounted to approximately RMB30,048,000 (For the six months ended 30 June 2017: approximately RMB42,663,000), representing a decrease of approximately 30%.

The decline in financial performance of the Group was mainly attributable to the reduced profit margin, which is a result of lower sale price per unit of piped gas. In the second half of the year, the Company will further enhance market expansion efforts, seize the opportunity of the shift from coal to gas, and explore profit growth points.

Segmental Information Analysis

During the Period, the Group has continued to implement its formulated development strategies to provide piped gas connections to the users in the Group's operational locations in Tianjin City and Jining, Inner Mongolia. Sales of piped gas is the major source of income for the Group, followed by gas connection, gas transportation and sales of gas appliances.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2018, total equity attributable to shareholders of the Company amounted to approximately RMB1,741,016,000 (31 December 2017: approximately RMB1,749,638,000). As of 30 June 2018, the Company had a registered capital of RMB183,930,780 comprising 1,839,307,800 ordinary shares with a nominal value of RMB0.1 each (the “Share(s)”), which consisted of 1,339,247,800 domestic shares (“Domestic Share(s)”) and 500,060,000 H shares (“H Share(s)”). The Group is generally funded by equity financing. As at 30 June 2018, the Group did not have any bank borrowing (31 December 2017: Nil).

As at 30 June 2018, the Group had net current assets of approximately RMB888,210,000 (31 December 2017: approximately RMB877,686,000), including cash and cash equivalents of approximately RMB364,660,000 (31 December 2017: approximately RMB286,395,000).

The Group mostly uses Renminbi in its ordinary business operation and it had not used any financial instrument for currency hedging purposes, as it considers that its exposure to fluctuations in exchange rates in its ordinary business operation is only minimal.

Significant Investments

Save as disclosed in this report, the Group did not have significant investments for the six months ended 30 June 2018. Details of the income derived from wealth management products and the wealth management products subscribed by the Company during the Period are set out in note V.29 to key items of the consolidated financial statements and the paragraph headed “Subscription of Wealth Management Products” in this report.

Material Acquisition And Disposal

During the Period, there had been no material acquisition or disposal of subsidiaries, associates and joint ventures by the Group.

Future Plans For Material Investments Or Capital Assets

The Group had no specific plan for material investments or capital assets as at 30 June 2018.

Charges On The Group's Assets

As at 30 June 2018, none of the Group's assets was pledged as security for liability.

Gearing Ratio

The Group's gearing ratio (total liabilities to total asset ratio) as at 30 June 2018 was approximately 0.34 (31 December 2017: approximately 0.29).

Contingent Liabilities

As at 30 June 2018, the Group had no material contingent liabilities or guarantees (31 December 2017: Nil).

Treasury Policy

To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Staff and Emolument Policy

As at 30 June 2018, the Group had a workforce of 835 full-time employees (30 June 2017: 884). Total staff costs amounted to approximately RMB50,950,000 for the six months ended 30 June 2018 (30 June 2017: RMB47,480,000).

Emoluments of employees were determined pursuant to the common practice of the industry as well as individual performance. In addition to regular salaries, the Group also paid discretionary bonus to eligible employees subject to the Group's operating results and individual performance of the employees. The Group also made contributions to medical welfare and retirement funds as well as other benefits to all employees.

DIVIDEND

No dividends were declared or proposed during the Period. The Directors do not recommend an interim dividend for the six months ended 30 June 2018 (for the six months ended 30 June 2017: Nil).

