ENN 新奧

ENN Energy Holdings Limited

(Stock code: 2688)

Building a Modern Energy System
Improving the Quality of Life

ANNUAL REPORT 2018

ENN = ENERGY + INNOVATION

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CORPORATE INFORMATION

Board of Directors

Executive director

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

Independent non-executive director

Ma Zhixiang
Yuen Po Kwong
Law Yee Kwan, Quinn *CPA*
Yien Yu Yu, Catherine *CFA*

Company Secretary

Liang Hongyu

Authorised Representatives

Wang Dongzhi
Liang Hongyu

Members of the Audit Committee

Law Yee Kwan, Quinn* *CPA*
Ma Zhixiang
Yuen Po Kwong
Yien Yu Yu, Catherine *CFA*

Members of the Remuneration Committee

Yuen Po Kwong*
Ma Zhixiang
Law Yee Kwan, Quinn *CPA*
Yien Yu Yu, Catherine *CFA*

Members of the Nomination Committee

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

Members of the Risk Management Committee

Wang Zizheng*
Han Jishen
Liu Min
Ma Zhixiang
Yuen Po Kwong
Law Yee Kwan, Quinn *CPA*
Yien Yu Yu, Catherine *CFA*

Registered Office

P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands
British West Indies

Principal Place of Business in Hong Kong

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

Head Office in The PRC

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

Principal Share Registrar and Transfer Office in the Cayman Islands

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

Hong Kong Branch Share Registrar and Transfer Office

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

Stock Exchange Listing

The Stock Exchange of Hong Kong Limited

Stock Code

2688

Auditors

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

Legal Adviser

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

Principal Bankers

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

Website

www.ennenergy.com

E-mail address

enn@ennenergy.com

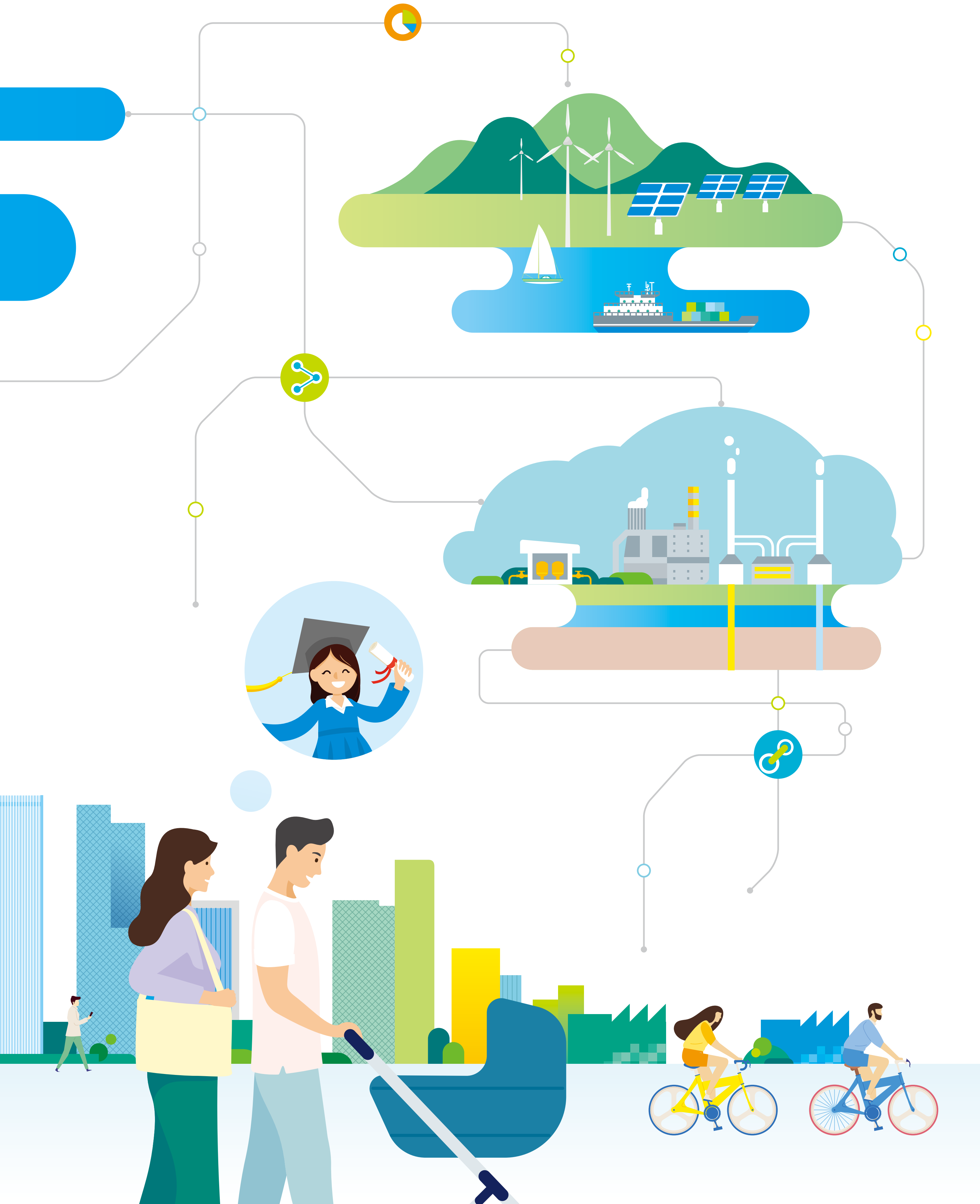
* Chairman of the relevant Board committees

OUR VISION

ENDEAVOR TO BECOME
A RESPECTED,
INNOVATIVE AND
SMART ENTERPRISE

Building a Modern Energy System

Improving the Quality of Life

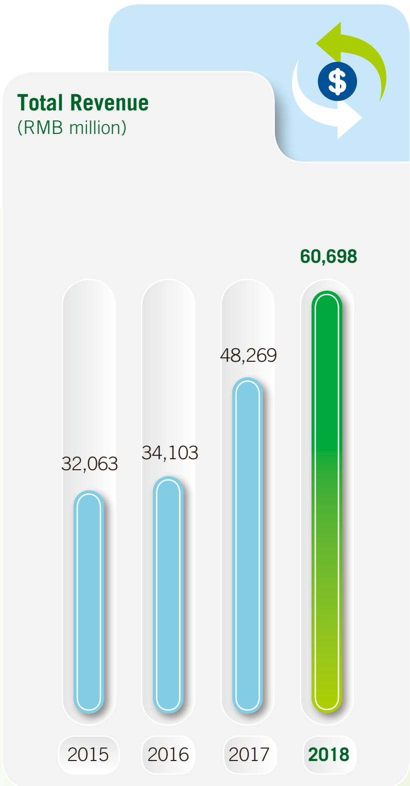


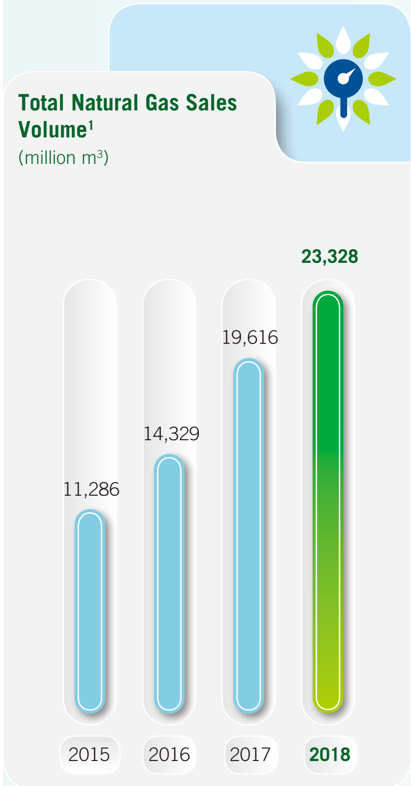
EXECUTIVE CHAIRMAN'S STATEMENT

Results of the Year

The global political and economic situation was complicated in 2018. China's economy was facing a downward pressure with the slowdown in global economic growth coupled with the growing tension between the United States and China. Despite the challenging internal and external environment, the government's determination to promote environmental pollution control remains firm. During the year, the apparent natural gas consumption of China amounted to 280.3 billion cubic metres, representing an increase of 18.1% year-on-year. By seizing opportunities arising from the government's determination to control air pollution and the deepening of energy reform in China, the Group strived to expand its natural gas sales and accelerated its development of integrated energy business based on customers' diversified energy needs. The Group also focused on implementing management restructuring to improve its operational management and managed to achieve all of the business guidances set previously.

Wang Zizheng
Executive Chairman





For the year ended 31 December 2018, total volume of natural gas sales of the Company, together with its subsidiaries, joint ventures and associates, increased by 18.9% year-on-year to 23,328 million cubic metres.

Revenue of the Group increased by 25.7% to RMB60,698 million, representing an increase of RMB12,429 million from RMB48,269 million last year. In which, revenue from sales of piped gas increased by 31.3% year-on-year to RMB31,434 million, accounting for 51.8% of total revenue; and the revenue from wholesale of gas increased by 52.4% to RMB18,107 million, accounting for 29.8% of total revenue. The increase in total revenue was driven by volume growth of gas sales and the increase in average gas selling price.

Gross profit of the Group was RMB9,510 million, representing a year-on-year increase of 14.0%. Gross profit margin was 15.7%, down 1.6 percentage points year-on-year, mainly due to the change of revenue mix. The share of revenue attributable to wholesale gas business with lower gross profit margin increased by 5.2 percentage points, while the share of revenue attributable to construction and installation with higher gross profit margin, decreased by 2.6 percentage points.

The profit of the Group was RMB3,818 million, representing a year-on-year increase of 3.9%. Net profit margin was 6.3%, down 1.3 percentage points year-on-year. The slight decrease in net profit margin was mainly attributable to the exchange losses, and the fair value losses of convertible bonds and derivative financial instruments.

Profit attributable to shareholders of the Company was RMB2,818 million, representing an increase of 0.6% year-on-year. The adjusted profit attributable to shareholders of the Group after excluding other gains and losses and amortisation of share option expenses increased by 19.8% year-on-year to RMB4,471 million.

Rapid Growth of the Core Business

The total natural gas sales volume of the Group[1] continued to outperform national average and reached 23,328 million cubic metres, representing an increase of 18.9% year-on-year. In which, gas sold to commercial and industrial (C/I) and residential customers reached 16,110 million cubic metres, representing an increase of 23.2% year-on-year. Leveraging on its market insights, innovative customer development strategies, excellent safety and operational management, and good corporate image, the Group successfully developed a large number of new C/I and residential customers, which laid the foundation for its continued growth of natural gas sales. As of the end of 2018, the Group had a total of 121,105 C/I customers (installed gas appliances with designed daily capacity of 106,552,583 cubic metres) and 18,522,733 residential customers, representing an increase of 29,226 (installed gas appliances with designed daily capacity of 18,652,070 cubic metres) and 2,301,600 respectively year-on-year. During the year, a total of 31 integrated energy projects were completed and put into operation, with the accumulative number of projects in operation amounting to 62. Integrated energy sales of the Group, including cooling, heating, electricity and steam amounted to 2,886 million kWh. The business portfolio and revenue mix of the Group had been further optimised, with recurring energy sales accounting for 88.0% of the Group's total revenue.

1 The Group's operation data included the data of its subsidiaries, joint ventures and associates

The Group actively grasped the market consolidation opportunity brought by the execution of return on asset regulation for natural gas distribution. Through mergers and acquisitions, resource replacement and the introduction of integrated energy business model, the Group actively expanded its city-gas concessions and customer base. During the year, the Group successfully acquired the exclusive operating rights of 18 piped gas projects. As of the end of 2018, the Group operated 187 city-gas projects in China and covered a connectable population of 94.57 million. With the full implementation of the atmospheric pollution prevention and control policies by Chinese government, the Group enjoyed growth driven by series of opportunities such as the replacement of coal in industrial parks, the development of distributed renewable energy, and the relocation of industrial sites from urban areas to industrial parks. The structural change of the economy will also bring about new opportunities amidst industries transformation, thus, the Group accelerated the expansion of its integrated energy business and signed 257 new integrated energy projects with potential integrated energy sales of over 100 billion kWh per year. Aiming to "get quality projects" and "execute well", the Group is poised to transform and upgrade itself into a leading integrated energy service provider.

Promoted Business Transformation and Upgraded through Management Restructuring

The essence of the Group's management restructuring was to create value for customers and facilitate a new type of internal production relationship based on "self-motivation + empowerment", so as to reduce the risks and inefficiencies caused by traditional management styles through incentivising its employees. The ultimate target is to transform traditional hierarchical structure into a self-driven organisation.

The Group promoted management restructuring with a mission of "put customers first, help employees achieve goals and construct a borderless ecosystem". Firstly, "put customers first" requires the Group to create value with a customer-oriented mindset, responding to their needs timely and rapidly. Secondly, "help employees achieve goals" focuses on "self-driven" spirits, abolishing the old-fashioned production relationship of "employer + employees" while establishing a new type of production relationship called "business partnership". It also emphasises "empowerment", by setting up numerous business-oriented self-driven organisations and creating value based on customers' needs. Lastly, "construct a borderless ecosystem" requires the Group to establish a borderless internal organisational ecosystem with free flow of skills, human capital and resources. The management restructuring enables each employee create value and share achievement with the Group based on the Group's strategies and customer needs.

In 2018, 27 provincial-level energy companies of the Group recruited management and talents through open tender, while 11 large-scale integrated energy projects including Zhejiang Yuhang Technological Zone adopted project investment and value sharing through establishing self-driven organisations and teams.

The Group always put customers' interest first and responds to their needs with digital customer service system. It also promotes innovation based on customers' needs and promotes digitalisation within the Group by introducing big data, which in turns promotes its business development and business model innovation.

During the year, the average gross profit generated by each employee was RMB283,559, representing an increase of 4.83% year-on-year. Administrative, distribution and selling expenses increased by 15.0%, accounting for 5.7% of revenue, declined from 6.2% in 2017. Leveraging on internet technologies, the Group managed to allocate resources in a more efficient way, which further enhanced its customer service quality, improved business operations and profitability, and continuously increased shareholder returns.

Incentivise Employees to Create Value by Adopting Share Award Scheme

The Group adopted a share award scheme on 30 November 2018 to optimise the compensation structure for managers and key personnel. The purpose of the scheme is to link employees' compensation to their contributions, incentivise them to remain with and excel in their performance for continuing operation and development of the Group, and to attract suitable talents for further development of the Group. The scheme is administered through a trust. During the set-up period of the scheme, the Group entered into a TRS Transaction Agreement with the TRS Counterparty to repurchase the Group's shares in the market with a maximum equity notional amount of HK$525 million, and a maximum number of 7,000,000 shares. The Group will continue to take its business development and talent acquisition plans into consideration when offering employees competitive incentive programmes.

Credit Ratings

During the year, Standard & Poor's upgraded its credit rating on the Group to BBB+ and issued a "stable" outlook. Moody's maintained Baa2 rating and "stable" outlook while Fitch Ratings maintained BBB rating and "stable" outlook. In China, Xinao (China) Gas Investment Company Limited, a wholly-owned subsidiary of the Company responsible for domestic business investment, was awarded the highest AAA credit rating and a "stable" outlook by the United Credit Rating Co., Ltd. It is believed that the good credit ratings will provide the Group with sufficient financial resources for its long-term development.

Dividends

In recognition of shareholders' support, the Board recommended a final dividend of HK$1.19 (equivalent to approximately RMB1.04) per share payable to shareholder of the Company whose names are on the register of members on 10 June 2019. The total amount of dividend would be approximately HK$1,338 million.

Industry Outlook and Company Strategies

Looking ahead, 2019 will be a year of opportunities and challenges. The market expects international oil prices continue to fluctuate, while the US-China economic relationship and trade deals remain ambivalent, which will create uncertainties for China's economy. At the Central Economic Work Conference held in December 2018, the government signalled to the market its dedication to deepen reforms, which include the promotion of reforms in state-owned enterprises, accelerating the reforms of its monetary and fiscal systems, reducing corporate costs, etc. It is believed that these reformative measures will play an important role in establishing a stable growth for China's economy in the long run.

A New Era of Energy Reform

The report of China's 19th National Congress placed a lot of priority on improving ecological environment and required the country's development to be environment-friendly. It proposed that building a beautiful China would be an important direction for the country's future course. Transitioning to a stage of high-quality development, the government is committed to reducing energy consumption per unit of GDP. Last year, the energy intensity was successfully reduced by 3.1%, exceeding the preliminary target. Meanwhile, Premier Li Keqiang clearly stated in the 2019 Government Work Report that the energy consumption per unit of GDP must be further reduced by 3% during the year. It means that China is stepping up plans to develop a clean, low-carbon and highly efficient energy system. The natural gas sales and integrated energy business of the Group which share the same vision is in line with the country's energy reform strategies. According to the "Implementation Opinions on the Integration and Optimisation of Demonstrative Project Construction" issued by The National Development and Reform Commission and The National Energy Administration, by 2020, the usage of cascade utilisation of integrated energy in existing industrial parks should be 30%, and 50% for new industrial parks. According to industry experts, the market size of integrated energy sales and services in China is expected to exceed RMB4 trillion, offering huge growth potential to market players.

Subsequently, the government announced a series of publications on natural gas market reform and environmental protection policies to reaffirm its commitment to the sustainable development of the natural gas market. For example, the "Opinions on Accelerating the Construction of Gas Storage Facilities and Improving Regulations on Market Mechanism and Ancillary Services for Gas Storage and Peak Shaving", the "Notice on Adjusting the City-gate Prices for Residential Users", the "Three-year Action Plan to Win the Blue Sky Defense War", and the "Measures for the Supervision and Administration of Fair Opening of Oil and Gas Pipelines Network Facilities", etc.

In view of the good progress made after the pollution prevention plan launched in major areas, the government expanded the coverage in key areas from "2+26" cities to more regions, such as the Yangtze River Delta and the Fen-Wei Plain. The government will continue to strictly control the consumption of coal as well as the total emission of air pollutants and greenhouse gas in key areas, demonstrating its determination to promote the use of natural gas as one of the key primary energy sources and push forward coal-to-gas conversion. Meanwhile, there are regulations calling for open and third-party access to infrastructures such as long-distance natural gas pipeline network and LNG receiving terminals, along with the ROA regulation of piped gas distribution and more guidelines on charging gas construction and installation fee, the natural gas industry is expecting another growth spurt in the near future amid healthier market conditions.

To meet the increasing demand for natural gas, the government carried out multiple measures to increase the upstream natural gas supply. China's three oil majors are required to incorporate the expansion of oil and gas exploration and production into their corporate strategies. The government is planning to set up a national pipeline company in order to support upstream gas supply and diversify natural gas resources. It also instructed the companies to accelerate the construction of mid-stream infrastructures, such as long-distance gas pipelines and LNG receiving stations to promote overseas gas imports, and the construction of gas storage facilities to alleviate supply pressures during winter. China is expected to have a more abundant natural gas supply in the future.

Double Growth Drivers to Maintain Growth Momentum of the Group

The natural gas distribution business is the cornerstone of the Group's sustainable development and generates a stable revenue stream for the Group and its shareholders. To fully grasp the favorable momentum in the natural gas industry in China, the Group explores market potential of the C/I customer and residential customer fully, and actively looks at M&A projects to grow the scale of its natural gas distribution business. It also actively imports overseas LNG resources and invests in gas storage and peak shaving facilities, in an attempt to provide high-quality and safe services to customers by strengthening its gas securing ability.

Meanwhile, capitalising on its huge customer base and first-mover advantage, the Group will utilise its deep understanding of customers and its leading core technologies in integrated energy planning, design, operation and maintenance, the Group will accelerate the development of its integrated energy business. In order to "get quality projects", the Group will focus on exploring industrial park projects with stable energy consumption and quality stand-alone projects, such as national and provincial-level parks, large-scale transportation hubs, data centres and hospitals, etc. On the other hand, the Group will also focus on product life cycle management with the aim to "execute well". By strengthening project operation management, reducing investment risks, and accelerating revenue generation, the Group will continue to strive for success in both traditional gas sales business and the integrated energy business.

Wang Zizheng
Executive Chairman
21 March 2019

OPERATIONAL LOCATIONS IN CHINA

West-to-East Pipeline I

West-to-East Pipeline II

West-to-East Pipeline III

Shaanxi-Beijing Pipeline I

Shaanxi-Beijing Pipeline II

Shaanxi-Beijing Pipeline III

Shaanxi-Beijing Pipeline IV

Hebei-Nanjing Pipeline

Zhong-Wu Pipeline

Yong-Tang-Qin Pipeline

Qin-Shen Pipeline

Sichuan-East Pipeline

Tai-Qing-Wei Pipeline

Hangzhou-Jiaxing Pipeline

Hu-Hang-Yong Pipeline

Yong-Tai-Wen Pipeline

China-Myanmar Pipeline

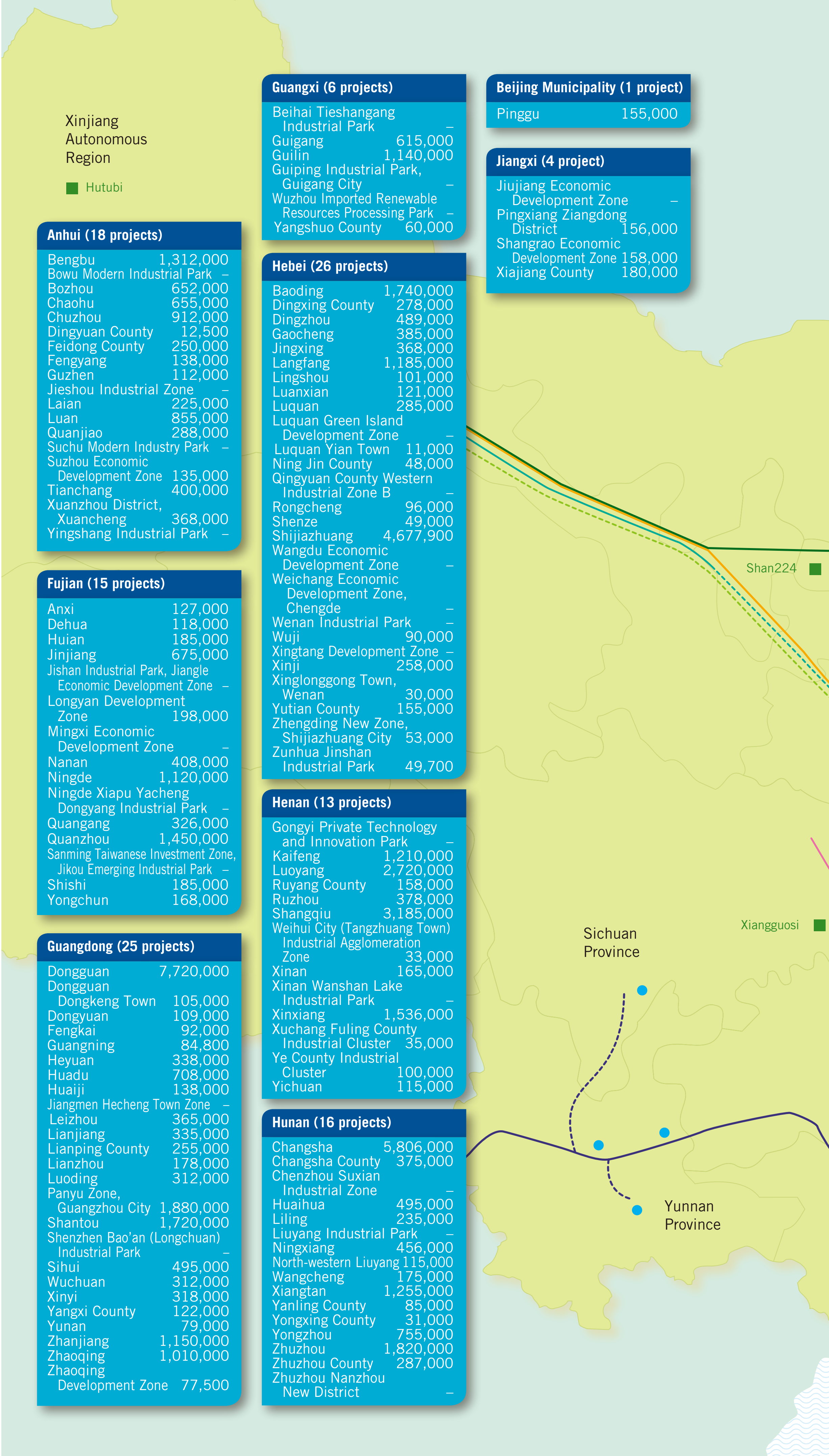
China-Russia East Pipeline (under construction)

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

Gas Project Managed by ENN

LNG Import Terminal

National Storage Tanks



Anhui (18 projects)	
Bengbu	1,312,000
Bowu Modern Industrial Park	–
Bozhou	652,000
Chaohu	655,000
Chuzhou	912,000
Dingyuan County	12,500
Feidong County	250,000
Fengyang	138,000
Guzhen	112,000
Jieshou Industrial Zone	–
Laian	225,000
Luan	855,000
Quanjiao	288,000
Suchu Modern Industry Park	–
Suzhou Economic Development Zone	135,000
Tianchang	400,000
Xuanzhou District, Xuancheng	368,000
Yingshang Industrial Park	–

Fujian (15 projects)	
Anxi	127,000
Dehua	118,000
Huian	185,000
Jinjiang	675,000
Jishan Industrial Park, Jiangle Economic Development Zone	–
Longyan Development Zone	198,000
Mingxi Economic Development Zone	–
Nanan	408,000
Ningde	1,120,000
Ningde Xiapu Yacheng Dongyang Industrial Park	–
Quangang	326,000
Quanzhou	1,450,000
Sanming Taiwanese Investment Zone, Jikou Emerging Industrial Park	–
Shishi	185,000
Yongchun	168,000

Guangdong (25 projects)	
Dongguan	7,720,000
Dongguan Dongkeng Town	105,000
Dongyuan	109,000
Fengkai	92,000
Guangning	84,800
Heyuan	338,000
Huadu	708,000
Huaiji	138,000
Jiangmen Hecheng Town Zone	–
Leizhou	365,000
Lianjiang	335,000
Lianping County	255,000
Lianzhou	178,000
Luoding	312,000
Panyu Zone, Guangzhou City	1,880,000
Shantou	1,720,000
Shenzhen Bao'an (Longchuan) Industrial Park	–
Sihui	495,000
Wuchuan	312,000
Xinyi	318,000
Yangxi County	122,000
Yunan	79,000
Zhanjiang	1,150,000
Zhaoqing	1,010,000
Zhaoqing Development Zone	77,500

Guangxi (6 projects)	
Beihai Tieshangang Industrial Park	–
Guigang	615,000
Guilin	1,140,000
Guiping Industrial Park, Guigang City	–
Wuzhou Imported Renewable Resources Processing Park	–
Yangshuo County	60,000

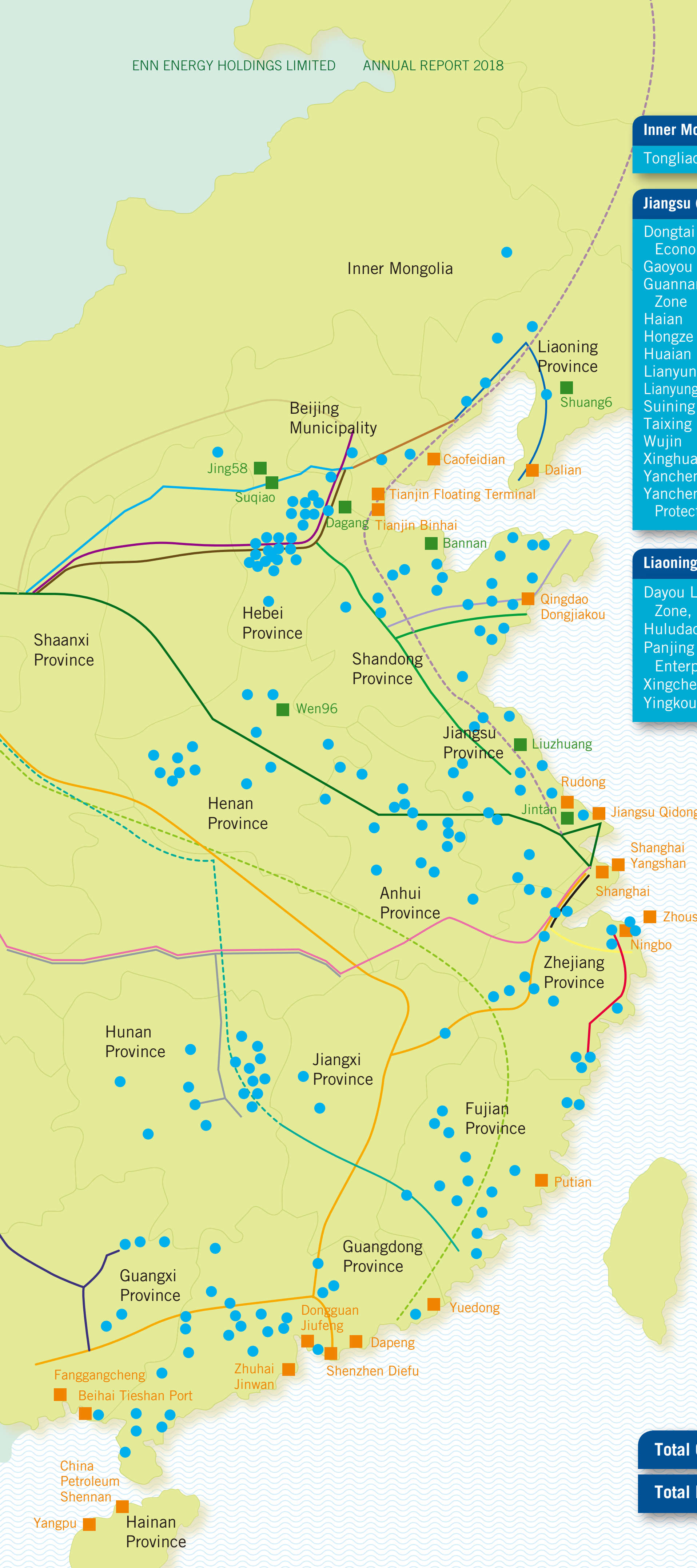
Hebei (26 projects)	
Baoding	1,740,000
Dingxing County	278,000
Dingzhou	489,000
Gaocheng	385,000
Jingxing	368,000
Langfang	1,185,000
Lingshou	101,000
Luanxian	121,000
Luquan	285,000
Luquan Green Island Development Zone	–
Luquan Yian Town	11,000
Ning Jin County	48,000
Qingyuan County Western Industrial Zone B	–
Rongcheng	96,000
Shenze	49,000
Shijiazhuang	4,677,900
Wangdu Economic Development Zone	–
Weichang Economic Development Zone, Chengde	–
Wenan Industrial Park	–
Wuji	90,000
Xingtang Development Zone	–
Xinji	258,000
Xinglonggong Town, Wenan	30,000
Yutian County	155,000
Zhengding New Zone, Shijiazhuang City	53,000
Zunhua Jinshan Industrial Park	49,700

Henan (13 projects)	
Gongyi Private Technology and Innovation Park	–
Kaifeng	1,210,000
Luoyang	2,720,000
Ruyang County	158,000
Ruzhou	378,000
Shangqiu	3,185,000
Weihui City (Tangzhuang Town) Industrial Agglomeration Zone	33,000
Xinan	165,000
Xinan Wanshan Lake Industrial Park	–
Xinxiang	1,536,000
Xuchang Fuling County Industrial Cluster	35,000
Ye County Industrial Cluster	100,000
Yichuan	115,000

Hunan (16 projects)	
Changsha	5,806,000
Changsha County	375,000
Chenzhou Suxian Industrial Zone	–
Huaihua	495,000
Liling	235,000
Liuyang Industrial Park	–
Ningxiang	456,000
North-western Liuyang	115,000
Wangcheng	175,000
Xiangtan	1,255,000
Yanling County	85,000
Yongxing County	31,000
Yongzhou	755,000
Zhuzhou	1,820,000
Zhuzhou County	287,000
Zhuzhou Nanzhou New District	–

Beijing Municipality (1 project)	
Pinggu	155,000

Jiangxi (4 project)	
Jiujiang Economic Development Zone	–
Pingxiang Ziangdong District	156,000
Shangrao Economic Development Zone	158,000
Xiajiang County	180,000



Inner Mongolia (1 project)	
Tongliao	865,000

Jiangsu (14 projects)	
Dongtai Coastal Economic Zone	–
Gaoyou	335,000
Guannan Development Zone	161,000
Haian	455,000
Hongze	391,000
Huaian	2,180,000
Lianyungang	1,368,000
Lianyungang Xuyu New Zone	–
Suining Suburban	–
Taixing	480,000
Wujin	1,450,000
Xinghua	628,000
Yancheng	1,420,000
Yancheng Environment Protection Industrial Park	–

Liaoning (5 projects)	
Dayou Linhai Economic Zone, Linghai City	69,000
Huludao	1,255,000
Panjing Chemical Enterprises Zone	–
Xingcheng	138,800
Yingkou Industrial Park	–

Shandong (20 projects)	
Binzhou Zhanhua Economic Development Zone	–
Changle County	246,000
Changle Economic Development Zone	–
Changqing Zone, Jinan City	636,000
Chengyang	1,015,000
Huaguan Town, Guangrao County	10,000
Huangdao	1,120,000
Jiaonan	721,000
Jiaozhou	689,000
Laiyang	372,000
Liaocheng	878,000
Qingdao Sino-German Ecopark	–
Rizhao	835,000
Rizhao Haiyou Economic Development Zone	–
Xintai City Development Zone	–
Yantai	2,720,000
Yantai Development Zone	–
Zhaoyuan County	30,000
Zhucheng	638,000
Zouping	292,000

Sichuan (1 project)	
Liangshan Prefecture	675,000

Yunnan (3 projects)	
Kunming City Hi-tech Zone	52,800
Xuanwei	428,000
Wenshan	468,000

Zhejiang (18 projects)	
Haining	455,000
Haiyan	116,000
Huangyan	651,000
Huzhou	645,000
Jinhua	330,000
Lanxi	168,000
Longwan	369,000
Longyou	136,000
Nanxun	512,000
Ningbo Daxie Development Zone	–
Ningbo (Yinzhou)	752,000
Quzhou	415,000
Wenzhou	562,000
Wenzhou Wanquan Light Industrial Base	–
Xiaoshan	955,000
Yongkang	245,000
Zhoushan City	1,170,000
Zhoushan Green Petrochemical Base	–

Shanxi (1 project)	
Huairen	430,000

Total Connectable Population:	**94,569,000**
Total Number of Project :	**187**

1992

Tapped into city-gas business

1993

Established Langfang Xinao Gas. The first city-gas project commenced operation in Langfang Economic and Technological Development Zone in Hebei Province

1995

Acquired the exclusive rights to develop and operate piped gas business in the city area of Langfang

1999

Acquired city-gas projects including Liaocheng of Shandong Province, and Huludao of Liaoning Province

2001

Xinao Gas Holdings Limited was listed on the GEM Board of the Hong Kong Stock Exchange

2002

Transferd listing from GEM Board to the Main Board of the Hong Kong Stock Exchange (stock code: 2688.HK)

2002-2004

Acquired large-scale city-gas projects such as Shijiazhuang, Changsha, Dongguan, Yantai, etc.

2005

Tapped into the bond market, successfully raised US$200 million

2009

Started to explore distributed energy business and commenced the construction of its first distributed energy project in Changsha Huanghua International Airport in Hunan

2010

Renamed from “Xinao Gas” to “ENN Energy” and started transforming from a city-gas distributor to a clean energy solution provider

2011

The number of city-gas projects exceeded 100

The top three rating agencies upgraded ENN Energy’s credit ratings to investment grade

2014

Became a constituent stock of Hang Seng Composite Large Cap Index

2015

Invested in Shanghai Petroleum and Natural Gas Exchange

2016

Signed long-term LNG import contracts with Chevron, Origin and Total

Became a constituent stock of MSCI China Mid Cap Index

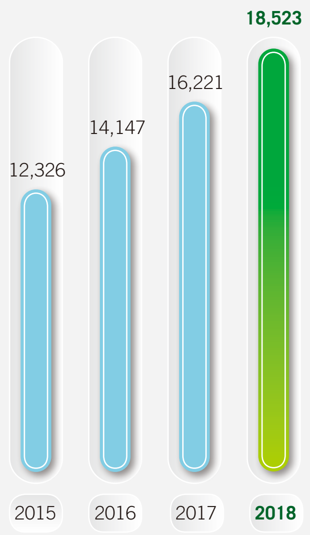
2018

Accelerated its transformation and upgraded towards an integrated energy provider through acquiring Ubiquitous Energy Network Technology

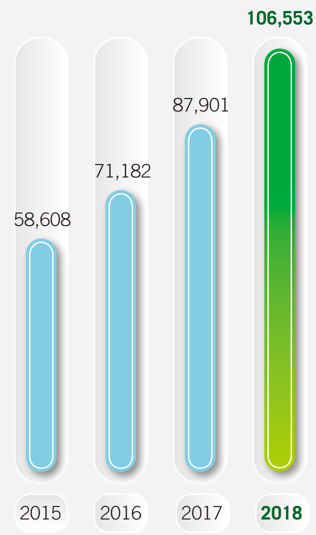
Executed the three long-term LNG import contracts, diversified gas supply for the Group

OPERATIONAL HIGHLIGHTS

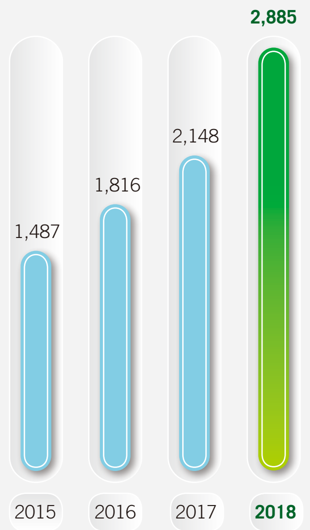
Accumulated Number of Connected Residential Households*
(thousand)



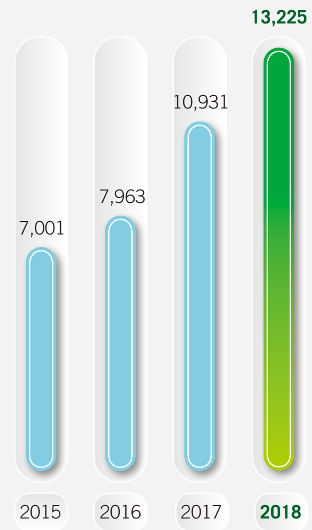
Accumulated Installed Daily Capacity for Commercial/ Industrial Customers*
(thousand m³)



Units of Natural Gas Sold to Residential Households*
(million m³)



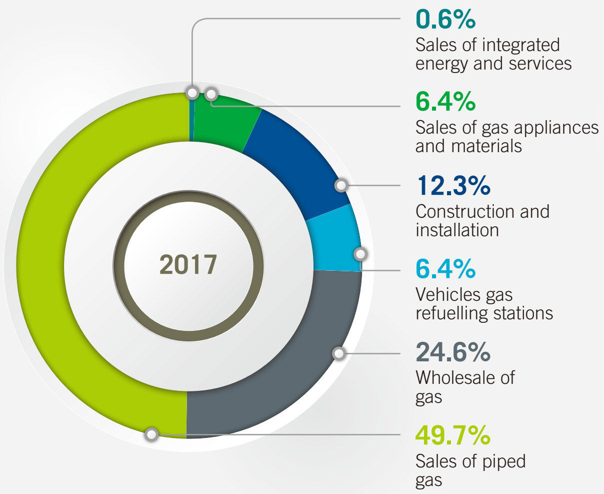
Units of Natural Gas Sold to Commercial/ Industrial Customers*
(million m³)

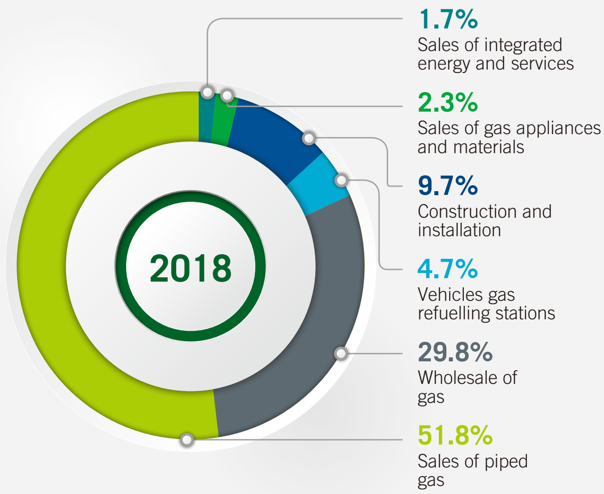


* The Group's operation data included the data of its subsidiaries, joint ventures and associates.

FINANCIAL HIGHLIGHTS

Turnover Breakdown by Segment

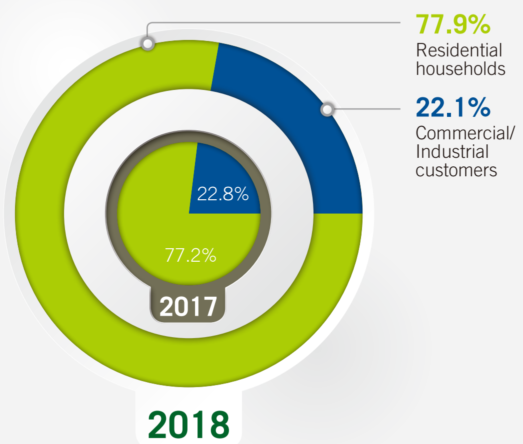




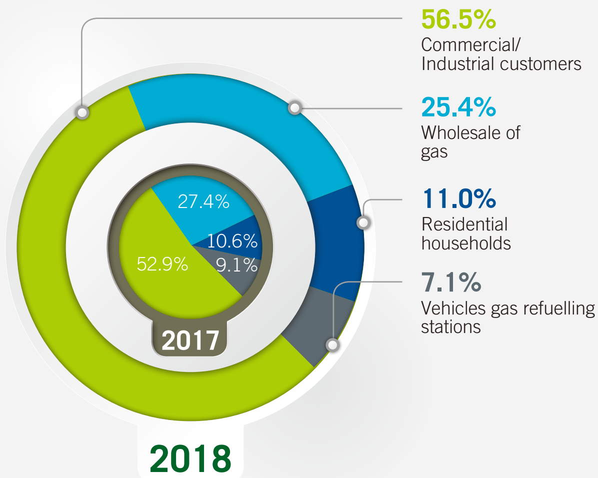
Turnover Breakdown by Customer

(including subsidiaries, joint ventures and associates)

Construction and Installation



Sales of Gas



COMPARISON OF TEN-YEAR RESULTS

	2018	2017	2016	2015
Highlights (Group)*				
Number of connected households (thousand)	**18,523**	16,221	14,147	12,326
Installed designed daily capacity for commercial/ industrial customers (thousand m^3)	**106,553**	87,901	71,182	58,608
Units of piped gas sold				
Gas sold to residential households ('000 m^3)	**2,889,578**	2,153,314	1,821,136	1,490,416
Gas sold to commercial/industrial customers ('000 m^3)	**13,228,550**	10,934,583	7,966,280	7,001,499
Gas sold to vehicles gas refuelling stations ('000 m^3)	**1,293,930**	1,447,063	1,561,737	1,588,928
Wholesale of gas sales volume ('000 m^3)	**5,958,069**	5,140,957	3,036,778	1,231,521
Length of existing pipelines(1) (km)	**46,397**	39,146	32,921	29,936
Number of existing natural gas processing stations	**185**	173	166	157
Daily capacity of existing natural gas processing stations (thousand m^3)	**123,640**	104,370	84,910	80,198
Revenue & Profit (RMB million)				
Revenue	**60,698**	48,269	34,103	32,063
Profit before tax	**5,601**	5,190	4,195	4,027
Income tax expense	**(1,783)**	(1,517)	(1,307)	(1,306)
Profit for the year	**3,818**	3,673	2,888	2,721
Non-controlling interests	**(1,000)**	(871)	(737)	(685)
Profit and total comprehensive income for the year attributable to owners of the Company	**2,818**	2,802	2,151	2,036
Dividends	**1,172**	952	775	705
Assets & Liabilities (RMB million)				
Non-current assets	**45,706**	36,155	32,487	30,328
Associates	**3,049**	1,505	1,350	1,024
Joint Ventures	**3,620**	3,929	3,704	3,810
Current assets	**21,539**	17,626	13,840	11,857
Current liabilities	**(33,017)**	(25,605)	(18,341)	(19,408)
Non-current liabilities	**(15,343)**	(13,393)	(15,186)	(11,516)
Net assets	**25,554**	20,217	17,854	16,095
Capital & Reserves (RMB million)				
Share capital	**116**	112	112	113
Reserves	**21,269**	16,840	14,854	13,355
Equity attributable to owners of the Company	**21,385**	16,952	14,966	13,468
Non-controlling interests	**4,169**	3,265	2,888	2,627
	25,554	20,217	17,854	16,095
Earnings per share – basic (RMB)	**2.56**	2.59	1.99	1.88

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

* The Group's operation data included the data of its subsidiaries, joint ventures and associates.

2014	2013	2012	2011	2010 (Restated)	2009 (Restated)
10,605	9,275	7,785	6,815	5,619	4,707
50,243	41,864	33,423	25,767	18,175	13,486
1,225,825	1,030,054	930,290	824,276	640,597	520,170
6,676,785	5,538,164	4,345,314	3,591,898	2,765,488	2,031,242
1,441,323	1,186,697	935,926	696,442	520,438	388,420
804,160	370,019	248,536	260,928	222,833	–
27,065	23,907	21,312	18,854	16,340	14,126
149	137	126	115	100	94
73,617	58,088	46,176	32,003	23,970	14,638
29,087	22,966	18,027	15,068	11,215	8,413
4,747	2,760	2,852	2,327	1,811	1,383
(1,127)	(960)	(859)	(660)	(410)	(304)
3,620	1,800	1,993	1,667	1,401	1,079
(652)	(548)	(511)	(414)	(388)	(276)
2,968	1,252	1,482	1,253	1,013	803
709	414	362	315	297	200
23,715	21,006	18,137	15,517	12,712	10,542
882	804	798	694	488	324
3,436	2,998	2,271	1,733	1,361	1,016
15,002	11,097	9,687	8,944	5,079	4,754
(13,540)	(10,869)	(11,614)	(9,520)	(7,489)	(5,364)
(14,954)	(13,144)	(8,609)	(8,528)	(4,611)	(4,844)
14,541	11,892	10,670	8,840	7,540	6,428
113	113	113	110	110	110
11,985	9,430	8,540	6,936	5,922	5,007
12,098	9,543	8,653	7,046	6,032	5,117
2,443	2,349	2,017	1,794	1,508	1,310
14,541	11,892	10,670	8,840	7,540	6,427
2.74	1.16	1.39	1.19	0.97	0.78

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

Retail Gas Sales Business

Commercial and Industrial Market

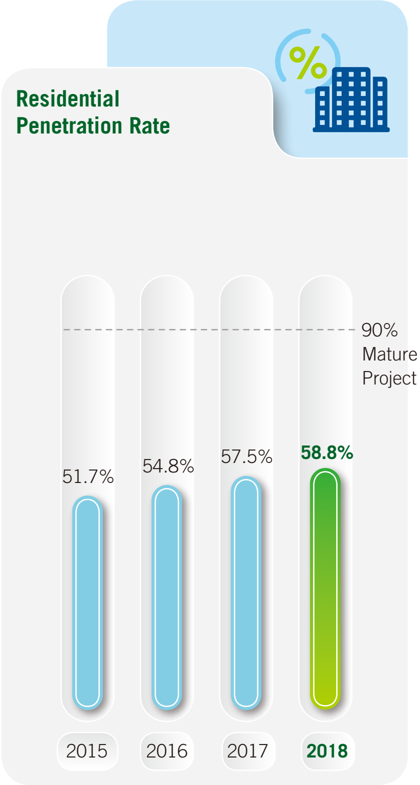
Benefiting from the accelerated promotion of "coal-to-gas" conversion and the implementation of various favourable industry policies in 2018, as well as a strong demand for natural gas from new and existing commercial and industrial (C/I) customers, natural gas sold to C/I customers amounted to 13,225 million cubic metres, representing an increase of 21.0% year-on-year. In which, natural gas sold to industrial customers was 10,993 million cubic metres, an increase of 21.6% year-on-year. Natural gas sold to commercial customers was 2,232 million cubic metres, an increase of 18.2% year on year. Gas sold to industrial customers and commercial customers accounted for 63.3% and 12.8% of the retail natural gas sales volume respectively. During the year, the Group developed a total of 29,226 new C/I customers (installed gas appliances with designed daily capacity of 18,652,070 cubic metres). The average installation fee was RMB97 per cubic metre. As of 31 December 2018, the total number of C/I customers served by the Group was 121,105 (installed gas appliances with designed daily capacity of 106,552,583 cubic metres).