PROSPECTS

Development of the PRC Gas Sector

During the “13th Five-Year Plan”, optimising energy structure and managing environmental pollution at the national level will be the most significant driving force for natural gas consumption in China. Since 2013, China has successively released such framework documents such as the Plan of Action for the Prevention of Air Pollution (《大氣污染防治行動計劃》), Detailed Rules for Implementation of the Action Plans for the Prevention and Control of Air Pollution in the Beijing-Tianjin-Hebei Region and the Surrounding Regions (《京津冀及周邊地區落實大氣污染防治行動計劃實施細則》), and the Plan for Strengthening the Prevention and Control of Atmospheric Pollution in Energy Industry (《能源行業加強大氣污染防治工作方案》). In November 2014, China and the USA issued a joint statement in respect of dealing with climate change in Beijing, formally proposing for the first time that China’s carbon emissions will reach its peak in 2030 and China will put effort for early achievement. In accordance with the Action Plan for Energy Development Strategy (2014-2020) (《能源發展戰略行動計劃(2014-2020年)》) released by the State Council, the proportion of natural gas among primary energy consumption will increase to 10% or more by 2020.

The new Natural Gas Utilization Policy (《天然氣利用政策》) issued in 2013 further indicates the future development direction for China's natural gas utilization. In urban gas field, China's new urbanization is being promoted constantly. The annual average population of gasification is around 30 million people and national urban gasification rate will reach more than 60% by 2020. As a result, natural gas will become the main fuel of urban residents. In respect of the transportation area, natural gas will become the main fuel for most taxis in middle or small-scale cities. Buses in large and medium-scale cities will also gradually become clean gas-fueled. Liquefied natural gas (LNG) vehicles will further expand to intercity coaches and heavy trucks, and the application of LNG to ships and trains will begin. Natural gas will become a competitive fuel in public transportation. In respect of the industrial field, the progress of substituting natural gas as industrial fuel will be fully accelerated, especially in Bohai Bay Rim area, where coal-burning boilers will be substituted, and traditional industries, such as iron, steel and ceramics etc, will be upgraded so as to manage air pollution, and central and western regions where the industrial structure of traditional industries will be transferred to. As such, the natural gas consumption in industrial field will be promoted. In respect of natural gas power generation, natural gas peak power stations will be orderly developed and natural gas distributed energy development will be the priority in air pollution control districts such as Beijing, Tianjing, Hebei and Shandong, Yangtze River delta and the Pearl River delta. It is expected that by 2020, urban and industrial consumption will account for over 60% of the total gas consumption. Domestic and overseas consulting agencies forecast that natural gas consumption will reach 300 billion to 360 billion cubic meters by 2020.

Looking ahead, based on the analysis in respect of external environment and inner abilities as well as resources, the Company is positioned as a clean energy integrated solution provider, aiming to maximize returns for its shareholders. The Company plans to expand in the following areas:

- On the premise of ensuring the strategic direction and business needs, lay emphasis on five principles, which are strategic orientation, economical efficiency, financing matching, risk prevention and order of priority, to achieve continuing growth of net cash flows.
- Continue to improve the financial management system, with a view to reducing operating costs, and maximize the benefits from project operations.
- Continue to strengthen the support of scientific and technological innovation to the businesses of the Company, enhance the introduction and development of advanced technologies, as well as apply such advanced technologies to the production management and the internal management.
- Continue to improve the operation management system and mechanism, with emphasis on operation security, optimize management methods and means and promote the pre-control safety management, so as to ensure safe operation.
- Continue to strengthen the talent team construction, drive management change with strategic change, expand existing businesses with incremental business and inspire employees with entrepreneurial teams, so as to contribute a chain reaction to the corporation.

Directors', Chief Executives' and Supervisors' Interests in Securities

As at 30 June 2018, the interests and short positions of the Directors, chief executives and supervisors (the "Supervisors") of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the required standard of dealings by Directors and Supervisors as referred to in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

Long position

Domestic Shares of RMB0.1 each in the capital of the Company

| Name of Director/Supervisor | Capacity | Number of Domestic Shares held | Approximate percentage of interests in the Company/ Domestic Shares |
|------------------------------------|------------------|---------------------------------------|--|
| Ms. Tang Jie | Beneficial owner | 41,700,000 | 2.27%/3.11% |

Save as disclosed in the above paragraph, as at 30 June 2018, none of the Directors, chief executives and Supervisors of the Company had interests or short positions in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) 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 are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the required standard of dealings by Directors and Supervisors as referred to in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange.