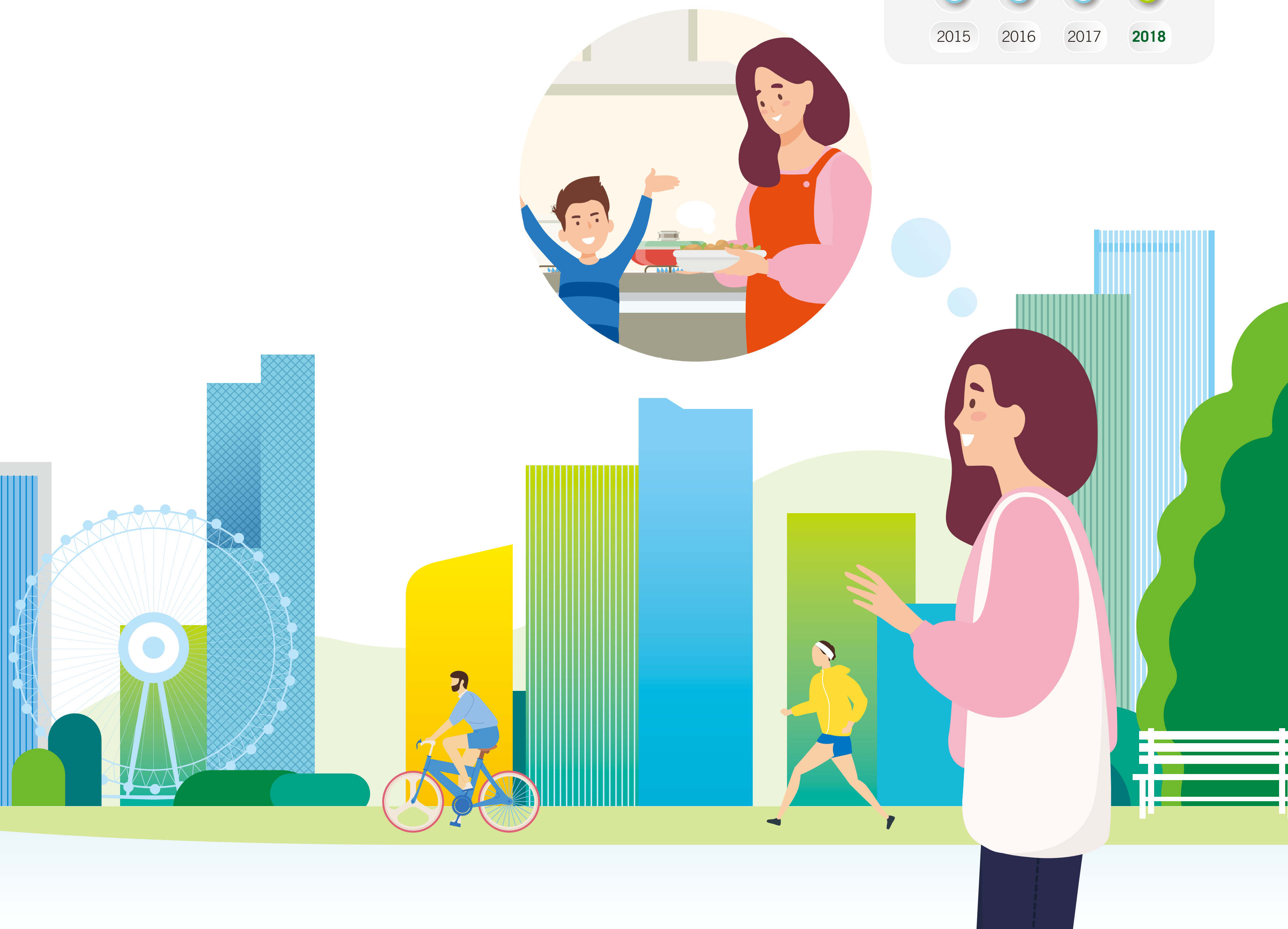
Most of the Group's projects are located in key areas where air pollution control and prevention measures are enforced. Local governments in these areas executed stringent environmental policies and enterprises are required to take measures to reduce emissions. In this context, replacing heavily-polluting fuels with clean energy such as natural gas is one of the most efficient ways. During the year, incremental designed daily capacity from newly developed coal-to-gas customers reached approximately 6,658,800 cubic metres per day, accounting for 35.7% of that from newly developed C/I customers. The Group also adopted a flexible pricing strategy by giving discount to customers with stable and large gas consumption volume, and peak-shaving customers with interruptible gas demand, in an attempt to continue expanding gas sales volume while supplying gas steadily and safely. Looking forward, the Group will continue to tap the energy needs from C/I customers, develop new customers with the provision of integrated energy solutions and energy-saving services, and develop more quality commercial customers that are less price sensitive so as to optimise the customer mix.

Residential Market

Natural gas sold to residential customers increased significantly by 34.3% to 2,885 million cubic metres, accounting for 16.6% of retail gas sales volume. The volume growth was mainly driven by the ramping up of gas consumption by newly developed residential customers and natural gas space heating users. During the year, the Group developed 2,301,600 residential households, representing an increase of 11.0% year-on-year, in which new buildings, existing buildings and rural coal-to-gas conversion accounted for 70.2%, 9.9% and 19.9% of newly developed residential households respectively. The Group cumulatively developed 1.35 million new natural gas space heating users, representing an increase of 530,000 year-on-year. As of 31 December 2018, the number of household coverage of the Group's city-gas projects in China reached 31,523,000, of which 18,522,733 residential customers were developed, raising the average piped gas penetration rate from 57.5% in 2017 to 58.8%.

China is sprinting towards a "moderately well-off society". In this context, the large-scale urbanisation will be carried out with the utilisation of clean energy so as to improve the environment as well as to meet the demand arising from people's pursuit of quality life. This will provide the Group with enormous opportunities for developing residential customers market. In addition, as the overall penetration rate of the Group's projects remains low, the market potential for developing existing buildings remains huge. Apart from city areas, the Group will





also prudently carry out rural coal-to-gas conversion in areas with higher affordability as part of its efforts to assist the local governments to achieve the replacement of scattered coals for the prevention and controlling of air pollution.

Transportation Energy Business

In 2018, volume of gas sold to vehicle refuelling station decreased by 9.7% to 1,260 million cubic metres, accounting for 7.3% of retail gas sales volume. However, thanks to the rising sales price of gasoline and diesel, selling prices of vehicle gas were increased, coupled with the effective cost control of gas procurement, dollar margin of vehicle gas sales increased. During the year, gross profit of vehicle gas refuelling business increased by 10.2% to RMB195 million. The Group kept optimising the deployment of gas refuelling stations by closing down inefficient stations and raising the operational efficiency and profitability of the remaining stations, so as to cope with the challenging operating environment. In December 2018, 11 departments including the Ministry of Ecology and Environment issued "Action Plan for Combating the Control of Pollution by Diesel Trucks", requiring the use of gas-fuelled vehicles which are able to meet the national VI Emission Standards. The Group will continue to optimise the deployment of refuelling stations by taking advantage of the opportunities arising from China's action to phase out and upgrade diesel trucks which only comply with National III or below Emission Standards, with a focus on key locations such as highway service areas and large-scale logistics parks. The Group believes that LNG refuelling business still has a large room for growth.

During the year, the Group continued to explore the LNG bunkering market and provided pre-cooling and LNG bunkering services for vessels from Guangzhou Shipyard International Co., Ltd., Zhoushan Pacific Shipyard and Wenchong Shipyard etc. It also entered into a memorandum of intent for cooperation with energy and container shipping companies such as Total, Shell, Hapag-Lloyd and Maersk on the joint development of LNG bunker vessel for its international LNG bunkering business. The Group will also expand domestic inland waterway refuelling, and continue to foster alliance and collaboration with shipping companies, port and shipping authorities and various provincial and municipal transportation departments, aiming in facilitating the development of newly built and retrofitted vessels market, and exploring integrated clean energy solutions for vessels.

Energy Trading Business

Leveraging on its well-established upstream resources network, smart dispatching system, and one of the largest LNG

transportation fleets in China, the Group distributed LNG to downstream customers such as small-scale gas distributors, industrial customers outside its city-gas concessions, LNG refuelling stations and power plants etc. The Group's gas supply became more abundant and diversified following the progressive execution of the three long-term LNG import contracts signed with Chevron, Origin and Total started from the second half of 2018. This not only assures a stable operation of natural gas projects in the event of gas supply shortage in the winter, but also boosts the development of energy trading business through expanding its customer base and distribution channels, which will significantly enhance the Group's bargaining power in securing gas sources.

During the year, gas sales volume of energy trading business increased by 15.9% to 5,958 million cubic metres, while revenue increased by 52.4% to RMB18,107 million. The Group maintained a leading market share in domestic LNG trading market.

Integrated Energy Business

Local governments are under pressure from China's economic transformation and stringent environmental protection requirements, as improving energy efficiency, reducing energy consumption per unit of GDP and reducing pollutant emissions have become major performance indicators of them. These indicators can be achieved only by optimising energy structure and improving the utilisation of energy. The Group successfully acquired Ubiquitous Energy Network Technology Co., Ltd last year, and secured leading core technologies in terms of integrated energy planning, designing, operation and maintenance, which substantially strengthened the Group's competitive advantage in developing integrated energy business. The integrated business model won strong demand from local governments and customers, hence, entering into a rapid development stage. During the year, 31 new integrated energy projects were put into operation. As of 31 December 2018, the aggregate number of integrated energy projects in operation rose to 62, including 18 industrial parks and 44 stand-alone C/I sites, which drove the sales of integrated energy including cooling, heating, electricity and steam amounting to 2,886 million kWh, and generated a revenue of RMB1,005 million, representing a substantial year-on-year increase of 241.8%.

Among these projects, Zhejiang Yuhang Economic and Technological Development Zone is the Group's first national-level industrial park, which breaks through the barriers of city-gas concession rights, with more than 200 Fortune 500 enterprises and industry-leading companies. The industrial park was put into operation in March 2018, the Group already sold a total of 612

million kWh of integrated energy including steam and heating to customers in only 10 months, generating a revenue of RMB196 million.

During the year, the Group signed 257 new integrated energy projects, with a potential integrated energy demand of more than 100 billion kWh per year. The total number of projects in operation, under construction and newly-signed increased to 323, with a potential integrated energy demand of 122 billion kWh per year. 163 projects are located outside the Group's city-gas concessions, while 180 projects are provincial-level or above industrial parks with larger demand for energy. Since there are quality C/I customers operating in the industrial parks, revenue can be generated immediately once these projects are put into operation, laying foundation for integrated energy business' rapid growth in the future.

The Group will continue to target industrial parks and quality stand-alone C/I sites as its core market, and acquire new projects in a flexible way depending on their industries, resources, investment models as well as local energy policies. It will also actively promote power grid connection, replacement of coal fuel and secure upstream gas supply, so as to execute the projects well and accelerate the revenue generation from newly-signed projects. The Group will also explore integrated energy sales potential of our existing gas customers so as to create synergy between conventional gas business and the integrated energy business.

New Gas Projects Development

During the year, the Group acquired 18 new projects and 34 new concessions around its existing projects, with an additional connectable population of 3,111,000. As of 31 December 2018, the Group managed 187 city-gas projects in China, covering a connectable population of 94.57 million.

Leveraging on the access to Zhoushan LNG receiving terminal constructed by the Company's major shareholder for gas import, the Group successfully acquired the city-gas concession right of Zhoushan City and Zhoushan Green Petrochemical Base in Zhejiang. It also expanded its city-gas concession to Shanxi Province by acquiring the operation right in Huairen, which laid the foundation for its further expansion in the province. Furthermore, capitalising on the opportunity arising from governments' initiative to relocate industrial plants to newly-developed industrial parks, the Group acquired a number of industrial parks including Jikou Emerging Industrial Park in Fujian Sanming Taiwan Business Investment Zone, Jishan Industrial Park in Jiangle Economic Development Zone and Mingxi Economic Development Zone during the year, with a number of large energy consumers such as Jinming Rare Earth, Hexafluo Chemicals and Tonghai Nickel. The above newly-acquired projects are expected to contribute more than 2.5 billion cubic metres of gas sales volume to the Group when they mature.

A number of small and medium-sized gas companies with single business model have been under mounting pressure in recent years due to the regulation on gas distribution returns, the gas shortage as well as the rising financing costs. The Group will continue to look for M&A opportunities that may bring synergy to its existing projects and strive to expand the operational areas of city-gas business leveraging on its good corporate image, excellent safety operation capability and the integrated energy business model.

Gas Appliance Sales Business

Leveraging on its brand influence and the opportunities arising from providing construction and installation services to residential customers in old buildings, new buildings, and rural coal-to-gas areas, the Group intensively promoted gas appliances such as cooking stoves, space heaters, water boilers, range hoods and disinfection cabinets through its online and offline platforms. During the year, the Group sold a total of 339,000 gas appliances, representing an increase of 49.3% year-on-year, with segment revenue increasing by 35.9% to RMB435 million. The rise of gas appliances sales was primarily attributable to the growth of newly-developed residential users, the improvement of their living quality, as well as the increased awareness of the Group's inhouse brand "Gratle". The Group will continue to strengthen its marketing efforts to further increase its market share.

Capital Market Awards

With steady growth in operating results and continuous enhancement of management capability, the Group received the following honours in 2018:

- The title of "Most Honored Company", "Best IR Company (ranked No. 2 overall)", "Best Corporate Governance (ranked No. 2 overall)", "Best Analyst Days (ranked No. 2 overall)" and "Best IR Professional (ranked No. 3 overall)" in Power Sector in 2018 All-Asia Executive Team Rankings by Institutional Investor, an international financial magazine highly recognised by investment professionals;
- "Certificate of Excellence" in the "4th Investor Relations Awards 2018" organised by Hong Kong Investor Relations Association;
- "China's Top 500 List" 2018 by Fortune magazine;
- "2018 China Energy Innovation Breakthrough Award" and "2018 Excellent Clean Energy Integrated Service Provider" at the 4th China Energy Development and Innovation Forum; and
- "Outstanding Enterprise Award" at the 2018 National Energy Internet Conference.

Financial Resources Review

Financial Resources and Liquidity

An analysis of the Group's cash, current and non-current debts is as follows:

	31 December 2018 RMB million	31 December 2017 RMB million	Increased/ (Decreased) by RMB million
Bank balances and cash (excluding restricted bank deposits)	**7,923**	7,972	(49)
Long-term debts (including bonds)	**8,688**	9,699	(1,011)
Short-term debts (including bonds)	**11,561**	8,368	3,193
Total debts	**20,249**	18,067	2,182
Net debts[1]	**12,326**	10,095	2,231
Total equity	**25,554**	20,217	5,337
Net gearing ratio[2]	**48.2%**	49.9%	(1.7ppt)
Net current liabilities	**11,478**	7,979	3,499
Unutilised credit facilities	**12,110**	8,851	3,259

1 Net debts = Total debts – Bank balances and cash (excluding restricted bank deposits)

2 Net gearing ratio = Net debts / Total equity

Borrowings Structure

The Group has been adopting a prudent management policy on financial resources to ensure the stability of the Group's capital and debts structure. As at 31 December 2018, the Group's total debts amounted to RMB20,249 million (2017: RMB18,067 million). Short-term debts (including bonds) amounted to RMB11,561 million (2017: RMB8,368 million) while the remaining debts were long-term debts with terms more than one year. Except for the bank loans amount to RMB439 million that are secured by assets with a carrying value of RMB342 million, all other debts are unsecured. The Group's bank balances and cash (excluding restricted bank deposits) amounted to RMB7,923 million (2017: RMB7,972 million). As at 31 December 2018, the Group's net gearing ratio was 48.2% (2017: 49.9%), and the fixed-rate debts to total debts ratio was 80.5% (2017: 94.3%).

As at 31 December 2018, the Group's major bonds were listed below:

Major bonds	Currency	Maturity date	Interest rate	Principal
Five-year Unsecured Bonds	USD	23 October 2019	3.25%	65 million
Three-year Corporate Bonds	RMB	2 December 2019	3.55%	2,500 million
Ten-year Senior Notes	USD	13 May 2021	6.00%	366 million
Five-year Unsecured Bonds	USD	24 July 2022	3.25%	600 million

The Group seeks to maintain strict control over the debt level and strike a balance between duration of loan and cost of financing. In managing long-term borrowings, the Group will seek and spread the maturity dates evenly over different years as possible in order to reduce the time pressure and cost of refinancing.

Net current liabilities

The Group's current liabilities include a large amount of prepayment of gas fee, and construction and installation contracts. These funds are stable and will normally not be returned, therefore the Group will invest the funds in development of new projects and maintain a reasonable cash level, resulting in net current liabilities.

As at 31 December 2018, the Group has two bonds expiring within one year and some short-term loans have not yet been replaced by long term debts due to market factors, resulting higher net current liabilities as compared to last year. A wholly-owned subsidiary of the Company has been approved by China Securities Regulatory Commission on 10 December 2018 to issue corporate bonds amounting to RMB5,000 million. Subsequent to year end, the wholly-owned subsidiary issued the three-year corporate bonds amounting to RMB500 million and RMB1,000 million in January and March 2019 respectively. As at the date of this report, the unutilised quota for bond issuance was RMB3,500 million. The Group will continue to monitor market conditions and consider replacing more short-term loans by long-term loans at right time in order to improve the position of net current liabilities.

As the Group has stable operating cash flow, high quality current assets and good credit ratings, plus sufficient cash on hand, unutilised banking facilities and debt issuance quota, the Directors are satisfied that the Group is able to meet its working capital requirements and future capital expenditure.

Credit Rating

During the year, Standard & Poor's upgraded its credit rating on the Group to BBB+ and issued a "stable" outlook. The rating reflects the wide recognition of the Group's sound financial performance and proven development strategies by the market. It is also believed that the finance cost of the Group will be further reduced. Meanwhile, both Moody's and Fitch Ratings continued to issue investment-grade credit ratings to the Group. Moody's maintained Baa2 rating and "stable" outlook while Fitch Ratings maintained BBB rating and "stable" outlook. In China, Xinao (China) Gas Investment Company Limited, a wholly-owned subsidiary of the Company responsible for domestic business investment, was awarded the highest AAA credit rating and a "stable" outlook by the United Credit Rating Co., Ltd. It is believed that the good credit ratings will provide the Group with sufficient financial resources for its long-term development.

Foreign Exchange Risk Management

As the major operations of the Group are in China, revenues and expenses are mainly denominated in RMB, therefore, the Group is not exposed to significant foreign exchange risk in its operation. The Group's foreign exchange risk mainly arises from bonds and loans denominated in foreign currencies and international LNG procurement business settled in USD. The Group has established corresponding foreign exchange risk management policies so as to prudently manage and mitigate the impact of exchange rate fluctuation on the Group's operation and cash flows. The Group will closely monitor market interest rates, exchange rates, international oil prices, trend of crude oil price indices and macroeconomies on an ongoing basis, so as to refine the Group's strategy on foreign debt financing (including financing manner, currency, interest rate, terms, etc.) as appropriate and to use appropriate foreign currency derivative instruments for hedging under favorable market conditions.

Foreign exchange risk arising from bonds and loans denominated in foreign currencies

As at 31 December 2018, the principal amount of the Group's borrowings denominated in foreign currencies amounted to USD1,806 million (2017: USD1,550 million) and HK$546 million (2017: nil), which are equivalent to approximately RMB12,349 million (2017: RMB10,579 million) and RMB478 million (2017: nil) respectively, and among which 56.4% (2017: 66.2%) of long-term USD debts has been hedged against the foreign exchange risk. The Company entered into foreign currency derivative contracts, mainly cross currency swaps, with various financial institutions. The terms and clauses of which are in line with that of the Group's foreign bonds. Such foreign currency derivative contracts effectively eliminate the foreign exchange risk arising from the interest and principal payments of such foreign debts. The Group will continue to monitor the foreign exchange market and proceed to hedge the remaining unhedged foreign debts in due course.

Commodity Price Risk Management

International LNG Procurement Contracts

The international LNG procurement contracts that the Group signed with a term of five to ten years have been executed progressively from the second half of 2018. Pricing of these contracts was mainly oil-linked. To cope with the risks associated with commodity prices fluctuations, the Group established a sound risk control policy. The Group's policy is to reduce exposure to LNG price risk by hedging a reasonable percentage of its expected annual LNG deliverable volume, so as to stabilise its LNG procuring cost. The Group uses derivatives including swaps and options to achieve its desired hedging position.

Currently, the Group's LNG hedging covers 5 years of expected import volume and mainly hedges against Brent oil price. The international oil price began in a fluctuating upward trend and dropped sharply in the fourth quarter of 2018 and then reached a trough at year end, resulting in a hedging loss of RMB745 million, in which the unrealised fair value loss and realised gain were RMB748 million and RMB3 million respectively. The Group's operating cash flow was not affected by the hedging activities. Subsequent to the 2018 year end, the Brent oil price rose up gradually, hence the Group will recognise an unrealised fair value gain.

Significant Investment

The Company through its wholly-owned subsidiary subscribed in 2014 for an approximately 1.13% unlisted equity interest in Sinopec Marketing Co., Ltd ("Sinopec Marketing"), being a subsidiary of China Petroleum & Chemical Corporation ("Sinopec") with its shares listed on the Main Board of the Hong Kong Stock Exchange (stock code: 386.HK) and the Shanghai Stock Exchange (stock code: SH600028) and with its American depository receipts listed on the New York Stock Exchange and the London Stock Exchange (stock code: SNP), at approximately RMB4 billion. Sinopec Marketing is engaged in storage and logistics, sales and distribution of petroleum products and operation of non-fuel business (such as convenience stores and car services). The investment in Sinopec Marketing was made and has been held by the Group for strategic reasons. The Group did not acquire further or dispose of any equity interest in Sinopec Marketing during the year ended 31 December 2018.

The equity interest in Sinopec Marketing is unlisted and Sinopec has announced a plan for the spin-off and separate listing of Sinopec Marketing. The Group's investment in Sinopec Marketing was accounted for in its financial statements at cost less impairment according to HKFRSs. As disclosed in 2017 Annual Report, HKFRS 9 "Financial Instruments" becomes effective for annual periods beginning on or after 1 January 2018, transitional provisions have been adopted by the Group to recognise the investment as financial asset at FVTPL. For the year ended 31 December 2018, a fair value gain of approximately RMB114 million for such investment was recognised in profit or loss and the Group received dividend income of approximately RMB341 million (2017: RMB135 million) from Sinopec Marketing.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. WANG Yusuo, aged 55, is a founder of the Group, the Chairman and the Executive Director of the Company, and is the Chairman of the Nomination Committee of the Company. He is responsible for overseeing the Group's overall strategic planning and providing leadership for and overseeing the functioning of the Board. He has over 30 years of experience in investment and the management of the gas business in the PRC. He holds a Doctor of Philosophy in Management from Tianjin University of Finance and Economics. He is the father of Mr. Wang Zizheng, the Executive Director and Executive Chairman of the Company. He is a Director and a controlling shareholder of ENN Group International Investment Limited ("EGII"), a controlling shareholder of the Company. He is the Chairman of ENN Ecological Holdings Co., Ltd. (Stock Code: 600803) and a Director of ENC Data Technology Co., Ltd (formerly known as Beibu Gulf Tourism Corporation Limited, Stock Code: 603869), whose shares are listed in Shanghai Stock Exchange.

Mr. CHEUNG Yip Sang, aged 52, is the Executive Director and the Vice Chairman of the Company, and is a member of the Nomination Committee of the Company. He has joined the Group in 1998. He assists the Chairman in overseeing the Group's overall strategic planning and overseeing the functioning of the Board. He graduated from the China People's Police University (formerly known as The Chinese People's Armed Police Force Academy) in 1990 with a Bachelor's Degree in Legal Studies and received an Executive Master of Business Administration from the Peking University in 2006. He has extensive experience in corporate governance and the market integration in the public utilities sector. He also has wide exposure in the research and development of the gas industry. He is currently a Non-executive Director of Shanghai Dazhong Public Utilities (Group) Co., Ltd. (Stock Code: 01635) and a director of ENN Ecological Holdings Co., Ltd. (Stock Code: 600803), whose shares are listed in Hong Kong Stock Exchange and Shanghai Stock Exchange respectively.

Mr. WANG Zizheng, aged 30, was redesignated from Non-executive Director to Executive Director of the Company on 11 May 2018. He is currently the Executive Chairman and the Chairman of the Risk Management Committee of the Company. He has joined the Group in 2014. He assists the Chairman and Vice Chairman of the Board in overseeing the Group's overall strategic planning and functioning of the Board. He graduated from Tongji University with a Bachelor's Degree in Urban Planning. He has extensive experience in investment, merger and acquisition and operation management of overseas LNG refuelling stations. He is the Chairman of EGII (the controlling shareholder of the Company), and he is also a Director of ENN Ecological Holdings Co., Ltd. (Stock Code: 600803) and the Chairman of ENC Data Technology Co., Ltd (formerly known as Beibu Gulf Tourism Corporation Limited, Stock Code: 603869), whose shares are listed in Shanghai Stock Exchange. He is the son of Mr. Wang Yusuo.

Mr. HAN Jishen, aged 54, is the Executive Director and the Chief Executive Officer of the Company, and is a member of the Risk Management Committee of the Company. He is fully responsible for the Group's strategic planning and execution, business development, etc. He graduated from Baoding Staff University in 1990 and obtained an Executive Master of Business Administration from the Nanyang Technological University in Singapore in 2007. He has joined the Group in 1993 and worked at the senior managerial level for over 19 years in various subsidiaries of the Group and has extensive experience and qualifications in market research, business development and operation management in the energy industry. He has an in-depth understanding of energy industry and the current businesses of the Group, and he also has insights into the strategic development of the Group.