Substantial Shareholders and Other Shareholders

So far as known to the Directors, as at 30 June 2018, the following persons, not being a Director, chief executive or Supervisor of the Company, had interests or short positions in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be recorded in the register kept by the Company pursuant to section 336 of the SFO.

Substantial Shareholders

Long position

Domestic Shares of RMBO.1 each in the capital of the Company

| Name of Shareholder | Capacity | Number of Domestic Shares held | Approximate percentage of interests in the Company/ Domestic Shares |
|--|--------------------------------------|--------------------------------|---|
| Tianjin Gas Group Company Limited ("Tianjin Gas") 天津市燃氣集團有限公司 | Beneficial owner | 1,297,547,800 | 70.545%/96.886% |
| Tianjin Energy Investment Company Limited ("Tianjin Energy") (Note 1) 天津能源投資集團有限公司 | Interest of a controlled corporation | 1,297,547,800 | 70.545%/96.886% |

Note:

1. Tianjin Energy is the intermediary holding company of Tianjin Gas. Therefore Tianjin Energy is deemed, or taken to be interested in all the Domestic Shares beneficially held by Tianjin Gas for the purpose of the SFO.

Other Shareholders

Long position

H Shares of RMB0.1 each in the capital of the Company

| Name of Shareholder | Capacity | Number of H Shares held | Approximate percentage of interests in the Company/ H Shares |
|--|---|-------------------------|--|
| Liu Hei Wan | Interests held jointly with another person (note 1) | 14,500,000 | 0.79%/2.90% |
| | Held by controlled corporation (note 2) | 30,000,000 | 1.63%/6.00% |
| Law Suet Yi | Interests held jointly with another person (note 1) | 14,500,000 | 0.79%/2.90% |
| | Interest of spouse (note 3) | 30,000,000 | 1.63%/6.00% |
| The Waterfront Development Group Limited | Beneficial owner (note 2) | 30,000,000 | 1.63%/6.00% |

Notes:

- As at 30 June 2018, Mr. Liu Hei Wan and Ms. Law Suet Yi jointly held the 14,500,000 H Shares of the Company.
- The Waterfront Development Group Limited is wholly-owned by Mr. Liu Hei Wan and thus a controlled corporation held by Mr. Liu Hei Wan. Therefore, Mr. Liu Hei Wan is deemed, or taken to be, interested in the 30,000,000 H Shares which are beneficially owned by The Waterfront Development Group Limited for the purpose of the SFO.
- Ms. Law Suet Yi is the spouse of Mr. Liu Hei Wan and therefore, Ms. Law Suet Yi is deemed, or taken to be, interested in all the Shares in which Mr. Liu Hei Wan is interested for the purpose of SFO.

Save as disclosed above, as at 30 June 2018, the Directors are not aware of any person, not being a Director, chief executive or Supervisor of the Company, who had interests or short positions in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be recorded in the register kept by the Company pursuant to section 336 of the SFO.

Purchase, Sale or Redemption of the Company's Listed Securities

During the Period, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Directors' Interests in Contracts

Save as disclosed in this report, no contract of significance to which the Company or its subsidiaries was a party and in which a Director or Supervisor had a material interest, whether directly or indirectly, subsisted at the end of the Period or at any time during the Period.

Corporate Governance

For the Period, the Company complied with all the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

Arrangements to Purchase Shares or Debentures

At no time during the Period was the Company or its subsidiaries a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of Shares in, or debentures of, the Company or any other body corporate.

Code of Conduct Regarding Securities Transactions by Directors and Supervisors

The Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules has been adopted as a code of securities transactions for Directors and Supervisors of the Company (the "Code"). The Company, having made specific enquiries with the Directors and Supervisors, confirms that, during the Period, all the Directors and Supervisors have complied with the required standards set out in the Code for securities transaction by the Directors and Supervisors.