Mr. LIU Min, aged 53, was appointed as the Executive Director and the President of the Company on 12 January 2018. He is a member of the Risk Management Committee of the Company. He is responsible for daily operations and management, reviewing the execution of strategic plans and their adjustment, and ensuring the achievement of the Group's targets. He graduated from Chongqing University with a major in Electronic System and Automation in 1986 and obtained the Master of Business Administration in the Guanghua School of Management of Peking University in 2002. He has held key positions in the China Three Gorges Corporation and China General Nuclear Power Holding Limited. He joined ENN Group in 2011, and he has taken up several key senior managerial roles, including the position of Senior Vice President in ENN Group. He has gained in-depth and extensive managerial experience in the energy industry in the PRC for over 25 years, especially in diversified energy supply industry.

Mr. WANG Dongzhi, aged 50, is the Executive Director of the Company. He is responsible for the corporate governance, design and the monitoring of implementation of internal control strategies of the Group. He graduated in 1991 with a Bachelor Degree in Engineering Management from the Beijing Chemical University. He obtained a Bachelor's Degree in Economics in 1996, the qualifications of Certified Accountant in the PRC in 2000, a Master's Degree in Business Management from the Tianjin University in 2003 and received the Executive Master of Business Administration from China Europe International Business School (CEIBS) in 2016. Prior to joining the Group in 2000, he was in charge of the finance department in a Sino-foreign joint venture company. He has extensive experience in financial management. He is also the President of EGII (the controlling shareholder of the Company), and he is also an Independent Director of Abterra Ltd. (a company listed on Singapore Stock Exchange, stock code: ABTR.SI).

Non-executive Directors

Mr. MA Zhixiang, aged 67, was appointed as the Independent Non-executive Director of the Company on 24 March 2014. He is currently a member of Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee of the Company. He has held senior management positions in China Petroleum Pipeline Bureau and PetroChina Company Limited and has resigned from these positions in March 2012. He graduated from School of Mechanics of University of Petroleum (East China) with a Doctor's Degree in Engineering in Storage and Transportation. He has extensive experience in petroleum and natural gas industry.

Mr. YUEN Po Kwong, aged 49, was appointed as the Independent Non-executive Director of the Company on 24 March 2014. He is currently the Chairman of the Remuneration Committee and a member of Audit Committee, Nomination Committee and Risk Management Committee of the Company. He is currently a Partner of Fangda Partners specialising in dispute resolution and contentious regulatory compliance. He graduated from Oxford University in United Kingdom with a Master's Degree in Chemistry and from Cornell University with a Master's Degree in Synthetic Organic Chemistry. He then attended College of Law in Guildford, England and obtained his Diploma in Law (with Distinction) and Diploma in Legal Studies. Before studying law in England, He was a teaching fellow at Cornell University. Prior to joining Fangda Partners to establish its Hong Kong office in 2012, He was a partner of the "Magic Circle Firms", specialising in resolving China related disputes. He has extensive experience in regulatory and corporate compliance.

Mr. LAW Yee Kwan, Quinn, *JP*, aged 66, was appointed as the Independent Non-executive Director of the Company on 30 May 2014. He is currently the Chairman of Audit Committee and a member of Nomination Committee, Remuneration Committee and Risk Management Committee of the Company. He is a fellow member of HKICPA and the Association of Chartered Certified Accountants. At present, he serves as a court member at the Hong Kong University of Science and Technology. He played significant management roles both in the private and public sector. He held directorship in several listed companies both in Hong Kong and overseas in the past. During the period from March 2008 to February 2013, he was the Deputy Chairman and Managing Director of the Urban Renewal Authority, a statutory organisation in Hong Kong. He is currently the Independent Non-executive Director of HKBN Limited (Stock Code: 1310), Bank of Tianjin Co Ltd (Stock Code: 1578) and BOC Hong Kong (Holdings) Limited (Stock Code: 2388), whose shares are listed in Hong Kong Stock Exchange.

Ms. Yien Yu Yu, Catherine, aged 48, was appointed as the Independent Non-executive Director of the Company on 30 November 2018. She is currently a member of Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee of the Company. She has over 23-year experience in the areas of corporate finance, capital markets, and major mergers and acquisitions. She is currently a Managing Director of Rothschild & Co Hong Kong Limited. She is also an Independent Non-executive Director of CIMC Enric Holdings Limited (Stock Code: 3899, a company listed in Hong Kong Stock Exchange) and a member of the Listing Committee of the Main Board and GEM of The Stock Exchange of Hong Kong Limited. Ms. Yien was an Independent Non-executive Director of the Company from September 2004 to May 2016. Ms. Yien is a holder of the Chartered Financial Analyst designation and an ordinary member of the Hong Kong Securities and Investment Institute. She graduated from the Imperial College of Science, Technology and Medicine of University of London in England with a Joint Honours Degree in Mathematics with Management (BSc Hons).

Senior Management

Mr. ZHANG Yuying, aged 46, is the Chief Strategy Officer of the Company. He assists Executive Chairman, CEO and President of the Company to ensure the execution and achievement of strategies and smart operation of the Group. He graduated from Renmin University of China in 2003 with an Executive Master's Degree in Business Administration. Prior to joining the Group in 2003, he worked in Kaifeng Electromechanical Group and Henan Tongli Electrical Appliances Group. After joining the Group, he held various important positions in business planning and strategic performance management of the Group. Therefore, he has extensive experience in business operation, market development and strategic planning.

Mr. NIU Yunfeng, aged 45, is the Chief Information Officer of the Company. He assists the Executive Chairman, CEO and President of the Company for the implementation of management restructuring and digital transformation work of the Group. He obtained a Master's Degree in Business Administration from Renmin University of China in 2003. He joined the Group in 2003, and held general manager positions in various subsidiaries and participated in works related to strategic performance management, hence accumulated extensive experience in business management and smart operation.

Ms. ZHANG Jin, aged 46, is the Chief Human Resources Officer of the Company. She is responsible for the human resources management, corporate culture building and general administration work, etc. She graduated from Renmin University of China with a Bachelor's Degree in Economics and a Master's Degree in Management. Prior to joining the Group in 2016, she served as the Chief Executive Officer of Shanda Games, the Senior Vice President of Shanda Network Group, and the Vice President of Human Resources of Shanda Group. She also served as the Vice President of Human Resources of Lenovo Group. She has extensive experience in corporate management.

Mr. LIU Jianfeng, aged 42, was appointed as the Chief Financial Officer of the Company on 30 November 2018. He is responsible for finance, legal affairs, financial management and mergers and acquisitions of the Company. He received a Bachelor's Degree in Economics from the Central University of Finance and Economics and a Master's Degree in Law from China University of Political Science and Law. He later received an MBA and a Master's Degree in Law from Boston

College from 2012 to 2014. He is a member of the CPA Australia. He held key financial management positions in several companies in the oil and gas industry in the past 10 years prior to joining the Group. He served as the Executive President and Financial Controller of Geo-Jade Petroleum Corporation (a company listed on the Shanghai Stock Exchange, security code: 600759). From 2014 to 2016, he held various positions in Fosun International Limited (stock code: 656.HK), including Chief Financial Officer of its energy group, General Manager of its oil and gas business unit, and Executive Director and Chief Financial Officer of Roc Oil Company Limited. He also served as the International M&A Manager of CNOOC, Commercial Controller and Financial Representatives of several upstream projects from 2008 to 2012. He has extensive experience in financial management, asset restructuring, mergers and acquisitions in the oil and gas industry, and participated in a number of large-scale multinational M&A transactions. Mr. Liu also served in leading law firms in the PRC, and is a qualified PRC lawyer and corporate legal consultant. He has over 20 years' experience in financial management, asset management, onshore and offshore mergers and acquisitions and investment.

Mr. ZHANG Guozhong, aged 55, is the Senior Vice President of the Company. He is responsible for coal-to-gas (electricity) conversion and smart home business of the Group. He graduated from Tianjing University of Finance and Economics in 2009 with an Executive Master's Degree in Business Administration, and has been served as the Secretary of Discipline Inspection Commission in the General Armaments Department of Commission for Science, Technology and Industry for National Defence. After joining to the Group in 2001, he held various important positions such as Human Resources Controller, Assistant to President and Vice President etc., hence has accumulated extensive experience in human resources management and business operation.

Ms. WU Xiaojing, aged 51, is the Senior Vice President of the Company. She is responsible for the marketing and sales of Guangdong provincial company and overseeing the marketing and sales of Fujian provincial company. She graduated from the China People's Police University (formerly known as The Chinese People's Armed Police Force Academy) in 1990 with a Bachelor of Laws in Immigration Inspection and obtained an executive Master's Degree in business administration from Beijing University in 2011. Prior to joining the Group in 2004, she served in the Southern China branch of Beckman Coulter, Inc. and was responsible for the business development in the region. Ms. Wu has extensive experience in the business operation and market development for energy companies.

Mr. JIANG Chaoxing, aged 48, is the Senior Vice President of the Company. He is responsible for the marketing and sales of Inner Mongolia Company, Heilongjiang, Jilin and Liaoning provincial companies. He graduated from The Northeast Electric Power University in 2010 with a major in Project Management and obtained a Master's Degree subsequently. Prior to joining the Group in 2017, he served in Shenwu Technology Group Corp Co., Ltd. and Heilongjiang Chenergy Investment Group Company Limited as the Deputy General Manager, and in Datang Qitaihe Power Generation Co., Ltd as the General Manager. He has extensive experience in market development and integrated management.

Ms. SU Li, aged 46, is the Senior Vice President of the Company. She is responsible for the marketing and sales of Zhejiang provincial company and overseeing the marketing and sales of Shanghai and Jiangxi provincial company. She graduated from Shanghai Jiao Tong University in 2015 and obtained an Executive Master's Degree in Business Administration. After joining the Group in 2002, she held deputy general manager and general manager positions of various subsidiaries. Based on her outstanding business development performance, she was promoted as the regional general manager and was responsible for the sales and marketing in Zhejiang Province, as well as the business expansion of industrial parks projects. She has extensive experience in business operation and market development for energy companies.

Mr. HU Qili, aged 49, is the Senior Vice President of the Company. He is responsible for the marketing and sales of Hunan and Hubei provincial companies. He graduated from Tsinghua University in 2015 and obtained an Executive Master's Degree in Business Administration afterwards. He joined the Group in 1993 and held important positions in project companies in Beijing, Hebei, Jiangsu, Liaoning and Hunan. He has extensive experience in business operation and market development for energy companies.

Ms. LIANG Hongyu, aged 39, is the Joint Financial Controller and Company Secretary of the Company. She is responsible for investor relations management and the implementation of good corporate governance. She joined the Group in 2011 and prior to being appointed as the Company Secretary, she was the Deputy General Manager and General Counsel of ENN Finance Company Limited (a subsidiary of the Company). She is a PRC qualified lawyer and has over 13 years of experience in relation to capital market transactions and legal work. She holds a Master's Degree in International Business and Corporate Law from The University of Lancaster in England.

Mr. ZHU Lei, aged 38, is the Senior Vice President of the Company. He is responsible for the Company's marketing and sales of integrated energy business. He graduated from Zhejiang University in 2001 with a Bachelor's Degree in Mathematics. He later obtained his second Bachelor's Degree in Computer Science from Zhejiang University, and a Master's Degree in Investment Economics from Shanghai University of Finance and Economics. Prior to joining the Group in 2010, he held several roles in AASTOCKS.com, Shanghai Adi Fansi Information Technology Co. Ltd, and Shanghai Ledao Investment Co. Ltd. After joining the Group, he held as a general manager of various districts and was responsible for the market research on the feasibility of ubiquitous energy and development. Hence, he has extensive experience in business management and market development in the field of information technology.

CORPORATE GOVERNANCE REPORT

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

Corporate Governance Practices

The board of directors (the "Board") and the management of the Company have been continually reviewing and enhancing the corporate governance practices with reference to local and international standards. Since its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has adopted the Code of Corporate Governance (the "CG Code") as the main guideline for corporate governance. The Board believes that its continuous efforts in enhancing the Company's corporate governance practices have, directly and indirectly, contributed to the strong business growth of the Company and its subsidiaries (the "Group") in the past years. The Company is honoured to have continuously received numerous awards from independent bodies over the previous years in recognition of the Group's achievements in its business and management. The latest awards garnered during the year are set out in the section headed "Capital Market Awards" under the "Management Discussion and Analysis" on page 23 of this Annual Report.

For the year ended 31 December 2018, the Company was in compliance with all provisions of the CG Code except a deviation from Code Provision E.1.2. The Board will monitor and review the Company's corporate governance practices on an ongoing basis to ensure compliance with code provisions.

Securities Transactions by Directors

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as the code of conduct for securities transactions by the Directors of the Company. The prohibition of securities transactions and disclosure requirements under the Model Code also apply to the senior management of the Group and persons who have knowledge of relevant negotiations or agreements or any news of the Group.

Each Director is required to confirm with the Company in writing, twice a year, that he has complied with the Model Code. All the Directors have confirmed that they complied with the required standards thereof throughout the year ended 31 December 2018.

The Board

The Board assumes the responsibility of leadership and control over the Group, and is collectively responsible for promoting the success of the Group. The Board is also focused on general strategies and policies, with a special emphasis on the Group's growth and financial performance.

The Board has delegated the daily operations of the Group to the Executive Directors and senior management (collectively the "Management"), although it reserves the right to approve certain significant matters. Whenever the Board delegate its powers in management and administrative functions to the Management, they have simultaneously provided clear guidance, especially as to under what circumstances the Management should report to and obtain approval from the Board before making any decisions or entering into any undertakings on behalf of the Company.

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

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

All Directors has disclosed to the Company, upon their appointment, and in a timely manner for any change, of their offices held in other public companies or organisations and other significant commitments, if any. The Directors have confirmed that they have given sufficient time and attention to the affairs of the Company for the year ended 31 December 2018.

Board composition

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

Executive Directors

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

Independent Non-executive Directors

Mr. Ma Zhixiang
Mr. Yuen Po Kwong
Mr. Law Yee Kwan, Quinn
Ms. Yien Yu Yu, Catherine

The Directors of the Company have different expertise and relevant industrial experience and background, such as legal, accounting and finance, economics, corporate governance and industry expertise, providing valuable contributions and advices to the Group in relation to its business development. The biographical details of the Directors are set out on pages 26 to 28 of this Annual Report.

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

Chairman and Chief Executive

The management of the Board and the daily management of the Group's operation must be clearly segregated to ensure a balance of power and authority. The management of the Board of the Company shall be principally borne by the Chairman and the Vice Chairman of the Company, and the daily management of the Group's operation shall be borne by the Chief Executive Officer and the President of the Company. Their roles are segregated with a clear division of responsibilities set out in writing.

During the year under review, Mr. Wang Zizheng (an Executive Director and Executive Chairman) is responsible for assisting Mr. Wang Yusuo (Chairman of the Board) and Mr. Cheung Yip Sang (Vice Chairman of the Board) for overseeing the Group's overall strategic planning and the functioning of the Board. In addition, the Chairman and the Vice Chairman also play key roles in promoting all Directors to actively contribute to the Board's affairs and establishing good corporate governance practice. During the year, the Chairman held a meeting with the independent non-executive directors without the presence of other directors.

The daily management of the Group's operation was borne by Mr. Han Jishen, Executive Director and Chief Executive Officer and Mr. Liu Min, Executive Director and the President of the Company. The Chief Executive Officer is principally responsible for the Group's Strategic planning, execution and business expansion etc., whereas the President is principally responsible for leading the senior management to execute the strategies and plans set out by the Board, focusing on the daily management of the Group's operation, strategy execution review and deviation correction and achievement of business goals, and reporting to the Board on the Group's operation from time to time to ensure proper discharge of duties delegated by the Board.

Independent Non-executive Directors

Independent non-executive directors of the Company have their respective terms of appointment coming to an end normally three years after their appointment to the Board or (in the case of Directors who were re-elected to the Board at previous general meeting) their last re-election as Directors. The re-election of each of those independent non-executive directors who has served on the Board for more than nine years is subject to (i) a separate resolution to be approved by Shareholders at the relevant annual general meeting; and (ii) the papers to shareholders accompanying that resolution should include the reasons why the board believes he is still independent and should be re-elected.

During the year, the Board has at all times complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors, of which at least one has appropriate professional qualification, or accounting or related financial management expertise pursuant to Rule 3.10 of the Listing Rules. Also, pursuant to the requirement of Rule 3.10A of the Listing Rules, the Company's independent non-executive directors representing at least one-third of the board.

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

Meetings of the Board

The Board meet regularly to keep abreast of the Group's conduct, business activities, operational performance and latest development. Notice of a regular Board meeting is given to all Directors at least 14 days in advance. Directors are invited to include items which they wish to be included in the agenda for the same to be finalised and the agenda will, together with the relevant meeting papers, be given to the Directors at least three days prior to a Board or Board committee meeting.

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

The Directors may attend the meetings either in person or through electronic means of communication. As most of the Directors are on occasional, and sometimes unexpected, business trips and/or are stationed in different regions of China, it may, in practice, be inconvenient to convene a full Board meeting on a frequent basis. Hence, the Board may review and approve certain issues in form of a written resolution. Relevant reference materials regarding the resolutions to be passed will be circulated with the draft resolutions.

In relation to each connected transaction or other transaction of the Company that requires independent shareholders' approval, an independent board committee comprising independent non-executive directors who have no interest therein will be formed to give independent opinion on such transactions. During the year, in relation to each connected transaction that requires the Board's approval (including new continuing connected transaction(s) entered into during the year), the Company had engaged independent financial advisers to provide independent professional advices regarding the resolutions for the transactions for the Board's reference.

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

The Company Secretary is responsible for taking minutes of Board and Board committee meetings. Minutes of board meetings and Board committees meetings have been recorded in sufficient detail, and maintained by the Company Secretary for inspection by any Directors within a reasonable time upon a reasonable notice given.

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

Directors' attendance

The Board holds meetings regularly, and may hold other meetings when Board approvals are needed for any other issues. Details of Directors' attendance record of Board meetings and general meetings during the year are as follows:

	Attendance/number of meetings held		
	Regular meetings	**Annual general meeting**	**Extraordinary general meeting**
Executive Directors:			
Wang Yusuo (Note 1)	4/4	0/1	0/1
Cheung Yip Sang	4/4	0/1	0/1
Sean S J Wang (Note 2)	0/0	0/0	0/0
Wang Zizheng (Note 3)	4/4	0/1	0/1
Han Jishen	4/4	1/1	0/1
Liu Min (Note 2)	4/4	0/1	0/1
Wang Dongzhi	4/4	1/1	1/1
Independent Non-executive Directors:			
Ma Zhixiang	4/4	0/1	0/1
Yuen Po Kwong	4/4	1/1	1/1
Law Yee Kwan, Quinn	4/4	1/1	1/1
Yien Yu Yu, Catherine (Note 4)	0/0	0/0	0/0

Notes:

1. As Mr. Wang Yusuo, Chairman of the Board, was unable to present at the annual general meeting held on 18 May 2018 due to a business trip, Mr. Wang Dongzhi, an Executive Director of the Company, presided over the annual general meeting instead, to answer the questions raised at the meeting. This constitutes a deviation from Code Provision E.1.2 of the CG Code which requires the Chairman of the Board to attend the annual general meeting.
2. On 12 January 2018, Mr. Sean S J Wang resigned as an Executive Director of the Company. On the same date, Mr. Liu Min was appointed as an Executive Director of the Company.
3. On 11 May 2018, Mr. Wang Zizheng was re-designated to an Executive Director from a Non-executive Director of the Company.
4. On 30 November 2018, Ms. Yien Yu Yu, Catherine was appointed as an Independent Non-executive Director of the Company.

Directors' Training and Professional Development

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant.

During the year, newly-appointed Directors had been offered an induction training and briefed by the external legal advisor engaged by the Company on Director's responsibilities under the relevant legal and regulatory requirements (including but not limited to the Companies Ordinances, the Listing Rules and the Securities and Futures Ordinance ("SFO")). They were provided with an information memorandum on Directors' duties and obligations which assists them in understanding their responsibilities as Directors. The Company has arranged a director training programme organised by external legal advisor for the Directors and senior management of the Company, the subjects included requirements on disclosure of inside information under SFO, code for securities transactions by the Directors, continuing obligations of a listed company and continuing and connected transactions under Chapter 14A of the Listing Rules.

President of the Company updated the business and prospects of the Group in detail to the Board at least twice during the year, and the Directors, particularly the independent non-executive directors, have been constantly invited to visit key projects and main facilities organised by the Company during the year, providing the Directors an update on the operation and business of the Group.

For the year ended 31 December 2018, all the Directors had provided their training records to the Company.

Board Committees

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

Audit Committee

The Audit Committee was established on 28 March 2001, its written terms of reference have complied with the Code Provisions of the CG Code, and the revised terms of reference is published on the websites of the Company and the Stock Exchange. The Audit Committee reports directly to the Board and is mainly responsible for reviewing the interim and annual financial statements of the Group and the effectiveness of the internal control and risk management systems so as to protect the interests of the shareholders as a whole.

During the year, the Audit Committee is made of all independent non-executive directors. All members have sufficient experience in reviewing audited financial statements as aided by auditors and senior management of the Group whenever required. Mr. Law Yee Kwan, Quinn and Ms. Yien Yu Yu, Catherine have appropriate professional qualifications, or accounting or related financial management expertise.

Three Audit Committee meetings were held during the year. Attendance of the members is set out below:

Members	Attendance/ number of meetings held
Law Yee Kwan, Quinn (Chairman of the Audit Committee)	3/3
Ma Zhixiang	3/3
Yuen Po Kwong	3/3
Yien Yu Yu, Catherine (Note 1)	1/1

Note:

1. On 30 November 2018, Ms. Yien Yu Yu, Catherine was appointed as an Independent Non-executive Director of the Company and a member of the Audit Committee.

The Audit Committee held meetings with the external auditor and senior management of the Company during the year principally for the following issues:

- reviewed the consolidated financial statements of the Group for the year ended 31 December 2017 and the six months ended 30 June 2018;
- reviewed the continuing connected transactions of the Group for the year ended 31 December 2017 under the Listing Rules;
- discussed with the external auditor the impact of any changes in accounting policies as well as the nature and scope of annual audit and interim review;
- reviewed the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- approved the remuneration and terms of engagement of the external auditor; and
- reviewed the effectiveness of the Group's risk management and internal control systems, and made recommendations to the Board.

Auditors' remuneration

For the year ended 31 December 2018, audit services provided to the Group by Deloitte Touche Tohmatsu ("Deloitte"), the auditors of the Company, and the amounts of remuneration paid and payable in connection therewith are as follows:

	Approximate Amount (RMB)
Annual audit services	5,682,000
Interim results review service	1,162,000
Consultancy service on ESG reporting	300,000
Total	7,144,000

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

As stated by the Audit Committee to the Board, the Audit Committee is of the view that service fees paid/payable by the Company to external auditor for the services provided for the year were reasonable. External auditor had no material disagreement with the management of the Company during the year.

Remuneration Committee

The Remuneration Committee was established on 31 December 2004, its written terms of reference have complied with the Code Provisions of the CG Code, and the revised terms of reference is published on the websites of the Company and the Stock Exchange.

During the year, majority of the members of the Remuneration Committee are independent non-executive directors. The Remuneration Committee is principally responsible for establishing a formal and transparent procedures for developing the overall remuneration policy and structure for all directors and senior management of the Company and making recommendations to the Board and ensuring no director or any of his/her associates is involved in deciding his/her own remuneration.

The objective of the remuneration policy of the Company is to maintain at a reasonable and competitive remuneration package so as to attract and retain the best employees to serve the needs for the development of the Company. The remuneration package consists of fixed and variable remuneration, cash and benefits in kind, including but not limited to: basic salary which is fixed to commensurate with market rate and each individual's experience and ability; year-end bonus and/or share options granted with reference to an individual employee's position, performance and ability to contribute to the overall corporate success (the granting of share options is subject to shareholders' mandates as required and the applicable laws and regulations of relevant jurisdictions) and/or award shares; and other customary and/or mandatory benefits to employees, such as retirement fund scheme, insurance and paid holiday, with reference to prevailing practices in relevant jurisdictions. In evaluating the remuneration packages for Directors and senior management of the Company, the Remuneration Committee takes into consideration various factors such as salaries paid by comparable companies, time commitment, responsibilities and employment terms elsewhere in the Group.

The Remuneration Committee has reviewed this policy during the year and consulted Chairman and Vice Chairman of the Board about the remuneration proposals of Management at formal and informal meetings. The Remuneration Committee may seek independent professional advice, if necessary, the expenses will be borne by the Company.