AUDIT COMMITTEE

The Board established an audit committee (the “Audit Committee”) on 3 December 2003 with written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and to provide supervision over the financial reporting system and risk management and internal control systems of the Group. During the Period, the Audit Committee comprised three independent non-executive Directors, namely Mr. Guo Jia Li, Mr. Zhang Ying Hua and Mr. Yu Jian Jun. The Audit Committee has reviewed the unaudited interim results for the Period.

SIGNIFICANT EVENTS

Continuing Connected Transactions in relation to the Gas Supply and Gas Transportation from Jinran China Resources

Background

津燃華潤燃氣有限公司(Jinran China Resources Gas Co., Ltd.*, “Jinran China Resources”), as the sole wholesale supplier of natural gas in the Tianjin City and part of the rural areas of Tianjin, where the Company operates, has been (1) supplying natural gas to the Company under the existing gas supply contract which has expired on 31 December 2017 (“Gas Supply”); and (2) transmitting natural gas via the Gangnan Pipeline owned and managed by the Company under the existing gas transportation contract which has also expired on 31 December 2017 (“Gas Transportation”). In the light of the new pricing directive issued by the Tianjin Development and Reform Commission (the “Commission”) on 27 September 2017 (the “September Directive”) which stipulates that the unit price applicable to the provision of natural gas by Jinran China Resources to the Company is now subject to the commercial negotiation between Jinran China Resources and the Company instead of subject to a directive price issued by the Commission from time to time just like the past.

Supplemental Agreements in relation to the 2017 Gas Supply Contract

On 2 March 2018, the Company entered into supplemental agreements to the gas supply contract dated 31 October 2014 in respect of the supply of natural gas by Jinran China Resources to the Company for the 12 months ended 31 December 2017 (the “2017 Gas Supply Contract”) with Jinran China Resources to agree on the unit price of natural gas provided by Jinran China Resources to the Company for the period from 1 September 2017 to 31 December 2017. Pursuant to the 2017 Gas Supply Contract, the unit price of normal gas supplied by Jinran China Resources to the Company was approximately RMB2.655 per cubic metre (tax excluded, and the price subject to adjustment in accordance with the direction of the Tianjin municipal price bureau from time to time). Jinran China Resources and the Company agreed that the unit price of natural gas supplied by Jinran China Resources to the Company for the period commencing from 1 September 2017 to 31 December 2017 was approximately RMB2.104 per cubic metre (tax excluded, and being the weighted average of the unit price for the four months ended 31 December 2017). Save as disclosed above, all the terms of the 2017 Gas Supply Contract remain unchanged.

For details, please refer to the Company’s announcement dated 31 October 2014, 30 December 2014, 29 December 2017, 28 February 2018 and 5 March 2018, and the circular of the Company dated 12 December 2014.

Latest Progress

Due to an unexpected prolongation of the negotiation process on the pricing terms, Jinran China Resources and the Company are unable to enter into the new contracts concerning the Gas Supply and the Gas Transportation for the three years ending 31 December 2020 (“New Contracts”) on or before 1 January 2018 and comply with the independent shareholders’ approval, reporting, annual review and/or announcement requirements, if applicable, under Chapter 14A of the Listing Rules. The prolongation is primarily caused by a sudden and drastic change in respect of the September Directive.

After the said expirations, the transactions in respect of the Gas Supply and the Gas Transportation (“Jinran Transactions”) must continue as a matter of public interest and necessity, providing natural gas for residential and non-residential uses in Tianjin. New Contracts are needed to govern the Jinran Transactions starting from 1 January 2018.

As at the date of this report, the Company and Jinran China Resources are still in the process of formulating the complete pricing terms of the New Contracts. For details, please refer to the announcements of the Company dated 29 December 2017, 1 February 2018 and 28 February 2018, 6 April 2018, 17 April 2018 and 2 August 2018.