Five Remuneration Committee meetings were held during the year. Attendance of the members is set out below:

Members	**Attendance/ number of meetings held**
Yuen Po Kwong *(Chairman of the Remuneration Committee)* (Note 1)	5/5
Cheung Yip Sang (Note 1)	2/2
Ma Zhixiang	5/5
Law Yee Kwan, Quinn	5/5
Yien Yu Yu, Catherine (Note 2)	0/0

Notes:

1. On 11 May 2018, Mr. Yuen Po Kwong was appointed as Chairman of the Remuneration Committee, and on the same date, Cheung Yip Sang ceased to be the Chairman and a member of the Remuneration Committee.
2. On 30 November 2018, Ms. Yien Yu Yu, Catherine was appointed as an Independent Non-executive Director of the Company and a member of the Remuneration Committee.

The Remuneration Committee held meetings during the year to handle, among others, the followings:

- reviewed the policy and structure of remuneration for all Directors and senior management of the Company;
- considered and approved the remuneration of the Management of the Company;
- reviewed the fees of the independent non-executive directors of the Company; and
- approved the remuneration packages of directors appointed and re-designated during the year, and made recommendations to the Board.

The remuneration payable to the Directors and senior management of the Company for the year ended 31 December 2018 fell within the following bands:

Remuneration Bands (HK$)	**Number of individuals**
1 to 1,000,000	4
1,000,001 to 2,000,000	2
2,000,001 to 3,000,000	7
3,000,001 to 4,000,000	2
4,000,001 to 5,000,000	1
5,000,001 to 6,000,000	3
6,000,001 to 7,000,000	1
7,000,001 to 8,000,000	–
8,000,001 to 9,000,000	–
9,000,001 to 10,000,000	1
Total	21

Details of Directors' remuneration and equity interest in the Company held by the Directors for the two years ended 31 December 2018 and 2017 respectively are listed out in Note 12 and Note 46 to the consolidated financial statements.

Nomination Committee

The Board has established a Nomination Committee on 30 March 2012, its written terms of reference have complied with the Code Provisions of the CG Code, and the revised terms of reference is published on the websites of the Company and the Stock Exchange.

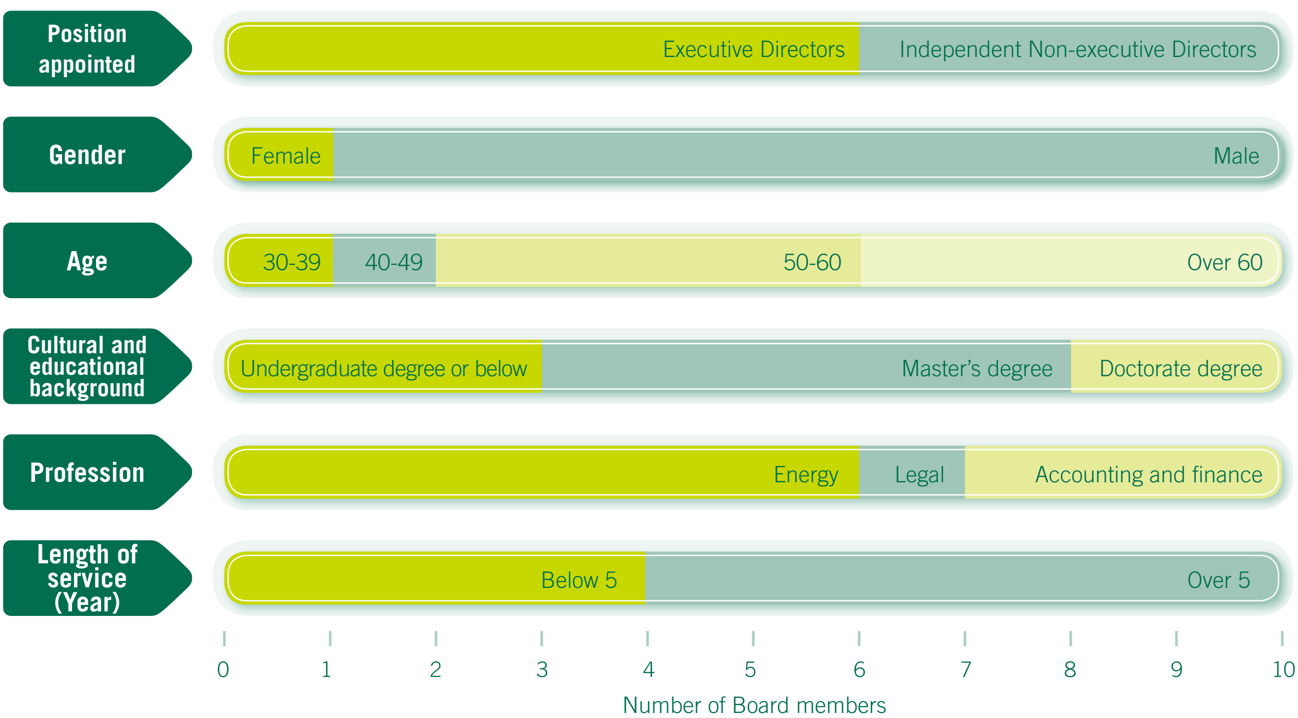
The Nomination Committee reviews the structure, composition and diversity of the Board, identifies and recommends to the Board of suitable candidates as Directors, makes recommendations to the Board on matters relating to the appointment and re-appointment of Directors, succession planning for Directors, and assesses the independence of independent non-executive directors.

The Board has adopted its "Nomination Policy" as the guidelines for the Nomination Committee of the Company to identify and evaluate an appropriate candidate. It offers assistance to the Board and makes recommendations to the Board on, among others, the appointment or re-appointment of Directors and succession planning for Directors. Candidate is required by the Nomination Committee to provide personal information in prescribed form, and the Nomination Committee may take such measures that it considers appropriate in connection with its identification and evaluation of a candidate. Suitable candidate will be nominated by Nomination Committee to the Board with reasons of recommendation and voting intention of the Nomination Committee for the Board's consideration.

The Company firmly believes that board diversity improves the performance of the Company, the Board, therefore, has adopted the "Board Diversity Policy", pursuant to which, appointments of director will be based on merit with due regard for the benefits of diversity to the Board. In determining the composition of the Board, the Company seeks to achieve board diversity through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

At present, over one-third of the Directors on the Board are independent non-executive directors. They represent diverse career experience in both international and local enterprises. They bring diverse professional backgrounds, covering energy, investment banking, accounting and finance as well as legal. They also hold or have held important private and/or public service positions in Hong Kong and Mainland China, covering business, industry and commerce, social welfare, educations and regulations.

The Board composition reflects various genders, cultural and educational backgrounds, professional, length of service, knowledge on the Company and a broad range of individual attributes, interests and values. The Board considers the current Board composition has provided the Company with a good balance and diversity of skills and experience. Apart from retaining a core of members with longstanding and deep knowledge of the Group, the Board appointed new Directors who bring fresh perspectives and diverse experiences to the Board during the year. The Board will continue to review its composition from time to time taking into consideration specific needs for the Group's business.



Three Nomination Committee meetings were held during the year. Attendance of the members is set out below:

Members	**Attendance/ number of meetings held**
Wang Yusuo *(Chairman of the Nomination Committee)*	3/3
Cheung Yip Sang	3/3
Ma Zhixiang	3/3
Yuen Po Kwong	3/3
Law Yee Kwan, Quinn	3/3
Yien Yu Yu, Catherine (Note 1)	0/0

Note:

1. On 30 November 2018, Ms. Yien Yu Yu, Catherine was appointed as an Independent Non-executive Director of the Company and a member of the Nomination Committee.

The Nomination Committee held meetings during the year to handle, among others, the followings:

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

Risk Management Committee

The Board has established a Risk Management Committee on 9 December 2015, its written terms of reference is published on the websites of the Company and the Stock Exchange.

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

One Risk Management Committee meeting was held during the year. Attendance of the members is set out below:

Members	**Attendance/ number of meetings held**
Wang Zizheng *(Chairman of the Risk Management Committee)* (Note 1)	1/1
Cheung Yip Sang (Note 1)	0/0
Sean S J Wang (Note 2)	0/0
Han Jishen	1/1
Liu Min (Note 2)	1/1
Ma Zhixiang	1/1
Yuen Po Kwong	1/1
Law Yee Kwan, Quinn	1/1
Yien Yu Yu, Catherine (Note 3)	0/0

Notes:

1. On 11 May 2018, Mr. Wang Zizheng was re-designated to an Executive Director and appointed as Chairman of the Risk Management Committee. On the same date, Mr. Cheung Yip Sang ceased to be Chairman and a member of the Risk Management Committee.

2. On 12 January 2018, Mr. Sean S J Wang resigned as an Executive Director and ceased to be a member of the Risk Management Committee. On the same date, Mr. Liu Min was appointed as an Executive Director and a member of the Risk Management Committee.

3. On 30 November 2018, Ms. Yien Yu Yu, Catherine was appointed as an Independent Non-executive Director of the Company and a member of the Risk Management Committee.

The Risk Management Committee held meeting during the year to handle, among others, the followings:

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

Accountability and Audit

Financial reporting

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

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

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

The preparation of the financial statements for the year ended 31 December 2018 has been reviewed by the Board who considers that the financial statements give a true and fair view of the financial position, performance and cash flow of the Group for the year ended 31 December 2018, and the disclosure of other financial information and report therein complies with the relevant legal requirements.

The annual results of the Group is announced in a timely manner within three months after the end of the respective financial period. A statement of the reporting responsibility of the external auditor is set out in the Independent Auditor's Report on page 56.

Risk Management and Internal controls

The Board has overall responsibilities for the Group's risk management and internal control systems to safeguard the interests of the Company and its shareholders as a whole. For this reason, the Board oversees and approves the Group's risk management and internal control strategies and policies, which are aimed at evaluating and determining the nature and extent of the risks that are compatible with the Group's strategic objectives and risk appetite, with main purpose for provision of reasonable assurance against material misstatement or loss rather than absolute elimination of the risk of failure to achieve business objectives.

The Risk Management Committee that set up by the Board is responsible for overseeing and reviewing the risk management and internal control systems of the Group, as well as monitoring the management's design, implementation and monitoring functions on the risk management and internal control systems. Through the reporting and recommendation given by the independent internal audit team, the Audit Committee is responsible for reviewing and commenting on the effectiveness of the risk management and internal control systems.

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

Risk Identification

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

Risk Assessment

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

Risk Response

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

Risk Monitoring and Reporting

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

After consolidation from the subsidiaries and a holistic review of the Group, the management of the Company submitted a written report on the effectiveness of the Group's risk management and internal control systems to the Audit Committee for review on a yearly basis.

The management has reported and confirmed to the Audit Committee and the Board that the risk management and internal control systems have been effective and adequate for the year ended 31 December 2018 and the Board has considered the results of the review of the Audit Committee and confirmed that the Group's risk management and internal control systems are effective.

Internal Audit Team

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

Whistleblowing Policy

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

Inside Information

With regard to procedures and internal controls for handling and disseminating of inside information, the Company follows the requirements to disclose information in accordance with the Securities and Futures Ordinance and the Listing Rules and conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission to promote consistent disclosure practices. Various internal control measure such as management review, use of project codes and assignment of project coordinators are instituted in the reporting procedures. The Company has also included in its Code of Conduct a strict prohibition on the unauthorised use of confidential or inside information.

Company Secretary

Ms. Liang Hongyu ("Ms. Liang") was appointed as the Company Secretary of the Company with effect from 22 October 2018, and Ms. Wong Chui Lai ceased to be the Company Secretary of the Company on the same date. For details, please refer to the announcement dated 22 October 2018. Ms. Liang is a full-time employee of the Company, having the knowledge of the updated condition of the Company. Ms. Liang reports to the Chairman and Vice Chairman of the Board, provides assistance to the Chairman, the Board and Board committees, and is responsible to ensure good information flow within the Board and the policy and procedures of the Board are followed.

During the year, Ms. Liang undertook in not less than 15 hours of relevant professional training in accordance with the requirement under rule 3.29 of the Listing Rules. The biography of Ms. Liang is set out on page 29 under the section headed "Directors and Senior Management" of this Annual Report and on the Company's website.

Non-compete Undertakings

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

Communication with Shareholders

Effective communication

The Board believes that effective communication of full and clear information of the Company is the key to enhance corporate governance standards and shareholders' confidence. The Company has adopted its "Shareholders Communication Policy" with an aim to ensure our shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company (including the Group's financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable our shareholders to exercise their rights in an informed manner, and to allow our shareholders to engage actively with the Company.

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities, including issue/publication of, among others, annual report and interim report, announcement, circular and press release both in English and Chinese, in order to provide our shareholders and the capital market with the Company's latest development, these information are posted and made available for downloading at the Company's corporate website (www.ennenergy.com). Constantly being updated in a timely manner, the website contains a wide range of additional information on the Group's business activities.

As a part of the day-to-day investor relations programme, the senior management hold regular briefings with institutional investors and financial analysts as well as media, and announce our annual and interim results. To facilitate communications with our shareholders and the capital market, Directors and designated staff members maintain dialogue with investors and analysts through face-to-face interaction, road show and investors relations promotion activities.

Annual general meeting ("AGM") provides a constructive forum to maintain communication with shareholders, and shareholders are encouraged to attend AGM to ensure a high level of accountability and allow our shareholders to understand the strategy and development of the Group. The Company will arrange the Chairman of the Board and the respective chairman of each of the Board Committees, or if failing so due to unexpected and/or uncontrollable reasons, his/their duly appointed delegate(s), to attend the general meetings to exchange views with shareholders and answer their questions. All Directors are encouraged to attend general meetings and develop a balanced understanding of the view of shareholders.

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

The notice of the AGM is distributed to all shareholders at least 21 clear business days prior to such AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. Separate resolutions are proposed on each substantially separate issue, including the election or re-election of each Director nominated.

An extraordinary general meeting of the Company was held on 8 August 2018 for approving the disclosable and connected transactions as well as the grant of whitewash waiver. The members of the Independent Board Committee attended the extraordinary general meeting to answer the questions in relation to relevant resolutions.

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

Shareholders' rights

Shareholders' enquiries

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

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

Procedures to convene extraordinary general meetings and putting forward proposals at general meetings

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

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

Subject to the articles of association of the Company and the law of Cayman Islands, the Company may by ordinary resolution at a general meeting elect any person to be a Director either to fill a casual vacancy on the Board, or as an addition to the existing Board. Shareholders may nominate any person other than the Directors of the Company to be a candidate for director at a general meeting, shareholders may refer to "Procedures for Putting Forward Proposals at General Meetings" under "Shareholders' rights" on the Company website for details.

General meetings held during the Year

In 2018, the Company held two general meetings, an AGM and an extraordinary general meeting ("EGM").

The AGM held on 18 May 2018 at Tianshan and Lushan Rooms, Level 5 Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Central, Hong Kong. All ordinary resolutions proposed at the AGM were passed as more than 50% of the votes were cast in favour of these resolutions. The resolutions considered and approved mainly include:

- To receive and consider the audited consolidated financial statements for the year ended 31 December 2017 together with the directors' and independent auditor's reports;
- To declare a final dividend of HK$1.08 per share for the year ended 31 December 2017;
- To re-elect retiring Directors and to authorise the Board to fix its Directors' remuneration;
- To re-appoint external auditor and to authorise the Board to fix their remuneration; and
- To grant a general mandate to the Directors to issue new shares of the Company and repurchase shares of the Company.

The full text of the above resolutions was set out in the Notice of the AGM of the Company dated 16 April 2018. The poll result of the AGM was published on the websites of the Stock Exchange and the Company.

An EGM held on 8 August 2018 at Tianshan and Lushan Rooms, Level 5 Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Central, Hong Kong. Two resolutions proposed at the meeting were passed as more than 50% of the votes were cast in favour of these resolutions. The resolutions considered and approved mainly include:

- To approve, confirm and ratify the disclosable and connected transactions in relation to the acquisition of entire issued share capital of the target company indirectly held by the controlling shareholder of the Company and the issue of consideration shares; and
- Subject to granting of the whitewash waiver by the Executive Director of Corporate Finance Division of the Securities and Futures Commission, to authorise the Board or a committee thereof to give effect to or to implement the whitewash waiver.

The full text of the above resolutions was set out in the Notice of the EGM of the Company dated 16 July 2018. The poll result of the EGM was published on the websites of the Stock Exchange and the Company.

Investor Relations

The Company values the opinion from shareholders, investors and the public, therefore the Company established an investor relations department, which is responsible for communicating with institutional and other investors regularly, so as to enhance the transparency of the Group and collect opinions from the market.

Regular investor relations activities are conducted to facilitate the communications, including projects visits, non-deal roadshows, investor conferences, etc.

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

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

The latest information on investor relations is uploaded on the link http://ir.ennenergy.com.

Amendments to the Memorandum and Articles of Association

During the year, the memorandum and articles of association were not amended by the Company. The latest consolidated version of the Company's memorandum and articles of association has been published on the websites of the Stock Exchange and the Company.

By order of the Board
WANG YUSUO
Chairman

Hong Kong, 21 March 2019

DIRECTORS' REPORT

The Directors have pleasure in submitting to shareholders the annual report and the Group's audited consolidated financial statements (the "Consolidated Financial Statements") for the year ended 31 December 2018.

Principal Activities

The Company is an investment holding company. The Group is principally engaged in investment and construction, as well as operation and management of gas pipeline infrastructures, vehicle and ship refuelling stations and integrated energy stations, the sales and distribution of piped gas, liquefied natural gas and other multi-energy products, and energy trading business and provision of other services in relation to energy supply in the PRC. A list of principal subsidiaries as of 31 December 2018 and their particulars are set out in Note 58 to the Consolidated Financial Statements.

Business Review and Performance

The Group's key financial and business performance indicators comprise revenue growth and gross profit margin. The Group's revenue increased by RMB12,429 million to RMB60,698 million (2017: RMB48,269 million). The increase in total revenue was driven by volume growth of gas sales and the increase in average gas selling price. The decrease of the Group's gross profit margin by 1.6 percentage points was mainly due to the change of revenue mix.

The Group's revenue is driven primarily from sales of piped gas and wholesales of gas. An analysis of the Group's performance for the year by operating segment is set out in Note 7 to the Consolidated Financial Statements. A fair review of the business of the Company and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the Executive Chairman's Statement from pages 6 to 9 and Management Discussion and Analysis from pages 18 to 25 in this Annual Report. The principal risks and uncertainties affecting the Group are provided under the heading of "Financial Resources Review" in Management Discussion and Analysis on page 23 and Notes 5 and 54 to the Consolidated Financial Statements in this Annual Report. The risk management and internal control policies of the Group are provided in the Corporate Governance Report from pages 38 to 39 in this Annual Report. Particulars of important events affecting the Company that have occurred since the end of the financial year 2018, if any, can also be found in the abovementioned sections and the Notes to the Consolidated Financial Statements. The outlook of the Company's business is discussed throughout this Annual Report including the Executive Chairman's Statement from pages 6 to 9 of this Annual Report. In addition, more details regarding the Group's performance in environmental and social-related key performance indicators and policies, relationship with stakeholders and compliance with relevant laws and regulations that have a significant impact on the Group are provided in the Directors' Report from pages 52 to 53 in this Annual Report.

All the above sections form part of this Directors' Report.

Results and Appropriation

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 59 in this Annual Report.

The Company's dividend policy allows shareholders to share the Company's profits while reserving sufficient reserves for the Group's future development. Subject to the financial performance of the Company, the Company intends to share its profits with shareholders in the form of annual dividend. Barring unforeseen circumstances, the Company intends to maintain annual dividend in an amount of no less than 15% of the Group's annual consolidated net profit attributable to the owners of the Company. Proposed dividends, if any, will be declared or paid at the discretion of the Board and will depend upon, among others things, the Group's general financial conditions and strategies, expected operating cash flows and capital expenditure needed for expansion, surplus, contractual restrictions, actual and expected government financial conditions, macroeconomics and such other factors as the Board may deem relevant.

The Directors recommend the payment of a final dividend of HK$1.19 (equivalent to approximately RMB1.04) per share to the shareholders on the register of members on 10 June 2019. The total dividend amount is approximately RMB1,172 million, and remaining profit for the year of approximately RMB1,606 million is retained.

Financial Summary

Details of the summary of the published financial information of the Group for the past ten financial years are set out on pages 16 to 17 in this Annual Report.

Property, Plant and Equipment

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

Share Capital

Details of movements during the year in the share capital of the Company are set out in Note 40 to the Consolidated Financial Statements.

Reserves

Details of movements during the year in the reserves of the Group and the Company are set out in the consolidated statement of changes in equity on page 62 in this Annual Report and Note 59 to the Consolidated Financial Statements. As at 31 December 2018, the Company's reserve available for distribution amounted to RMB4,073 million (2017: RMB1,303 million).

Bank and Other Loans

Details of bank and other loans of the Group are set out in Note 41 to the Consolidated Financial Statements.

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB73.15 million.

Remuneration of Directors and Senior Management

Details of remuneration of Directors and senior management are set out in Note 12 to the Consolidated Financial Statements and the Corporate Governance Report on pages 34 to 35 in this Annual Report.

Directors

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

Executive Directors:

Mr. Wang Yusuo
Mr. Cheung Yip Sang
Mr. Wang Zizheng (redesignated from a Non-Executive Director to an Executive Director on 11 May 2018)
Mr. Sean S J Wang (resigned on 12 January 2018)
Mr. Han Jishen
Mr. Liu Min (appointed on 12 January 2018)
Mr. Wang Dongzhi

Independent Non-executive Directors:

Mr. Ma Zhixiang
Mr. Yuen Po Kwong
Mr. Law Yee Kwan, Quinn
Ms. Yien Yu Yu, Catherine (appointed on 30 November 2018)

In accordance with article 99 of the Company's Article of Association, Ms. Yien Yu Yu, Catherine shall retire at the forthcoming annual general meeting ("AGM") of the Company, while in accordance with article 116 of the Company's Article of Association, Mr. Wang Yusuo, Mr. Wang Zizheng, Mr. Ma Zhixiang and Mr. Yuen Po Kwong, shall retire by rotation at the forthcoming AGM of the Company. All the above retiring Directors are eligible and offer themselves for re-election. Details of these Directors proposed for re-election are set out in the circular sent together with this Annual Report.

Mr. Sean S J Wang resigned on 12 January 2018 due to his wish to pursue his own career development. He has confirmed that he has no disagreement with the Board and there is no matters in relation to his resignation that needs to be brought to the attention of the shareholders of the Company or The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

As of 31 December 2018, none of the Directors had entered, or proposed to enter, into any service contract any members of with the Group which does not expire or is not determinable by the Group within one year without compensation (other than statutory compensation).

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

The biographical details of the Directors of the Company are set out on pages 26 to 28 of this Annual Report.

Permitted Indemnity Provision

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

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

Disclosure of Interests

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

As at 31 December 2018, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), Appendix 10 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, were as follows:

Name of Director	Capacity	Interests in shares-Corporate interests	Personal interest	Total interests in shares	Interests in underlying shares pursuant to share options	Total aggregate interests in shares and underlying shares	Approximate percentage of the Company's total issued share capital as at 31 December 2018
Wang Yusuo ("Mr. Wang")	Beneficial owner and interest of controlled corporation	369,175,534 (Note 1)	–	369,175,534	580,000	369,755,534	32.90%
Cheung Yip Sang	Beneficial owner	–	–	–	399,000	399,000	0.04%
Wang Zizheng	Beneficial owner	–	–	–	60,000	60,000	0.01%
Han Jishen	Beneficial owner	–	–	–	316,000	316,000	0.03%
Wang Dongzhi	Beneficial owner	–	–	–	327,000	327,000	0.03%
Ma Zhixiang	Beneficial owner	–	–	–	45,000	45,000	0.00%
Yuen Po Kwong	Beneficial owner	–	–	–	60,000	60,000	0.01%
Law Yee Kwan, Quinn	Beneficial owner	–	–	–	60,000	60,000	0.01%
Yien Yu Yu, Catherine	Beneficial owner	–	106,000	106,000	–	106,000	0.01%

Note:

1. Such shares are beneficially owned by Mr. Wang and Ms. Zhao Baoju ("Ms. Zhao"), the spouse of Mr. Wang through 100% controlled corporations, including Langfang City Natural Gas Company Limited ("LCNG"), ENN Investment Holdings Company Limited ("EIH"), ENN Group International Investment Limited ("EGII") and Essential Investment Holding Limited ("EIHL").

Details of the Directors' interests in share options and awarded shares granted by the Company are set out under the heading "Share-based Compensation Scheme" in this report.

Disclosure of Interests *(continued)*

Directors' interests or short positions in shares, underlying shares and debentures *(continued)*

Save as disclosed above, as at 31 December 2018, there were no other interests or short positions of the Directors and chief executives in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) in the register maintained by the Company pursuant to section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share-based Compensation Scheme

The Company operates share option schemes ("Share Option Scheme") and share award scheme ("Share Award Scheme") for the purpose of attracting, retaining and incentivising major employees. The eligible persons for the schemes are Directors (including independent non-executive directors) and other employees of the Group.

Share Option Schemes

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

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

Grantee	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2018	Exercised during the year	Lapsed during the year	Number of shares subject to outstanding options as at 31 December 2018 (Note 2)
2002 Scheme							
Directors	14.06.2010	14.12.2010–13.06.2020	16.26	–	–	–	–
	14.06.2010	14.06.2012–13.06.2020	16.26	–	–	–	–
Employees	14.06.2010	14.12.2010–13.06.2020	16.26	100,000	–	–	100,000
	14.06.2010	14.06.2012–13.06.2020	16.26	100,000	–	–	100,000
Total				200,000	–	–	200,000
2012 Scheme							
Directors	09.12.2015	01.04.2017–08.12.2025	40.34	230,750	–	–	230,750
	09.12.2015	01.04.2018–08.12.2025	40.34	538,750	–	–	538,750
	09.12.2015	01.04.2019–08.12.2025	40.34	538,750	–	–	538,750
	09.12.2015	01.04.2020–08.12.2025	40.34	538,750	–	–	538,750
Employees	09.12.2015	01.04.2017–08.12.2025	40.34	980,500	(511,100)	(62,500)	406,900
	09.12.2015	01.04.2018–08.12.2025	40.34	2,020,000	(514,400)	(474,750)	1,030,850
	09.12.2015	01.04.2019–08.12.2025	40.34	2,020,000	–	(292,250)	1,727,750
	09.12.2015	01.04.2020–08.12.2025	40.34	2,020,000	–	(292,250)	1,727,750
Total				8,887,500	(1,025,500)	(1,121,750)	6,740,250

Notes:

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

2. A total number of 200,000 shares, representing 0.02% of the issued share capital of the Company as at the date of this report are available for issue under the 2002 Scheme and a total number of 6,740,250 shares, representing 0.60% of the issued share capital of the Company as at the date of this report are available for issue under the 2012 Scheme. The vesting of certain part of the 6,740,250 share options is subject to the fulfilment of performance target.

Details of the share options are set out in Note 46 to the Consolidated Financial Statements.

Share-based Compensation Scheme *(continued)*

Directors' rights to acquire shares

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

Name of Director	Date of grant	Exercise period (Note 1)	Exercise price (HK$)	Number of shares subject to outstanding options as at 1 January 2018	Reclassified during the year (Note 2)	Exercised during the year (Note 2)	Number of shares subject to outstanding options as at 31 December 2018
Wang Yusuo	09.12.2015	01.04.2017–08.12.2025	40.34	145,000	–	–	145,000
	09.12.2015	01.04.2018–08.12.2025	40.34	145,000	–	–	145,000
	09.12.2015	01.04.2019–08.12.2025	40.34	145,000	–	–	145,000
	09.12.2015	01.04.2020–08.12.2025	40.34	145,000	–	–	145,000
Cheung Yip Sang	09.12.2015	01.04.2017–08.12.2025	40.34	–	–	–	–
(Note 3)	09.12.2015	01.04.2018–08.12.2025	40.34	133,000	–	–	133,000
	09.12.2015	01.04.2019–08.12.2025	40.34	133,000	–	–	133,000
	09.12.2015	01.04.2020–08.12.2025	40.34	133,000	–	–	133,000
Wang Zizheng	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	15,000
Han Jishen	09.12.2015	01.04.2017–08.12.2025	40.34	250	–	–	250
(Note 3)	09.12.2015	01.04.2018–08.12.2025	40.34	105,250	–	–	105,250
	09.12.2015	01.04.2019–08.12.2025	40.34	105,250	–	–	105,250
	09.12.2015	01.04.2020–08.12.2025	40.34	105,250	–	–	105,250
Wang Dongzhi	09.12.2015	01.04.2017–08.12.2025	40.34	40,500	–	–	40,500
(Note 3)	09.12.2015	01.04.2018–08.12.2025	40.34	95,500	–	–	95,500
	09.12.2015	01.04.2019–08.12.2025	40.34	95,500	–	–	95,500
	09.12.2015	01.04.2020–08.12.2025	40.34	95,500	–	–	95,500
Ma Zhixiang	09.12.2015	01.04.2017–08.12.2025	40.34	–	–	–	–
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	15,000
Yuen Po Kwong	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	15,000
Law Yee Kwan, Quinn	09.12.2015	01.04.2017–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2018–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2019–08.12.2025	40.34	15,000	–	–	15,000
	09.12.2015	01.04.2020–08.12.2025	40.34	15,000	–	–	15,000
Total				1,847,000	–	–	1,847,000

Share-based Compensation Scheme *(continued)*

Directors' rights to acquire shares *(continued)*

Notes:

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

2. "Year" refers to the period from 1 January 2018 to 31 December 2018.

3. The vesting of share options is subject to the fulfilment of performance target.

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

Share Award Scheme

On 30 November 2018, the Company adopted the Share Award Scheme under which the shares of the Company (the "Awarded Shares") may be granted to selected employees (including, without limitation, any executive directors and independent non-executive directors) of any members of the Group (the "Selected Employees") pursuant to the terms of the Share Award Scheme and the trust deed of the Share Award Scheme. The Share Award Scheme became effective on the adoption date and, unless otherwise terminated or amended, will remain in force for 10 years from the date, i.e. till 29 November 2028.

The aggregate number of Award Shares permitted to be granted under the Share Award Scheme is limited to 5% of the issued share capital of the Company from time to time. The maximum number of Awarded Share which may be awarded to each Selected Employee shall not in aggregate over 1% of the issued share capital of the Company from time to time.

When a Selected Employee has satisfied all vesting conditions, which might include service and/or performance conditions, specified by the Board at the time of making the award and become entitled to the shares of the Company forming the subject of the award, the trustee shall transfer the relevant Award Shares to that employee at once.

As at 31 December 2018, the Company has not yet granted any Awarded Shares.

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

Substantial Shareholders

As at 31 December 2018, the interests and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of Part XV of the SFO were as follows:

Name of shareholder	Capacity	Total interests in the Company	Respective interests in share according to share options	Total aggregate interests in shares and underlying shares (Note 7)	Approximate percentage of the Company's total issued share capital as at 31 December 2018
Mr. Wang	Beneficial owner and interest of controlled corporation	369,175,534 (Note 1, 2, 3&4)	580,000 (Note 5)	369,755,534(L)	32.90%
Ms. Zhao	Interest of controlled corporation and interest of spouse	369,175,534 (Note 1, 2, 3&4)	580,000 (Note 5)	369,755,534(L)	32.90%
LCNG	Interest of controlled corporation	369,175,534 (Note 1&2)	–	369,175,534(L)	32.84%
EIH	Interest of controlled corporation	369,175,534 (Note 1&2)	–	369,175,534(L)	32.84%
EGII	Beneficial owner and interest of controlled corporation	369,175,534 (Note 1)	–	369,175,534(L)	32.84%
The Capital Group Companies, Inc.	Interest of controlled corporation	175,334,136 (Note 6)	–	175,334,136(L)	15.60%
Capital Research and Management Company	Investment manager	175,334,136	–	175,334,136 (L)	15.60%
Commonwealth Bank of Australia	Interest of controlled corporation	63,485,079	–	63,485,079(L)	5.65%

Notes:

1. Of these shares, 39,926,534 shares are held by EIHL (a company which is wholly owned by EGII), EGII is deemed to be interested in the shares in which EIHL is interested. EGII is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.
2. On 30 November 2018, Mr. Wang and Ms. Zhao entered into an equity entrustment agreement with EIH, pursuant to which each of Mr. Wang and Ms. Zhao entrusts EIH to manage their respective shareholding of 50% in EGII till 31 December 2040. Pursuant to the agreement, EGII is controlled by EIH. Accordingly, EIH is deemed to be interested in the shares in which EGII is interested in (1) above.
3. EIH is a wholly-owned subsidiary of LCNG, LCNG hence is deemed to be interested in the shares in which EIH is interested in (1) and (2) above.
4. LCNG is 100% beneficially owned by. Mr. Wang and Ms. Zhao, hence they are deemed to be interested in the shares in which LCNG is interested in (1), (2) and (3) above.
5. As Mr. Wang's spouse, Ms. Zhao is deemed as holding Mr. Wang's interests in shares.
6. Of these shares, 175,334,136 shares are held by Capital Research and Management Company (a company which is wholly owned by The Capital Group Companies, Inc.).
7. (L) represents Long Position; (S) represents Short Position; (P) represents Lending Pool.

Substantial Shareholders *(continued)*

Save for the shareholders as disclosed herein, the Directors are not aware of any persons who, as at 31 December 2018, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

Save as disclosed above, as at 31 December 2018, the Company had not been notified of any other person who had interest or short position in the shares or underlying shares of the Company, which are required to be recorded in the register maintained by the Company pursuant to section 336 of Part XV of the SFO and Listing Rules.

Connected Transactions

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

Continuing Connected Transactions

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

The following table sets out the continuing connected transactions between the Group and the Wang Family Companies for the year ended 31 December 2018:

Transaction details	Annual Cap (RMB)	Transaction Sum (RMB)
(A) Energy Efficiency Technology Services		
On 17 October 2016, the Company entered into a Master Energy Efficiency Technology Services Agreement with the Xinao Group Co., Limited ("Xinao Group", a Wang Family Company) for a term commencing from 1 January 2017 and expiring on 31 December 2018, whereby the Wang Family Companies agreed to provide energy efficiency technology services to the Group.	594,000,000	187,640,000
(B) Equipment Purchasing and Modification Services		
On 17 October 2016, the Company entered into a Master Equipment Purchasing and Modification Services Agreement with Xinao Group for a term commencing from 1 January 2017 and expiring on 31 December 2018, whereby the Wang Family Companies agreed to provide equipment as well as equipment modification and enhancement services to the Group.	150,200,000	121,786,000
(C) Construction Services		
On 17 October 2016, the Company entered into a Master Construction Services Agreement with ENN Investment Holdings Co., Ltd ("EIH", a Wang Family Company) for a term commencing from 1 January 2017 and expiring on 31 December 2018, whereby the Wang Family Companies agreed to provide the Group with engineering design and construction services.	1,120,000,000	1,079,482,000
(D) Information Technology Services		
On 17 October 2016, the Company entered into a Master Information Technology Services Agreement with EIH for a term commencing from 17 October 2016 and expiring on 31 December 2018, whereby the Wang Family Companies agreed to provide the Group with information technology services.	335,403,000	279,393,000

Connected Transactions *(continued)*

Continuing Connected Transactions *(continued)*

Transaction details	Annual Cap (RMB)	Transaction Sum (RMB)
(E) LNG Purchasing		
On 17 October 2016, the Company entered into a Master LNG Purchasing Agreement with EIH for a term commencing from 1 January 2017 and expiring on 31 December 2018, whereby the Wang Family Companies agreed to provide the Group with LNG supply.	292,500,000	–
On 28 September 2018, the Company entered into a New Master LNG Purchasing Agreement with LCNG for a term commencing from 1 October 2018 and expiring on 31 December 2020, whereby the Wang Family Companies agreed to provide the Group with LNG supply.	1,520,000,000	668,600,000
(F) LNG Terminal Usage Services		
On 28 September 2018, the Company entered into a Master LNG Terminal Usage Services Agreement with LCNG for a term commencing from 1 October 2018 and expiring on 31 December 2028, whereby the Wang Family Companies agreed to provide LNG terminal usage services to the Group, such that the Group will be able to receive imported LNG through Zhoushan LNG Terminal.	238,000,000	–

Notes:

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

The continuing connected transactions mentioned above have been reviewed by the independent non-executive directors. The independent non-executive directors have confirmed that the transactions have been entered into:

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

(ii) on normal commercial terms; and

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

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the Auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 50 to 51 of this Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the Auditor's letter has been provided by the Company to the Stock Exchange.

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

Details of the related party transactions undertaken in the normal course of business are set out in Note 57 to the Consolidated Financial Statements. In relation to parts of those related party transactions that also constituted connected transactions under the Listing Rules, they are in compliance with applicable requirements under the Listing Rules and are reported in this Annual Report in accordance with the Listing Rules.

Connected Transactions *(continued)*

Other Connected Transactions

Save as disclosed above, the Group entered into the following connected transactions during the year:

Reference is made to the announcement dated 25 June and 16 August and the circular dated 16 July 2018, which disclosed that on 25 June 2018, the Company entered into the sales and purchase agreement with Essential Investment Holding Limited (the "Vendor", a company controlled by Wang Family) pursuant to which the Vendor has conditionally agreed to sell, and the Company has conditionally agree to purchase the entire issued share capital of Excellence Award Holding Company Limited. The target company and its subsidiaries are principally engaged in the business of providing technology solutions of multiple forms of energy in China. The consideration for the acquisition is RMB2,606,595,755 (equivalent to approximately HK$3,194,122,681), which shall be fully settled by the allotment and issue, credited as fully paid, of 39,926,534 consideration shares to the Vendor the completion date. All the conditions precedent in respect of the acquisition as set out in the sub-section of "THE SPA – Conditions Precedent" in the "Letter from the Board" on page 12 of the circular dated 16 July 2018 have been fulfilled and the completion took place on 16 August 2018. Details of the acquisition was set out on Note 48 to the Consolidated Financial Statements.

Reference is made to the announcement dated 28 September 2018, which disclosed that on 28 September 2018, ENN Langfang Gas Company Limited (an indirect wholly-owned subsidiary of the Company and as a limited partner) entered into a limited partnership agreement with Zhongzhi Ruiyi Investment Management Company Limited (a Wang Family Company and as a general partner) and Langfang Chasin Investment Fund Co., Ltd (as a limited partner), pursuant to which the parties agreed to establish a fund of size amounted to RMB2,440 million. The purpose to establish the fund is to echo the "Three-year Action Plan to Win the Blue Sky Defense War" of the PRC government and focusing on investing in projects in the field of centralised heating supply, atmospheric pollution prevention, new energy, energy saving and emission reduction in Langfang, Heibei Province, the PRC. At the same date, the announcement also disclosed that Xinao (China) Gas Investment Limited ("Xinao (China)"), a direct wholly-owned subsidiary of the Company) and ENN Investment Holdings Limited Co., Ltd ("EIH") entered into a share transfer agreement, pursuant to which Xinao (China) as purchaser conditional agreed to acquire and EIH as vendor conditionally agreed to dispose her 4.5% equity interest in ENN Finance Co., Ltd. The consideration for the acquisition amounted to approximately RMB100 million. As at 31 December 2018, there was no contribution made by any party of the aforesaid established fund and the share transfer of ENN Finance Co., Ltd was not yet completed.

Directors' Rights to Acquire Shares or Debentures

Other than the Share Option Schemes as set out in the section headed "Share-based Compensation Scheme" and disclosed in Note 46 to the Consolidated Financial Statements, and the Shares Award Scheme as set out in the section headed "Share-based Compensation Scheme" in this report, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2018. At no time during the year was the Company, its parent company, or any of its subsidiaries a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other corporate.

Equity-Linked Agreements

Save for Share Option Schemes and Award Share Scheme as disclosed in this Annual Report, no equity-linked agreements were entered into during the year or subsisted at the end of the year.

Major Customers and Suppliers

Both the percentage of the purchases attributable from the Group's five largest suppliers and the percentage of the revenue attributable from the Group's five largest customers were approximately 30% and 6% respectively during the year.

Pre-emptive Rights

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

Environmental Policies and Performance

The Group's mission is "advocating clean energy, improving living environment, increasing system energy efficiency and creating value for clients". With an aim to meet customers' needs, the Group leverages its clean energy reserve and transportation resources accumulated for a long time and develops the most efficient tailor-made energy solutions for domestic and overseas clients through its system energy efficiency technology platforms. The Group reduced the harm to the environment caused by economic development by promoting clean energy and conducting energy saving and emission reduction projects. In 2018, the Group recorded a volume of 22.07 billion cubic metres of natural gas sales for city-gas and energy trading business, equivalent to reducing 29.35 million tons of standard coals and reducing 28.02 million tons of carbon dioxide. Volume of gas sales for vehicle business amounted to 1.26 billion cubic metres during the year, equivalent to reducing 1,138,900 tons of gasoline consumption and reducing the emission of 654,000 tons of carbon dioxide.

Compliance with Laws and Regulations

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

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

Relationships with Key Stakeholders

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

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

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

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

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

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

Purchase, Sale or Redemption of Listed Securities

During the year, the Company repurchased a total of 1,419,400 ordinary shares on the Stock Exchange at an aggregate consideration of HK$89,310,054.34. Details of the repurchase are as follows:

		Price per share		
Date	**Total number of shares repurchased**	**Highest**	**Lowest**	**Aggregate Consideration**
		HK$	HK$	HK$
4 October 2018	200,000	61.95	60.80	12,315,750.00
5 October 2018	300,000	62.80	61.70	18,657,060.00
8 October 2018	274,500	61.45	61.25	16,853,998.05
11 October 2018	172,500	65.00	64.25	11,167,874.25
12 October 2018	272,400	64.50	63.35	17,447,792.04
15 October 2018	200,000	64.50	63.50	12,867,580.00
	1,419,400			89,310,054.34

1,419,400 ordinary shares repurchased during the year were cancelled on 16 November 2018.

The purpose of shares repurchased is to increase net assets value per share and earnings per share. The share repurchase complied with the general mandate to the Board to repurchase the Company's shares that passed in the Company's 2018 AGM. Save as disclosed above, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company's listed securities.

Audit Committee

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

A meeting of the Audit Committee was held on 20 March 2019 to review with the management on the Group's annual results and the Audited Consolidated Financial Statements for the year ended 31 December 2018.

Compliance with the Corporate Governance Code

To the knowledge of the Board, the Company has complied with the code provisions set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules throughout the year except a deviation from Code Provision E.1.2. Details are set out on pages 30 to 42 of the Corporate Governance Report in this Annual Report.

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

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

Public Float

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

Loan Agreements Imposing Specific Performance Obligations on Controlling Shareholders

The Company issued 10-year senior notes on 13 May 2011 (the "2021 Senior Notes") in an aggregate amount of USD750 million (equivalent to RMB4,863 million). The terms and conditions of the 2021 Senior Notes requires Mr. Wang, the controlling shareholder of the Company, to retain his interests in the Company of at least 25% of the total issued share capital of the Company throughout the term of the respective agreements. The balance of the 2021 Senior Notes outstanding as at 31 December 2018 is USD366 million (equivalent to RMB2,491 million).

The Company issued two 5-year bonds on 23 October 2014 (the "2019 Unsecured Bonds") and on 24 July 2017 (the "2022 Unsecured Bonds") which were due on 2019 and 2022 respectively. The terms and conditions of these two bonds require Mr. Wang, the controlling shareholder of the Company, to retain his interests in the Company of at least 20% of the total issued share capital of the Company throughout the term of the bonds. The principal loan balances of these two bonds are USD400 million (equivalent to RMB2,460 million) and USD600 million (equivalent to RMB4,066 million). As at 31 December 2018, the outstanding balances are USD64.80 million (equivalent to RMB443 million) and USD600 million (equivalent to RMB4,096 million) respectively.

Moreover, the Company entered into a club loan agreement with various banks in the amount of USD300 million (equivalent to RMB2,059 million) for a term of three years. The terms and conditions of the club loan agreement requires EGII, the controlling shareholder of the Company, to retain its interest in the Company of at least 20% of the total issued share capital of the Company throughout the terms of the loan, or Mr. Wang and Ms. Zhao collectively to retain their interest in the Company of at least 20% of the total issued share capital of the Company throughout the terms of the loan and remained as the single largest group of direct or indirect holder of the issued share capital of the Company. As at 31 December 2018, the outstanding balances are USD210 million (equivalent to RMB1,441 million).

Interests in Competitors

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

Auditor

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

On behalf of the Board
WANG Yusuo
Chairman

Hong Kong, 21 March 2019

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF ENN ENERGY HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of ENN Energy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 59 to 172, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Recognition of intangible assets related to a significant acquisition of business	
The Group completed a significant acquisition to purchase the entire equity interests of Excellence Award Holding Company Limited and its subsidiaries (collectively referred to as ''EAH Group") (the "Acquisition") from a related company on 16 August 2018. The total consideration was approximately RMB2,502 million, representing issuance of 39,926,534 ordinary shares of the Company measured at closing market price at completion date of HK$71.35 per share. The Group accounted for this acquisition under the acquisition method of business combinations. Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values, including technology intangible assets of RMB549 million. We identified the recognition of intangible assets related to the Acquisition as a key audit matter due to the significance of intangible assets to the consolidated financial statements and the significant estimation uncertainty. Management determined the fair value of intangible assets using excess earning method with the assistance of an independent professional valuer which requires an estimation of future results, a set of estimations and a determination of key inputs, including the profit margins, revenue growth rates and discount rates. Any changes to these inputs may have significant impact on the fair value of intangible assets recognised in the Acquisition. Details of disclosures are set out in Notes 5 and 48 to the consolidated financial statements.	Our procedures in relation to the recognition of intangible assets related to the Acquisition included: • Evaluating the independent professional valuer's competence, capabilities and objectivity and how the valuer's work was relied on by management; • Evaluating the valuation methodology and models and significant assumptions adopted related to the discount rate, and testing the mathematical accuracy with the assistance of internal valuation specialists; • Assessing the reasonableness of future operating cash flows with reference to the past performance and management's expectations for the market developments, including checking the accuracy of the underlying calculations; and • Challenging the profit margins, short-term and long-term growth rate assumed to the Group's historical performances or external market data where available.

Key Audit Matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Fair value measurement of commodity derivative contracts	
We identified the fair value measurement of commodity derivative contracts (Note 24 to the consolidated financial statements) as a key audit matter due to the significance of the changes in fair value to the consolidated financial statements and the significant judgements associated with the fair value measurement. The fair value measurement of commodity derivative contracts is complex and requires judgments in areas such as estimates of future price curves, market price volatility and counterparty's credit risk. Any changes to these estimates may have significant impact on the fair value.	Our procedures in relation to the fair value measurement of commodity derivative contracts included: • Testing the design and implementation of key controls relating to valuation of commodity derivative contracts and relevant accounting treatments; • Testing the completeness of commodity derivative contracts by arranging confirmations to the counterparties and inspecting the supporting documents on a sample basis; and • With the assistance of internal valuation specialists, evaluating the appropriateness of management's valuation methodology, challenging key inputs involving in determining the fair value of commodity derivative contracts, including the forward price curves used, the expected market variation and the counterparty's credit risk, and checking the calculation on a sample basis.