The Company will provide further updates on the progress of the negotiation with Jinran China Resources on the New Contracts from time to time and will comply with the requirements of reporting, announcement, annual review and/or independent shareholders' approval, if applicable, under Chapter 14A of the Listing Rules accordingly if and when the New Contracts are executed.

Continuing Connected Transaction in relation to the Gas Provision to Taihua Gas

Supplemental Agreements to 2017 Taihua Gas Provision Contract

In the light of the September Directive, on 2 March 2018, the Company entered into supplemental agreements to the gas provision contract dated 31 October 2014 in respect of the supply of natural gas to 天津泰華燃氣有限公司 (Tianjin Taihua Gas Co., Ltd*, "Taihua Gas") by the Company (the "Gas Provision") for the year ended 31 December 2017 ("2017 Taihua Gas Provision Contract") with Taihua Gas to agree on the unit price of natural gas provided by the Company to Taihua Gas for the period from 1 September 2017 to 31 December 2017. Pursuant to the last pricing directive issued by the Commission before the September Directive, the directive price for the supply of natural gas by the Company to Taihua Gas was approximately RMB2.207 per cubic metre (tax excluded). Taihua Gas and the Company had agreed that the weighted average unit price of natural gas supplied by the Company to Taihua Gas was approximately RMB2.265 per cubic metre (tax excluded) for the period from 1 September 2017 to 31 December 2017. Save as disclosed above, all the terms of the 2017 Taihua Gas Provision Contract remain unchanged.

For details, please refer to the Company's announcements dated 31 October 2014, 30 December 2014 and 2 March 2018, and the circular of the Company dated 12 December 2014.

New Gas Provision Contract

On 4 June 2018, the Company entered into a new gas provision contract (the “New Gas Provision Contract”) with Taihua Gas in respect of the Gas Provision from 1 January 2018 and for a term of three years up to 31 December 2020, with the annual caps not exceeding RMB219,594,599, RMB230,574,329 and RMB242,103,045, to amend and reinstate as appropriate the gas provision contract dated 10 November 2017. The New Gas Provision Contract and the transactions contemplated thereunder were approved by the shareholders of the Company (the “Shareholders”) at the extraordinary general meeting of the Company held on 26 June 2018.

For details, please refer to the notice of the extraordinary general meeting of the Company dated 23 March 2018, the announcements of the Company dated 4 June 2018 and 26 June 2018, and the circular of the Company dated 8 June 2018.

Connected Transaction in relation to Purchase of Gas Meters

On 12 February 2018, the Company entered into a purchase agreement (the “Purchase Agreement”) with 天津市裕民燃气表具有限公司(Tianjin Yumin Gas Meter Co., Ltd.*, “Tianjin Yumin”), pursuant to which Tianjin Yumin agreed to sell and the Company agreed to purchase up to 45,000 gas meters at an aggregate purchase price of RMB15,615,000 (equivalent to approximately HK\$19,362,600 as at 12 February 2018).

As the highest applicable percentage ratio (as defined under the Listing Rules) for the Purchase Agreement, either on a standalone basis or when aggregated with the purchase and sales agreement dated 18 October 2017, are more than 0.1% but below 5%, the Purchase Agreement and the transactions contemplated thereunder are subject to the reporting and announcement requirements but are exempt from the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules. For details, please refer to the announcement of the Company dated 12 February 2018.

Subscription of Wealth Management Products

On 26 February 2018, the Company entered into a structured deposit agreement (“Everbright Bank Structured Deposit Agreement”) with 中國光大銀行股份有限公司（天津分行）(China Everbright Bank Co., Ltd. (Tianjin branch)*), in respect of a principal-guaranteed structured deposit with guaranteed return in the subscription amount of RMB200 million (equivalent to approximately HK\$247 million as at 26 February 2018) for a term of deposit from 26 February 2018 to 26 August 2018 with an interest rate of 4.4% per annum.