Other Information

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
21 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018 RMB million**	2017 RMB million
Revenue	6	**60,698**	48,269
Cost of sales		**(51,188)**	(39,930)
Gross profit		**9,510**	8,339
Other income	8	**949**	676
Other gains and losses	9	**(1,634)**	(895)
Distribution and selling expenses		**(790)**	(635)
Administrative expenses		**(2,673)**	(2,377)
Share of results of associates		**275**	129
Share of results of joint ventures		**601**	505
Finance costs	10	**(637)**	(552)
Profit before tax	11	**5,601**	5,190
Income tax expense	13	**(1,783)**	(1,517)
Profit for the year		**3,818**	3,673
Other comprehensive income (expense)			
Items that will not be reclassified to profit or loss:			
Gain on revaluation of properties arising from the transfer to investment properties		**6**	4
Fair value loss on equity instruments at fair value through other comprehensive income ("FVTOCI")		**(7)**	–
		(1)	4
Items that have been reclassified or may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**–**	(88)
Fair value loss on available-for-sale ("AFS") financial assets		**–**	(46)
Release of exchange reserve to profit or loss upon disposal of subsidiaries		**(40)**	–
		(40)	(134)
Other comprehensive expense for the year		**(41)**	(130)
Total comprehensive income for the year		**3,777**	3,543
Profit for the year attributable to:			
Owners of the Company		**2,818**	2,802
Non-controlling interests		**1,000**	871
		3,818	3,673
Total comprehensive income for the year attributable to:			
Owners of the Company		**2,778**	2,672
Non-controlling interests		**999**	871
		3,777	3,543

	Notes	**RMB**	RMB
Earnings per share	15		
– Basic		**2.56**	2.59
– Diluted		**2.56**	2.59

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	**2018** **RMB million**	2017 RMB million
Non-current Assets			
Property, plant and equipment	16	**31,073**	25,490
Prepaid lease payments	17	**1,401**	1,262
Investment properties	18	**265**	246
Goodwill	19	**2,248**	192
Intangible assets	20	**3,037**	1,681
Interests in associates	21	**3,049**	1,505
Interests in joint ventures	22	**3,620**	3,929
Other receivables	23	**145**	183
Financial assets at fair value through profit or loss (“FVTPL”)	24	**4,845**	5
Equity instruments at FVTOCI	25	**112**	–
AFS financial assets	26	**–**	4,578
Amounts due from associates	29	**353**	278
Amounts due from joint ventures	30	**68**	674
Deferred tax assets	32	**1,159**	941
Deposits paid for investments	33	**190**	35
Deposits paid for acquisition of property, plant and equipment, land use rights and right of operation		**171**	104
Restricted bank deposits	36	**639**	486
		52,375	41,589
Current Assets			
Inventories	34	**1,331**	744
Trade and other receivables	23	**8,560**	6,068
Contract assets	28	**612**	–
Amounts due from customers for contract work	35	**–**	553
Prepaid lease payments	17	**39**	37
Financial assets at FVTPL	24	**735**	4
AFS financial assets	26	**–**	528
Amounts due from associates	29	**523**	367
Amounts due from joint ventures	30	**1,523**	943
Amounts due from related companies	31	**231**	112
Restricted bank deposits	36	**62**	241
Cash and cash equivalents	36	**7,923**	7,972
		21,539	17,569
Assets classified as held for sale		**–**	57
		21,539	17,626

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 RMB million	2017 RMB million
Current Liabilities			
Trade and other payables	37	**7,103**	11,217
Contract liabilities	38	**10,490**	–
Deferred income	39	**25**	243
Amounts due to customers for contract work	35	**–**	2,134
Amounts due to associates	29	**351**	282
Amounts due to joint ventures	30	**1,693**	1,677
Amounts due to related companies	31	**793**	642
Taxation payables		**782**	982
Bank and other loans – due within one year	41	**8,621**	1,737
Corporate bonds	42	**2,497**	2,996
Unsecured bonds	45	**443**	–
Convertible bonds at FVTPL	44	**–**	3,635
Financial guarantee liability		**–**	5
Financial liabilities at FVTPL	24	**219**	17
		33,017	25,567
Liabilities associated with assets classified as held for sale		**–**	38
		33,017	25,605
Net Current Liabilities		**(11,478)**	(7,979)
Total Assets less Current Liabilities		**40,897**	33,610
Capital and Reserves			
Share capital	40	**116**	112
Reserves		**21,269**	16,840
Equity attributable to owners of the Company		**21,385**	16,952
Non-controlling interests		**4,169**	3,265
Total Equity		**25,554**	20,217
Non-current Liabilities			
Contract liabilities	38	**3,240**	–
Deferred income	39	**520**	3,185
Amounts due to joint ventures	30	**970**	–
Bank and other loans – due after one year	41	**2,101**	523
Corporate bonds	42	**–**	2,494
Senior notes	43	**2,491**	2,366
Unsecured bonds	45	**4,096**	4,316
Financial liabilities at FVTPL	24	**924**	81
Deferred tax liabilities	32	**1,001**	428
		15,343	13,393
		40,897	33,610

The consolidated financial statements on pages 59 to 172 were approved and authorised for issue by the Board of Directors on 21 March 2019 and are signed on its behalf by:

Wang Yusuo
DIRECTOR

Wang Dongzhi
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Equity attributable to owners of the Company											
	Share capital RMB million (Note 40)	Share premium RMB million	Special reserve RMB million (note a)	Revaluation reserve RMB million	Share options reserve RMB million	Exchange reserve RMB million	Surplus reserve fund RMB million (note b)	Designated safety fund RMB million (note c)	Retained earnings RMB million	Total RMB million	Non-controlling interests RMB million	Total equity RMB million
At 1 January 2017	112	20	(94)	13	54	125	1,869	46	12,821	14,966	2,888	17,854
Profit for the year	–	–	–	–	–	–	–	–	2,802	2,802	871	3,673
Other comprehensive income for the year	–	–	–	(42)	–	(88)	–	–	–	(130)	–	(130)
Total comprehensive income for the year	–	–	–	(42)	–	(88)	–	–	2,802	2,672	871	3,543
Recognition of equity-settled share-based payment (Note 46)	–	–	–	–	34	–	–	–	–	34	–	34
Share repurchase (Note 40)	–	–	–	–	–	–	–	–	–	–	–	–
Issue of ordinary shares on exercise of share options (Note 46)	–	52	–	–	(14)	–	–	–	–	38	–	38
Acquisition of subsidiaries and businesses (Notes 48 & 49)	–	–	–	–	–	–	–	–	–	–	112	112
Acquisition of additional interests in subsidiaries	–	–	2	–	–	–	–	–	15	17	(17)	–
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	79	79
Dividends appropriation (Note 14)	–	–	–	–	–	–	–	–	(775)	(775)	–	(775)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	(668)	(668)
Transfer to surplus reserve fund (note b)	–	–	–	–	–	–	213	–	(213)	–	–	–
Transfer to designated safety fund (note c)	–	–	–	–	–	–	–	13	(13)	–	–	–
At 31 December 2017	112	72	(92)	(29)	74	37	2,082	59	14,637	16,952	3,265	20,217
Adjustments (Note 3)	–	–	–	45	–	–	–	–	12	57	–	57
At 1 January 2018 (restated)	112	72	(92)	16	74	37	2,082	59	14,649	17,009	3,265	20,274
Profit for the year	–	–	–	–	–	–	–	–	2,818	2,818	1,000	3,818
Other comprehensive income for the year	–	–	–	–	–	(40)	–	–	–	(40)	(1)	(41)
Total comprehensive income for the year	–	–	–	–	–	(40)	–	–	2,818	2,778	999	3,777
Recognition of equity-settled share-based payment (Note 46)	–	–	–	–	19	–	–	–	–	19	–	19
Share repurchase (Note 40)	–	(78)	–	–	–	–	–	–	–	(78)	–	(78)
Issue of ordinary shares on exercise of share options (Notes 40 & 46)	–	48	–	–	(15)	–	–	–	–	33	–	33
Issue of ordinary shares on conversion of convertible bonds (Note 44)	–	79	–	–	–	–	–	–	–	79	–	79
Issue of ordinary shares on acquisition of subsidiaries (Note 48)	4	2,493	–	–	–	–	–	–	–	2,497	–	2,497
Acquisition of subsidiaries and businesses (Notes 48 & 49)	–	–	–	–	–	–	–	–	–	–	259	259
Disposal of subsidiaries (Note 50)	–	–	–	–	–	–	–	–	–	–	(51)	(51)
Disposal of equity instrument at FVTOCI	–	–	–	6	–	–	–	–	(6)	–	–	–
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	234	234
Dividends appropriation (Note 14)	–	–	–	–	–	–	–	–	(952)	(952)	–	(952)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	(537)	(537)
Transfer to surplus reserve fund (note b)	–	–	–	–	–	–	332	–	(332)	–	–	–
Transfer to designated safety fund (note c)	–	–	–	–	–	–	–	1	(1)	–	–	–
At 31 December 2018	116	2,614	(92)	22	78	(3)	2,414	60	16,176	21,385	4,169	25,554

Notes:

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 RMB million	2017 RMB million
OPERATING ACTIVITIES			
Profit before tax		**5,601**	5,190
Adjustments for:			
Share of results of associates		**(275)**	(129)
Share of results of joint ventures		**(601)**	(505)
Exchange differences		**635**	(358)
Fair value loss on convertible bonds at FVTPL		**249**	278
Fair value loss on financial assets/liabilities at FVTPL		**797**	314
Impairment losses on property, plant and equipment		**–**	478
Impairment losses on receivables, net		**64**	145
Loss on disposal of property, plant and equipment		**47**	55
Gain on disposal of prepaid lease payments		**(13)**	(14)
Loss on disposal of subsidiaries	50	**2**	13
Gain on remeasurement of interest on joint ventures previously held		**(111)**	–
Gain on dilution of equity interests in joint ventures		**(72)**	–
Gain on disposal of joint ventures		**(16)**	–
Gain on disposal of an associate		**–**	(18)
Gain on disposal of an AFS investment		**–**	(1)
(Gain) loss on repurchase and redemption of convertible bonds at FVTPL	44	**(34)**	4
Dividends income from an AFS investment		**–**	(148)
Dividends income from financial assets at FVTPL		**(352)**	–
Dividends income from equity instruments at FVTOCI		**(2)**	–
Increase in fair value of investment properties		**(9)**	(10)
Share-based payment expenses		**19**	34
Depreciation of property, plant and equipment		**1,144**	1,016
Amortisation of intangible assets		**142**	102
Release of prepaid lease payments		**43**	38
Financial guarantee income		**(5)**	(17)
Interest income on bank deposits and loan receivables		**(162)**	(222)
Finance costs		**637**	552
		7,728	6,797
Movements in working capital:			
Increase in inventories		**(404)**	(220)
Increase in trade and other receivables		**(1,724)**	(2,139)
Increase in amounts due from customers for contract work		**–**	(250)
Decrease in contract assets		**65**	–
Increase in contract liabilities		**1,877**	–
Increase in amounts due from associates		**(130)**	(110)
Increase in amounts due from joint ventures		**(110)**	(178)
Decrease (increase) in amounts due from related companies		**246**	(18)
Increase in trade and other payables		**956**	2,697
Decrease in amounts due to customers for contract work		**–**	(15)
Increase in amounts due to joint ventures		**1,680**	223
Increase (decrease) in amounts due to associates		**161**	(19)
Increase in deferred income		**207**	594
(Decrease) increase in amounts due to related companies		**(306)**	202
Cash generated from operations		**10,246**	7,564
PRC enterprise income tax paid		**(1,952)**	(1,471)
Net cash generated from operating activities		**8,294**	6,093

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	**2018 RMB million**	2017 RMB million
INVESTING ACTIVITIES			
Dividends received from joint ventures		**463**	545
Dividends received from associates		**100**	43
Dividends received from an AFS investment		**–**	148
Dividends received from financial assets at FVTPL		**352**	–
Dividends received from equity instruments at FVTOCI		**2**	–
Settlement of financial assets/liabilities at FVTPL		**(122)**	(55)
Option premium received		**106**	–
Interest received		**162**	222
Amounts advanced to banks and other financial institutions by ENN Finance Company Limited ("ENN Finance")		**–**	(1,250)
Amounts withdrawn from banks and other financial institutions by ENN Finance		**–**	1,250
Purchases of property, plant and equipment		**(5,918)**	(4,527)
Acquisition of intangible assets		**(73)**	(74)
Increase in prepaid lease payments		**(123)**	(88)
Proceeds from disposal of property, plant and equipment		**93**	8
Proceeds from disposal of prepaid lease payments		**39**	50
Purchases of wealth management products		**(22,118)**	(14,434)
Release of wealth management products		**22,859**	14,511
Deposits paid for investments		**(182)**	(27)
Deposits paid for prepaid lease payments		**(92)**	(11)
Deposits paid for acquisition of property, plant and equipment		**(46)**	(19)
Net cash outflow on acquisition of subsidiaries and businesses	48&49	**(488)**	(91)
Net cash inflow on disposal of subsidiaries	50	**43**	8
Proceeds from disposal of joint ventures		**79**	–
Proceed from disposal of an associate		**5**	–
Proceed from disposal of an AFS investment		**–**	11
Proceed from capital released from a joint venture		**61**	–
Purchase of an AFS equity investment		**–**	(52)
Purchases of financial assets at FVTPL		**(527)**	–
Purchases of equity instruments at FVTOCI		**(10)**	–
Investments in joint ventures		**(53)**	(186)
Investments in associates		**(1,121)**	(94)
Addition of restricted bank deposits		**(213)**	(3,419)
Release of restricted bank deposits		**254**	3,533
Amounts advanced to third parties		**(153)**	–
Amounts advanced to associates		**(293)**	(273)
Amounts repaid by associates		**177**	12
Amounts advanced to joint ventures		**(696)**	(308)
Amounts repaid by joint ventures		**804**	66
Amounts advanced to related companies		**(7)**	(33)
Amounts repaid by related companies		**34**	2
Net cash used in investing activities		**(6,602)**	(4,532)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB million	2017 RMB million
FINANCING ACTIVITIES		
Interest paid	**(748)**	(562)
Amounts advanced from banks and other financial institutions by ENN Finance	**11,660**	800
Amounts repaid to banks and other financial institutions by ENN Finance	**(11,660)**	(800)
Repurchase of shares	**(78)**	–
Net proceeds from ordinary shares issued on exercise of share options	**33**	38
Proceeds from issuance of unsecured bonds	**–**	4,037
Proceeds used in repurchase and redemption of convertible bonds at FVTPL	**(3,771)**	(162)
Capital contribution from non-controlling shareholders	**234**	79
Dividends paid to non-controlling shareholders	**(537)**	(668)
Dividends paid to shareholders	**(952)**	(775)
New bank loans raised	**11,519**	5,797
Repayment of bank loans	**(3,667)**	(7,687)
Repayment of corporate bonds	**(3,000)**	–
Repayment of medium-term notes	**–**	(700)
Amounts advanced from associates	**173**	93
Amounts repaid to associates	**(265)**	(10)
Amounts advanced from joint ventures	**552**	140
Amounts repaid to joint ventures	**(1,246)**	(331)
Amounts advanced from related companies	**9**	9
Amounts repaid to related companies	**(30)**	(6)
Net cash used in financing activities	**(1,774)**	(708)
Net (decrease) increase in cash and cash equivalents	**(82)**	853
Effect of foreign exchange rate changes	**30**	(41)
Cash and cash equivalents at the beginning of the year	**7,975**	7,163
Cash and cash equivalents at the end of the year	**7,923**	7,975
Represented by:		
Cash and cash equivalents included in assets classified as held for sale	**–**	3
Cash and cash equivalents at the end of the year	**7,923**	7,972
	7,923	7,975

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

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

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

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 58.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company (the "Directors") have given careful consideration of the Group's net current liabilities of approximately RMB11,478 million as at 31 December 2018. A wholly-owned subsidiary of the Company has been approved by China Securities Regulatory Commission on 10 December 2018 to issue corporate bonds amounting to RMB5,000 million and issued the 3-year corporate bonds of RMB500 million in January 2019 and RMB1,000 million in March 2019. Except for the unutilised issuance quota of the corporate bonds, the Group has unutilised credit facilities of approximately RMB8,779 million at the date of approval of the consolidated financial statements, of which approximately RMB5,574 million are subject to renewal within twelve months from the end of the reporting period. The Directors are therefore satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the consolidated financial statements for the year ended 31 December 2018 have been prepared on a going concern basis.

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

New and Amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

3.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated. Furthermore, in accordance with the transition provision in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

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

New and Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

3.1 HKFRS 15 Revenue from Contracts with Customers (continued)

The accounting policies in relation to application of HKFRS 15 are disclosed in Note 4.

The Group recognises revenue from the following major sources which arise from contracts with customers:

1) Sales of goods

The Group sells multi-energy products, such as natural gas, liquefied natural gas ("LNG"), compressed natural gas ("CNG"), heating, cooling, steam and integrated energy appliances to customers.

2) Construction

The Group provides construction and installation services under construction contracts with its customers.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	**Carrying amounts previously reported at 31 December 2017**	**Reclassification**	**Carrying amounts under HKFRS 15 at 1 January 2018***
		RMB million	RMB million	RMB million
Current Assets				
Contract assets	a & c	–	683	683
Amounts due from customers for contract work	a	553	(553)	–
Trade and other receivables	c	6,068	(130)	5,938
Current Liabilities				
Contract liabilities	a, b & d	–	8,931	8,931
Amounts due to customers for contract work	a	2,134	(2,134)	–
Trade and other payables	d	11,217	(6,569)	4,648
Deferred income	b	243	(228)	15
Non-current Liabilities				
Contract liabilities	b	–	2,867	2,867
Deferred income	b	3,185	(2,867)	318

* The amounts in this column are before the adjustments from the application of HKFRS 9.

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

New and Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

3.1 HKFRS 15 Revenue from Contracts with Customers (continued)

Notes:

a. For construction and installation contracts, the Group continues to recognise revenue over time and apply output method in estimating the performance obligations satisfied up to date of initial application of HKFRS 15. Amounts due from/to customers for contract work of RMB553 million and RMB2,134 million were reclassified to contract assets and contract liabilities respectively.

b. At the date of initial application, included in the deferred income was RMB3,095 million which represents connection fees and subsidies received from certain customers for the construction of main gas pipelines and related to maintaining the ongoing deliverability to supply gas at the discretion of the customers, and hence such balance was reclassified to contract liabilities.

c. At the date of initial application, unbilled revenue of RMB130 million arising from construction and installation contracts are conditional on the confirmation of acceptance by customers on construction service, and hence such balance was reclassified from trade and other receivables to contract assets.

d. At the date of initial application, considerations received from customers of RMB6,569 million in respect of the sale of goods or the construction and installation contracts previously included in trade and other payables were reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of profit or loss and other comprehensive income for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	Adjustments	Amounts without application of HKFRS 15
	RMB million	RMB million	RMB million
Current Assets			
Contract assets	612	(612)	–
Amounts due from customers for contract work	–	612	612
Current Liabilities			
Contract liabilities	10,490	(10,490)	–
Amounts due to customers for contract work	–	2,711	2,711
Trade and other payables	7,103	7,500	14,603
Deferred income	25	279	304
Non-current Liabilities			
Contract liabilities	3,240	(3,240)	–
Deferred income	520	3,240	3,760

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

New and Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

3.1 HKFRS 15 Revenue from Contracts with Customers (continued)

Impact on the consolidated statement of profit or loss and other comprehensive income

	Note	**As reported** RMB million	**Adjustments** RMB million	**Amounts without application of HKFRS 15** RMB million
Revenue	a	60,698	3,287	63,985
Cost of sales		51,188	3,287	54,475

Note:

a. Under HKAS 18, the Group was considered as a principal due to its significant exposure to credit risk of customers. Therefore, the Group recognised sales of material on gross basis. Upon application of HKFRS 15, the Group is considered as an agent as the Group did not obtain the control over the goods before passing on to customers. Its performance obligation is to arrange for the provision of material by another party. The adoption of HKFRS15 resulted in a reduction of revenue by RMB3,287 million for the year ended 31 December 2018.

Impact on the consolidated statement of statement of cash flows

	As reported RMB million	**Adjustments** RMB million	**Amounts without application of HKFRS 15** RMB million
Increase in trade and other receivables	(1,724)	124	(1,600)
Decrease in contract assets	65	(65)	–
Increase in amounts due from customers for contract work	–	(59)	(59)
Decrease in amounts due to customers for contract work	–	577	577
Increase in trade and other payables	956	871	1,827
Increase in contract liabilities	1,877	(1,877)	–
Increase in deferred income	207	429	636

3.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 "Financial Instruments", and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

The accounting policies in relation to application of HKFRS 9 are disclosed in Note 4.

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

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

New and Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

3.2 HKFRS 9 Financial Instruments (continued)

	Notes	AFS financial assets RMB million	Financial assets at FVTPL required by HKAS 39/ HKFRS 9 RMB million	Equity instruments at FVTOCI RMB million	Receivables* RMB million	Contract assets RMB million	Revaluation reserve RMB million	Retained earnings RMB million
Closing balance at 31 December 2017 – HKAS 39		5,106	9	–	8,625	–	29	(14,637)
Effect arising from initial application of HKFRS 15		–	–	–	(130)	683	–	–
Effect arising from initial application of HKFRS 9:								
Reclassification								
From AFS financial assets	a	(5,106)	4,998	108	–	–	(44)	44
From trade and other receivables	b	–	275	–	(275)	–	–	–
Remeasurement								
Impairment under ECL model	c	–	–	–	(2)	(1)	–	3
From cost less impairment to fair value	a	–	59	1	–	–	(1)	(59)
Opening balance at 1 January 2018 – HKFRS 9		–	5,341	109	8,218	682	(16)	(14,649)

* The amounts in this column included trade and other receivables and amounts due from joint ventures, associates and related companies.

Summary of effects arising from initial application of HKFRS 9

(a) Reclassification from AFS financial assets

From AFS financial assets to FVTPL

At the date of initial application of HKFRS 9, the Group's equity investments of RMB4,998 million were reclassified from AFS financial assets to financial assets at FVTPL. The fair value gains of RMB59 million relating to those equity investments previously carried at cost less impairment were adjusted to financial assets at FVTPL and retained earnings as at 1 January 2018. The fair value losses of RMB44 million relating to those investments previously carried at fair value were transferred from revaluation reserve to retained earnings as at 1 January 2018.

From AFS financial assets to FVTOCI

Except for the equity investments reclassified as financial assets at FVTPL, the Group elected to present in other comprehensive income ("OCI") the fair value changes of all other equity investments previously classified as AFS financial assets, of RMB108 million relating to unquoted equity investments previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, RMB108 million were reclassified from AFS financial assets to equity instruments at FVTOCI. The fair value gains of RMB1 million relating to those unquoted equity investments previously carried at cost less impairment were adjusted to revaluation reserve as at 1 January 2018.

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

New and Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

3.2 HKFRS 9 Financial Instruments (continued)

Summary of effects arising from initial application of HKFRS 9 *(continued)*

(b) Reclassification from trade and other receivables

From trade and other receivables to FVTPL

At the date of initial application of HKFRS 9, The Group's investments in wealth management products of RMB275 million were reclassified from other receivables to financial assets at FVTPL because their cash flows do not represent solely payments of principal and interest on the principal amount outstanding.

(c) Impairment under ECL model

The Group applies the simplified approach under HKFRS 9 to measure ECL which uses a lifetime ECL for all contract assets, trade receivables and amounts due from joint ventures, associates and related companies arising from contracts with customers. To measure the ECL, contract assets, trade receivables and amounts due from joint ventures, associates and related companies arising from contracts with customers have been grouped based on shared credit risk characteristic. The contract assets relate to unbilled work in progress and have substantially the same risk characteristic as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables are a reasonable approximation of the expected loss rates for the contract assets.

Loss allowances for other financial assets at amortised cost including restricted bank deposits, bank balances, loan receivables, other receivables, bills receivable and non-trade nature of amounts due from joint ventures, associates and related companies are measured on 12-month ECL ("12m ECL") basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of RMB3 million has been recognised in retained earnings.

All loss allowances of financial assets at amortised cost as at 31 December 2017 is reconciled to the opening loss allowances as at 1 January 2018 as follows:

	Contract assets RMB million	**Receivables** RMB million
At 31 December 2017 – HKAS 39	–	275
Amounts remeasured through opening retained earnings	1	2
At 1 January 2018 – HKFRS 9	1	277

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

New and Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

3.3 Impacts on opening consolidated statement of financial position arising from the application of HKFRS 15 and HKFRS 9

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	At 31 December 2017 (audited) RMB million	**HKFRS 15** RMB million	**HKFRS 9** RMB million	**At 1 January 2018 (restated)** RMB million
Non-current Assets				
AFS financial assets	4,578	–	(4,578)	–
Financial assets at FVTPL	5	–	4,529	4,534
Equity instruments at FVTOCI	–	–	109	109
Amounts due from associates	278	–	(4)	274
Amounts due from joint ventures	674	–	(8)	666
Current Assets				
Contract assets	–	683	(1)	682
Amounts due from customers for contract work	553	(553)	–	–
Trade and other receivables	6,068	(130)	(240)	5,698
AFS financial assets	528	–	(528)	–
Financial assets at FVTPL	4	–	803	807
Amounts due from associates	367	–	(7)	360
Amounts due from joint ventures	943	–	(14)	929
Amounts due from related companies	112	–	(4)	108
Current Liabilities				
Contract liabilities	–	8,931	–	8,931
Amounts due to customers for contract work	2,134	(2,134)	–	–
Trade and other payables	11,217	(6,569)	–	4,648
Deferred income	243	(228)	–	15
Capital and Reserves				
Revaluation reserve	(29)	–	45	16
Retained earnings	14,637	–	12	14,649
Non-current Liabilities				
Contract liabilities	–	2,867	–	2,867
Deferred income	3,185	(2,867)	–	318

For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

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

New and revised HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[1]

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

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

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

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

5 Effective for annual periods beginning on or after 1 January 2020

Except for the new and amendments to HKFRSs mentioned below, the Directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability has to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

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

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

HKFRS 16 Leases (continued)

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB839 million as disclosed in Note 52. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for short-term leases or leases of low-value assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

Amendments to HKFRS 3 Definition of a Business

The amendments clarify the definition of a business and provide additional guidance with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. Furthermore, an optional concentration test is introduced to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments will be mandatorily effective to the Group prospectively for acquisition transactions completed on or after 1 January 2020.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation *(continued)*

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

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

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

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

Business combinations

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

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

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

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

(c) assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

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

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date, and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquire prior to the acquisition date that have been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations *(continued)*

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

Acquisition of a subsidiary not constituting a business

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

Goodwill

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

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

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

On disposal of the relevant CGUs or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

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

Investments in associates and joint ventures

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures *(continued)*

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

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

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Non-current assets held for sale

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

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

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

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

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 3)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Performance obligations for contracts with customers

The Group recognises revenue from the following sources:

1) Sales of piped gas

   The Group sells natural gas to customers through pipelines, including both residential households and commercial and industrial customers. Revenue recognised when the piped natural gas is transferred to and consumed by customers of which the volume of gas sold is measured by gas meters installed at customer sites.