As the highest relevant applicable percentage ratio (as defined under the Listing Rules) in respect of the subscription amount under the Everbright Bank Structured Deposit Agreement exceed 5% but are less than 25%, the transaction contemplated under the Everbright Bank Structured Deposit Agreement constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under the Listing Rules. For details, please refer to the Company’s announcement dated 26 February 2018.

On 27 February 2018, the Company entered into a wealth management agreement (“Industrial Bank Wealth Management Agreement”) with 興業銀行股份有限公司（天津分行）(Industrial Bank Co., Ltd (Tianjin branch)*) to subscribe for 興業銀行「金雪球」保本浮動收益封閉式人民幣理財產品 (“Golden Snowball” principal-guaranteed with floating return and closed-end RMB Wealth Management Product of Industrial Bank*) in the subscription amount of RMB200 million (equivalent to approximately HK\$247 million as at 27 February 2018) for a term of investment from 27 February 2018 to 27 August 2018.

As the highest relevant applicable percentage ratio (as defined under the Listing Rules) in respect of the subscription amount under the Industrial Bank Wealth Management Agreement exceed 5% but are less than 25%, the transaction contemplated under the Industrial Bank Wealth Management Agreement constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under the Listing Rules. For details, please refer to the Company’s announcement dated 27 February 2018.

Possible Transfer of the Domestic Shares Held by Tianjin Gas to Jinran China Resources

On 7 June 2018, Tianjin Gas and China Resources Gas (Hong Kong) Investment Limited (華潤燃氣(香港)投資有限公司) entered into a memorandum of understanding to procure the acquisition by Jinran China Resources of all the Domestic Shares held by Tianjin Gas (the “Target Shares”). As at the date of this report, Tianjin Gas held 1,297,547,800 Domestic Shares, representing approximately 70.54% of the total issued Shares.

Subject to a formal agreement to be entered into between Tianjin Gas and Jinran China Resources in relation to the transfer of the Target Shares and the satisfaction or waiver (as the case may be) of the conditions precedents thereof, Jinran China Resources (or its wholly-owned subsidiary) and the parties acting in concert with it will hold approximately 70.54% of the entire issued share capital of the Company as at the date of this report. In accordance with the requirement of the Code on Takeovers and Mergers issued by The Securities and Futures Commission of Hong Kong (the “Takeovers Code”), if the transfer of the Target Shares is completed, Jinran China Resources will be required to make a mandatory unconditional cash offer for all of the issued Shares (other than those already owned or agreed to be acquired by Jinran China Resources and parties acting in concert with it) under Rule 26.1 of the Takeovers Code. As at the date of this report, Tianjin Gas and Jinran China Resources have not entered into any formal agreement for the transfer of the Target Shares and the negotiations are still in progress. The detailed terms and timetable concerned are subject to further agreement between Tianjin Gas and Jinran China Resources, and the transfer of the Target Shares may or may not proceed.

For details, please refer to the Company’s announcements dated 8 June 2018, 8 July 2018 and 7 August 2018.

Amendments of the Articles of Association of the Company

Annual general meeting held on 26 June 2018

At the annual general meeting of the Company held on 26 June 2018 (the “AGM”), the Shareholders approved a special resolution in respect of the amendments to the articles of association of the Company (the “Articles”) concerning the structure of the share capital of the Company in order to comply with relevant PRC laws and regulations. For details, please refer to the announcement of the Company dated 4 May 2018 and the circular of the Company dated 11 May 2018.

Extraordinary general meeting held on 6 February 2018

The Shareholders had approved a special resolution at an extraordinary general meeting of the Company held on 6 February 2018 to amend the Articles regarding the requirement in accordance with the PRC laws and regulations implemented requiring state-owned enterprise to prescribe party building work into the Articles. For details, please refer to the announcements of the Company dated 15 December 2017 and 6 February 2018, and the circular of the Company dated 29 December 2017.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes and updated information regarding the Directors and Supervisors since the Company's last published annual report and up to the date of this interim report are set out below:

1. Change of Directors and positions held with the Company:
 - (a) Mr. Zhang Tian Hua, Ms. Wang Wen Xia and Mr. Zhang Guo Jian, previously executive Directors, and Mr. Li Da Chuan, previously a non-executive Director, had retired from office as executive Directors or non-executive Director, respectively, and did not seek re-election at the AGM with effect from the conclusion of the AGM due to other work arrangement. Following the retirement of Mr. Zhang Tian Hua and Mr. Zhang Guo Jian as executive Directors, Mr. Zhang Tian Hua ceased to act as the chairman of the Board and the chairman of the nomination committee of the Company (the "Nomination Committee"), and Mr. Zhang Guo Jian ceased to act as an authorised representative of the Company for the purpose of the Listing Rules.
 - (b) At the AGM, Mr. Zhao Wei and Mr. Wang Quan Hong had been appointed as executive Directors, and Mr. Wang Jin, Mr. Hou Shuang Jiang (formerly an executive Director) and Mr. Zhao Heng Hai had been appointed as non-executive Directors, and Ms. Tang Jie had been re-elected as the executive Director, and Mr. Zhang Ying Hua, Mr. Yu Jian Jun and Mr. Guo Jia Li had been re-elected as independent non-executive Directors.

(c) Following the retirement of Mr. Zhang Tian Hua and Mr. Zhang Guo Jian as executive Directors,

(i) Mr. Zhao Wei had also been appointed as the chairman of the Board and the chairman of the Nomination Committee; and

(ii) Mr. Wang Quan Hong had also been appointed as the authorised representative of the Company for the purpose of the Listing Rules.

For details, please refer to the announcements of the Company dated 19 April 2018, 26 June 2018 and 29 June 2018, and the circular of the Company dated 11 May 2018.

2. Change of Supervisors:

(a) Due to work arrangement, Mr. Feng Jinhu had retired as the Supervisor with effect from the conclusion of the AGM.

(b) At the AGM, Mr. Yang Hu Ling had been re-elected as the Shareholders' representative Supervisor, and Ms. Xu Hui and Mr. Liu Zhi Yuan had been re-elected as the independent Supervisors. Ms. Hao Li had been re-elected, and Ms. You Hui Yan had been elected, as the staff representative Supervisors at the staff representatives' meeting.

For details, please refer to the announcements of the Company dated 19 April 2018, 26 June 2018 and 29 June 2018, and the circular of the Company dated 11 May 2018.

3. Change of Senior Management:

With effect from 19 April 2018,

- (a) Mr. Zhang Guo Jian, Ms. Wang Li Ping and Ms. Ma Xin resigned as the general manager, the financial controller and the assistant to the general manager of the Company, respectively, due to work arrangement; and
- (b) Mr. Wang Quan Hong, Mr. Liu Xing Hua and Ms. An Li had been appointed as the general manager, deputy general manager and financial controller of the Company, respectively.

For details, please refer to the announcement of the Company dated 19 April 2018.

Change of company secretary and authorised representative

With effect from 24 May 2018,

- (a) Mr. Wong Yat Tung resigned as the company secretary of the Company (the “Company Secretary”) and ceased to act as an authorised representative of the Company under Rule 3.05 of the Listing Rules and an authorised representative of the Company for accepting service of process or notices in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (collectively, the “Authorised Representative”); and
- (b) Mr. Lau Kwok Yin had been appointed as the Company Secretary and the Authorised Representative in replacement of Mr. Wong Yat Tung.

For details, please refer to the announcement of the Company dated 24 May 2018.

SUBSEQUENT EVENTS

Change of Principal Place of Business in Hong Kong

The Company's principal place of business in Hong Kong has been changed to 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong with effect from 30 July 2018.

By Order of the Board

Tianjin Jinran Public Utilities Company Limited

Zhao Wei

Chairman

Tianjin, PRC, 29 August 2018

* *for identification purpose only*