2) Sales of integrated energy

   The Group supplies various energy products, such as gas, electricity, cooling, heating and steam. Revenue from sale of integrated energy is recognised when the energy is transferred to and consumed by the customers.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 3) *(continued)*

Performance obligations for contracts with customers (continued)

3) Construction and installation

The Group provides construction and installation service under construction contracts with its customers. Such contracts are entered into for customers to gain access to the Group's gas pipelines or supply of integrated energy. Revenue is recognised over time based on the completion status of respective construction. The construction period is typically less than one year. The directors consider that this output method is an appropriate measure of the progress towards complete satisfaction of the performance obligation as stated in the contracts under HKFRS 15.

4) Wholesale of gas

The Group supplies bulk LNG to wholesale customers. Revenue is recognised when control of LNG has transferred, being when the LNG has been delivered to the customers' specific location.

5) Vehicle gas refuelling stations

The Group operates vehicle gas refuelling stations to refuel vehicles with LNG and CNG. Revenue is recognised when the refuelling is completed at the refuelling stations, being the time when LNG or CNG is transferred to customers.

6) Sales of gas appliances and material

The Group sells gas appliances such as cooking stoves, water boilers, range hoods and space heaters to residential customers. In addition, the Group also sells construction materials and other energy products to commercial and industrial customers. Revenue is recognised when control of goods has transferred, being at the point the customers purchase the goods.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurement of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For advance payments received from customers before the transfer of the associated goods or services in which the Group adjusts for the promised amount of considerations for a significant financing component, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The relevant interest expenses during the period between the advanced payments were received and the transfer of the associated goods and services are accounted for on the same basis as other borrowing costs.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 3) *(continued)*

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable.

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

Goods, services, interests and dividends

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

The Group's accounting policy for the recognition of revenue from construction and installation contract is described in the accounting policy for construction and installation contract below.

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

Service income is recognised when services are provided.

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

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

Construction and installation contracts

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (prior to 1 January 2018) *(continued)*

Construction and installation contracts (continued)

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Leasehold land and buildings

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

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

Foreign currencies

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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

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

Borrowing costs

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

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

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

Government grants

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

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

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

Retirement benefit scheme contribution

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

Short-term and other long-term employee benefit

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment arrangements

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

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

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

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

Taxation

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

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

Property, plant and equipment

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

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

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

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

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

Investment properties

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets – research and development expenditure

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

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

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

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

Intangible assets acquired in a business combination

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

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

Derecognition of intangible assets

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

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

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

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

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

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

Inventories

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade day basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

A financial asset is classified as held for trading if:

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

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3) *(continued)*

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 3)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, restricted bank deposits, bank balances, amounts due from associates/joint ventures/related companies and contract assets). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables, contract assets and amounts due from associates/joint ventures/related companies arising from contracts with customers. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings for the remaining.

For all other financial assets at amortised cost, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 3) *(continued)*

(i) Significant increase in 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 making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial instrument to have low credit risk when it has an external credit rating of "investment grade" as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Default has been considered occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 3) *(continued)*

(iii) Credit-impaired financial assets

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

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables, amounts due from associate/joint ventures/related companies in trade nature are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Aging status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 3) *(continued)*

(v) Measurement and recognition of ECL (continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables, contract assets and amounts due from associate/joint ventures/related companies where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item. Fair value is determined in the manner described in Note 54.

Loans and receivables

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) *(continued)*

AFS financial assets

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

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

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

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) *(continued)*

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

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

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

Effective interest method

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

Convertible bonds

The Group designated the convertible bonds as financial liabilities at FVTPL as the convertible bonds contained one or more embedded derivatives including the convertible option, which will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, and HKAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract to be designated as at FVTPL. Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on measurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in the "other gains and losses" line item. Fair value is determined in the manner described in Note 54.

Financial liabilities at amortised cost

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial guarantee contracts

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

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

Derivative financial instruments

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

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Embedded derivatives (under HKFRS 9 since 1 January 2018)

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Embedded derivatives (before application of HKFRS 9 on 1 January 2018)

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Derecognition

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

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

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

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Recognition of intangible assets acquired in business acquisition

The Group accounts for acquisitions of businesses by using the acquisition method, and the consideration transferred for the business acquisition is allocated to the identifiable assets acquired and liabilities assumed based on their respective fair values as at acquisition date, including intangible assets. The Group usually determines the fair value of intangible assets using excess earning method, which requires a set of estimations and a determination of key inputs, including the profit margins, revenue growth rates and discount rates. Any changes to these inputs may have significant impact on the fair value of intangible assets, and will consequently have further impact on the goodwill or the profit or loss in the case of a bargain purchase gain.

Estimated impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires the estimation of the recoverable amount of the CGUs to which goodwill and intangible assets have been allocated which is the higher of the fair value less costs of disposal and its value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which results in downward revision of future cash, a material impairment loss may arise. As at 31 December 2018, the carrying amount of goodwill and intangible assets less accumulated amortisation is RMB2,248 million and RMB3,037 million (2017: RMB192 million and RMB1,681 million), respectively. Details of the calculation of the recoverable amount are set out in Note 19.

Fair value measurement of financial instruments

Certain of the Group's financial instruments, including unlisted equity securities and derivative contracts amounting to RMB3,727 million as at 31 December 2018 are measured at fair values with fair values being determined based on complex valuation techniques or unobserved inputs. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs such as liquidity discount, estimates of future prices, market price volatility and credit risk. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. Further disclosures are set out in Note 54.

Provision of ECL for trade receivables and contract assets

The Group uses provision matrix to calculate ECL for the trade receivables and contract assets. The provision rates are based on shared credit risk characteristic as groupings of various debtors that have similar loss patterns. The provision matrix is based on the debtors' historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables and contract assets with significant balances and credit impaired are assessed for ECL individually. The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and contract assets are disclosed in Notes 23, 28 and 54 respectively.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will impact the depreciation charges in the year in which the estimates change. As at 31 December 2018, the carrying amount of property, plant and equipment less accumulated depreciation and accumulated impairment losses is RMB31,073 million (2017: RMB 25,490 million).

6. REVENUE

	2018 RMB million	2017 RMB million
Revenue comprises the following:		
Sales of goods		
Sales of piped gas	**31,434**	23,948
Vehicle gas refuelling stations	**2,838**	3,102
Wholesale of gas	**18,107**	11,878
Sales of integrated energy	**875**	234
Sales of gas appliances	**435**	320
Sales of material	**997**	2,773
	54,686	42,255
Provision of services		
Construction and installation	**5,882**	5,954
Integrated energy	**130**	60
	6,012	6,014
	60,698	48,269

Disaggregation of revenue from contracts with customers

	Year ended 31 December 2018 Sales of goods RMB million	 Construction services RMB million
Types of goods or services		
Construction and installation	–	**5,882**
Sales of piped gas	**31,434**	–
Vehicle gas refuelling stations	**2,838**	–
Wholesale of gas	**18,107**	–
Sales of integrated energy and services	**875**	**130**
Sales of gas appliances	**435**	–
Sales of material	**997**	–
	54,686	**6,012**
Timing of revenue recognition		
A point in time	**54,686**	–
Over time	–	**6,012**
	54,686	**6,012**

The performance obligations of the Group are part of contracts mainly with an original expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

7. SEGMENT INFORMATION

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

Segment revenue and results

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

Inter-segment sales are charged at prevailing market rates.

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

2018	**Construction and installation RMB million**	**Sales of piped gas RMB million**	**Vehicle gas refuelling stations RMB million**	**Wholesale of gas RMB million**	**Sales of integrated energy and services RMB million**	**Sales of gas appliances RMB million**	**Sales of material RMB million**	**Consolidation RMB million**
Segment revenue	**7,376**	**42,038**	**2,886**	**26,147**	**1,114**	**1,097**	**3,789**	**84,447**
Inter segment sales	**(1,494)**	**(10,604)**	**(48)**	**(8,040)**	**(109)**	**(662)**	**(2,792)**	**(23,749)**
Revenue from external customers	**5,882**	**31,434**	**2,838**	**18,107**	**1,005**	**435**	**997**	**60,698**
Segment profit before depreciation and amortisation	**3,659**	**5,667**	**295**	**233**	**196**	**296**	**254**	**10,600**
Depreciation and amortisation	**(203)**	**(727)**	**(100)**	**(5)**	**(53)**	**(2)**	**–**	**(1,090)**
Segment profit	**3,456**	**4,940**	**195**	**228**	**143**	**294**	**254**	**9,510**

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

7. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

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

2018	Construction and installation RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Sales of integrated energy and services RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
Assets:								
Segment assets	**5,559**	**25,430**	**3,116**	**1,309**	**2,942**	**711**	**840**	**39,907**
Interests in associates								**3,049**
Interests in joint ventures								**3,620**
Unallocated corporate assets								**27,338**
Consolidated total assets								**73,914**
Liabilities:								
Segment liabilities	**9,610**	**6,611**	**395**	**413**	**2,328**	**315**	**1,007**	**20,679**
Bank and other loans								**10,722**
Corporate bonds								**2,497**
Senior notes								**2,491**
Unsecured bonds								**4,539**
Unallocated corporate liabilities								**7,432**
Consolidated total liabilities								**48,360**

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

7. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

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

- all assets are allocated to reportable segments other than unallocated corporate assets, mainly including unallocated property, plant and equipment, intangible assets, goodwill, prepaid lease payments, investment properties, interests in associates, interests in joint ventures, deferred tax assets, certain other receivables, contract assets, deposits, amounts due from associates, joint ventures and related companies, AFS financial assets, equity instruments at FVTOCI, financial assets at FVTPL, restricted bank deposits and cash and cash equivalents. Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and

- all liabilities are allocated to reportable segments other than unallocated corporate liabilities, mainly including certain other payables, contract liabilities, amounts due to associates, joint ventures and related companies, taxation payables, bank and other loans, corporate bonds, senior notes, convertible bonds at FVTPL, financial liabilities at FVTPL, unsecured bonds, financial guarantee liability and deferred tax liabilities. Liabilities for which segments are jointly liable are allocated in proportion to segments assets.

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

Other segment information

Amounts included in the measurement of segment profit and segment assets:

	Construction and installation RMB million	Sales of piped gas RMB million	Vehicle gas refuelling stations RMB million	Wholesale of gas RMB million	Sales of integrated energy and services RMB million	Sales of gas appliances RMB million	Sales of material RMB million	Consolidation RMB million
2018								
Additions to non-current assets (note b)	**1,034**	**5,388**	**354**	**103**	**3,418**	**3**	**11**	**10,311**
Depreciation and amortisation	**203**	**727**	**100**	**5**	**53**	**2**	**–**	**1,090**
Impairment losses on trade receivables recognised (reversed) in profit or loss	**39**	**(12)**	**(7)**	**(14)**	**12**	**3**	**1**	**22**
Impairment losses on contract assets recognised in profit or loss	**22**	**–**	**–**	**–**	**3**	**–**	**–**	**25**
2017								
Additions to non-current assets (note b)	708	3,225	302	45	83	5	1	4,369
Depreciation and amortisation	196	590	124	4	16	2	–	932
Impairment losses on property, plant and equipment	–	–	478	–	–	–	–	478
Impairment loss on trade and other receivables recognised (reversed) in profit or loss	65	16	69	(6)	3	(2)	–	145

7. SEGMENT INFORMATION *(continued)*

Other segment information *(continued)*

	Additions to non-current assets (note b)		Depreciation and amortisation	
	2018	2017	**2018**	2017
	RMB million	RMB million	**RMB million**	RMB million
Segment total	**10,311**	4,369	**1,090**	932
Adjustments (note a)	**477**	909	**196**	186
Total	**10,788**	5,278	**1,286**	1,118

Notes:

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

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

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

Substantially all of the Group's revenue and non-current assets are located in the PRC. For the year ended 31 December 2018, the revenues from the PRC and overseas were RMB60,568 million (2017: RMB48,056 million) and RMB130 million (2017: RMB 213 million), respectively. As of 31 December 2018, the non-current assets located in the PRC were RMB37,746 million (2017: RMB 28,520 million) and overseas were RMB13 million (2017: RMB 74 million).

8. OTHER INCOME

	2018	2017
	RMB million	RMB million
Other income mainly includes:		
Incentive subsidies (note)	**164**	132
Dividends income from equity instruments at FVTOCI	**2**	–
Dividends income from financial assets at FVTPL	**352**	–
Dividends income from AFS investments	**–**	148
Interest income on bank deposits	**65**	149
Interest income on loan receivables from joint ventures and associates	**82**	73
Interest income on loan receivables from third parties	**15**	–
Rental income from investment properties	**13**	15
Rental income from equipment, net	**48**	31
Financial guarantee income	**5**	17
Sale of proprietary technology	**23**	27

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

9. OTHER GAINS AND LOSSES

	2018 RMB million	2017 RMB million
(Loss) gain on disposal of:		
– Property, plant and equipment	**(47)**	(55)
– Prepaid lease payments	**13**	14
– Subsidiaries (Note 50)	**(2)**	(13)
– Joint ventures	**16**	–
– An associate	**–**	18
– An AFS investment	**–**	1
Gain on dilution of equity interests in joint ventures	**72**	–
Gain on remeasurement of interests on joint ventures previously held (Notes 48 & 49)	**111**	–
Increase in fair value of investment properties (Note 18)	**9**	10
Gain (loss) on repurchase and redemption of convertible bonds at FVTPL (Note 44)	**34**	(4)
Fair value loss on convertible bonds at FVTPL (Note 44)	**(249)**	(278)
Fair value loss on financial assets/liabilities at FVTPL (Note 24)	**(797)**	(314)
Impairment losses on property, plant and equipment (Note 16)	**–**	(478)
Impairment losses, net of reversal:		
– Trade and other receivables	**(29)**	(145)
– Contract assets	**(25)**	–
– Amounts due from associates/joint ventures/related companies	**(10)**	–
(Loss) gain on foreign exchange, net (note)	**(770)**	349
Release of exchange reserve to profit or loss upon disposal of subsidiaries	**40**	–
	(1,634)	(895)

Note: Included in the amount for the year ended 31 December 2018 is an exchange loss of approximately RMB707 million (2017: exchange gain of approximately RMB338 million) arising from the translation of senior notes, unsecured bonds and bank loans denominated in USD and HK$ to RMB.

10. FINANCE COSTS

	2018 RMB million	2017 RMB million
Interest on:		
Bank and other loans	**269**	148
Medium-term notes	**–**	31
Senior notes	**151**	153
Corporate bonds	**188**	221
Unsecured bonds	**149**	75
	757	628
Less: Amount capitalised under construction in progress (note)	**(120)**	(76)
	637	552

Note: Borrowing costs capitalised during both years were incurred on funds borrowed specifically and generally for the purpose of expenditure on qualifying assets. In respect of funds borrowed generally for the purpose of expenditure on qualifying assets, the amount of borrowing costs capitalised during the year was calculated by applying a capitalisation rate of 3.82% (2017: 3.38%) per annum.

11. PROFIT BEFORE TAX

	2018 RMB million	2017 RMB million
Profit before tax has been arrived at after (crediting) charging:		
Share-based payment expenses, including directors' emoluments (included in administrative expenses)	**19**	34
Other staff costs, including directors' emoluments	**2,721**	2,367
Less: Amount of other staff costs capitalised under construction in progress	**(149)**	(30)
	2,591	2,371
Depreciation and amortisation:		
Property, plant and equipment	**1,144**	1,016
Intangible assets	**142**	102
Total depreciation and amortisation (note)	**1,286**	1,118
Release of prepaid lease payments	**43**	38
Auditors' remuneration	**23**	14
Minimum lease payments under operating leases in respect of premises and equipment recognised in profit or loss	**199**	129

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

	2018 RMB million	2017 RMB million
Staff costs included in:		
Cost of sales	**914**	915
Distribution and selling expenses	**582**	464
Administrative expenses	**1,095**	992
	2,591	2,371
Depreciation and amortisation included in:		
Cost of sales	**1,090**	932
Distribution and selling expenses	**11**	12
Administrative expenses	**185**	174
	1,286	1,118

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

a. Directors' emoluments

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

	2018					
Name of director	Fee RMB'000	Salaries and allowance RMB'000	Discretionary performance bonus RMB'000	Share-based payment RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Executive Directors: (note a)						
Wang Yusuo	–	2,597	–	863	–	3,460
Cheung Yip Sang	–	1,598	2,400	792	15	4,805
Wang Zizheng*	133	972	900	89	14	2,108
Han Jishen	–	3,000	4,177	627	19	7,823
Liu Min**	–	2,800	2,639	–	126	5,565
Wang Dongzhi	–	1,499	180	569	–	2,248
Sean SJ Wang***	–	–	–	–	–	–
Sub-total	133	12,466	10,296	2,940	174	26,009
Independent Non-executive Directors: (note c)						
Ma Zhixiang	400	–	–	89	–	489
Yuen Po Kwong	400	–	–	89	–	489
Law Yee Kwan, Quinn	400	–	–	89	–	489
Yien Yu Yu, Catherine****	33	–	–	–	–	33
Sub-total	1,233	–	–	267	–	1,500
Total	1,366	12,466	10,296	3,207	174	27,509

* Mr. Wang Zizheng was redesignated as an executive director of the Company from non-executive director of the Company since 11 May 2018.

** Mr. Liu Min was appointed as executive director of the Company on 12 January 2018.

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

**** Ms. Yien Yu Yu, Catherine was appointed as an independent non-executive director of the Company on 30 November 2018.

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(continued)*

a. Directors' emoluments *(continued)*

Emoluments paid and payable to the Directors for the year were as follows: *(continued)*

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

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

Notes:

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

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

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

The amounts disclosed above include directors' fees of RMB1,233,000 (2017: RMB600,000) paid or payable to independent non-executive directors. None of the Directors waived any emoluments during both years.

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

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(continued)*

b. Five highest paid individuals

The five highest paid employees of the Group during the year included three (2017: four) directors, details of whose remuneration are set out in Note 12(a) above. Details of the remuneration for the year of the remaining two (2017: one) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 **RMB'000**	2017 RMB'000
Salaries and allowance	**3,502**	1,963
Discretionary performance bonus	**5,447**	2,200
Share-based payment	**507**	479
Retirement benefits scheme	**188**	101
	9,644	4,743

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

	2018 **Number of employees**	2017 Number of employees
HK$5,000,001 to HK$5,500,000	**–**	1
HK$5,500,001 to HK$6,000,000	**3**	1
HK$6,500,001 to HK$7,000,000	**1**	3
HK$9,000,001 to HK$9,500,000	**1**	–
	5	5

13. INCOME TAX EXPENSE

	2018 **RMB million**	2017 RMB million
Current tax	**1,586**	1,576
Underprovision in prior years	**9**	44
Withholding tax	**158**	101
	1,753	1,721
Deferred tax (Note 32)	**30**	(204)
	1,783	1,517

The charge substantially represents PRC Enterprise Income Tax for both years.

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

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

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

13. INCOME TAX EXPENSE *(continued)*

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

	2018 RMB million	2017 RMB million
Profit before tax	**5,601**	5,190
Tax at the PRC Enterprise Income Tax rate of 25% (2017: 25%)	**1,400**	1,298
Tax effects of share of results of associates	**(69)**	(32)
Tax effects of share of results of joint ventures	**(150)**	(126)
Tax effects of income not taxable for tax purpose	**(207)**	(217)
Tax effects of expenses not deductible for tax purpose	**668**	417
Tax effects of tax losses not recognised	**154**	78
Utilisation of tax losses previously not recognised	**(50)**	(119)
Tax effects of deductible temporary differences not recognised	**(7)**	132
Tax concession and exemption granted to certain PRC subsidiaries	**(146)**	(62)
Underprovision in respect of prior years	**9**	44
Withholding tax on undistributed profit of PRC entities	**181**	104
Income tax charge for the year	**1,783**	1,517

14. DIVIDENDS

	2018 RMB million	2017 RMB million
Final dividend paid in respect of previous financial year	**952**	775

Notes:

a. 2017 final dividend of HK$1.08 (equivalent to approximately RMB0.90) per ordinary share or approximately RMB952 million in aggregate was paid during the year ended 31 December 2018.

b. The proposed final dividend in respect of 2018 of HK$1.19 (equivalent to approximately RMB1.04) per ordinary share with total amount of HK$ 1,338 million (2017: HK$1,177 million) has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

15. EARNINGS PER SHARE

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

Basic earnings per share

Basic earnings per share for the years ended 31 December 2018 and 2017 are calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2018	2017
Profit for the year attributable to the owners of the Company (RMB million)	**2,818**	2,802
Weighted average number of ordinary shares	**1,099,639,474**	1,081,956,725
Basic earnings per share (RMB)	**2.56**	2.59

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the share issuance in connection with an acquisition of subsidiaries on 16 August 2018 as set out in Note 48.

Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2018 and 2017 are calculated assuming all dilutive potential ordinary shares were converted, except for the conversion of the Company's outstanding convertible bonds since their conversion would result in an increase in earnings per share.

	2018	2017
Earnings		
Earnings for the purpose of diluted earnings per share (RMB million)	**2,818**	2,802
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,099,639,474**	1,081,956,725
Effect of dilutive potential ordinary shares:		
– share options	**2,864,964**	878,186
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,102,504,438**	1,082,834,911
Diluted earnings per share (RMB)	**2.56**	2.59

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB million	Pipelines RMB million	Machinery and equipment RMB million	Motor vehicles RMB million	Office equipment RMB million	Properties under construction RMB million	Total RMB million
COST							
At 1 January 2017	3,377	17,997	1,873	462	1,326	2,378	27,413
Exchange adjustments	(8)	–	(10)	–	(1)	(12)	(31)
Acquisition of subsidiaries and businesses	21	71	52	2	2	101	249
Additions	136	141	160	17	169	3,989	4,612
Revaluation surplus before the transfer to investment properties	4	–	–	–	–	–	4
Transfer to assets classified as held for sale	(184)	–	(194)	(7)	(18)	(243)	(646)
Reclassification	342	2,178	184	–	36	(2,740)	–
Transfer to investment properties	(31)	–	–	–	–	–	(31)
Disposal of a subsidiary	–	–	(11)	(4)	–	–	(15)
Disposals	(7)	(49)	(26)	(53)	(34)	(12)	(181)
At 31 December 2017	3,650	20,338	2,028	417	1,480	3,461	31,374
Acquisition of subsidiaries and businesses	198	325	197	2	16	170	908
Additions	126	302	229	88	185	5,156	6,086
Reclassification	243	3,467	344	–	25	(4,079)	–
Transfer to prepaid lease payments	–	–	–	–	–	(5)	(5)
Transfer to investment properties	(2)	–	–	–	–	–	(2)
Disposal of subsidiaries	(58)	(49)	(83)	(1)	(8)	(4)	(203)
Disposals	(24)	(97)	(73)	(62)	(19)	(8)	(283)
At 31 December 2018	4,133	24,286	2,642	444	1,679	4,691	37,875
DEPRECIATION AND IMPAIRMENT							
At 1 January 2017	463	3,153	534	256	710	–	5,116
Exchange adjustments	(2)	–	(3)	–	–	–	(5)
Provided for the year	119	562	168	51	116	–	1,016
Eliminated on transfer to investment properties	(2)	–	–	–	–	–	(2)
Eliminated on transfer to assets classified as held for sale	(179)	–	(189)	(6)	(17)	(207)	(598)
Impairment losses recognised during the year	147	–	119	–	5	207	478
Disposal of a subsidiary	–	–	(2)	(1)	–	–	(3)
Eliminated on disposals	(2)	(23)	(18)	(46)	(29)	–	(118)
At 31 December 2017	544	3,692	609	254	785	–	5,884
Provided for the year	128	642	180	50	144	–	1,144
Disposal of subsidiaries	(15)	(10)	(47)	(5)	(6)	–	(83)
Eliminated on disposals	(4)	(36)	(35)	(54)	(14)	–	(143)
At 31 December 2018	653	4,288	707	245	909	–	6,802
CARRYING VALUES							
At 31 December 2018	3,480	19,998	1,935	199	770	4,691	31,073
At 31 December 2017	3,106	16,646	1,419	163	695	3,461	25,490

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

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

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

At the end of the reporting period, except for certain land and buildings with the carrying value of RMB38 million (2017: RMB 39 million) which are located in Hong Kong under long-term lease, the remaining land and buildings are located in the PRC under medium-term lease.

At the end of the reporting period, the Group is in the process of applying for ownership certificates for its buildings in the PRC amounting to approximately RMB255 million (2017: RMB 291 million).

17. PREPAID LEASE PAYMENTS

	2018 **RMB million**	2017 RMB million
The Group's prepaid lease payments comprise land in the PRC under medium-term lease	**1,440**	1,299
Analysed for reporting purposes as:		
Current portion	**39**	37
Non-current portion	**1,401**	1,262

At the end of the reporting period, the Group is in the process of applying for the land use right certificates for the land in the PRC amounting to approximately RMB108 million (2017: RMB132 million). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the land use right certificates for the land in the PRC.

18. INVESTMENT PROPERTIES

	RMB million
FAIR VALUE	
At 1 January 2017	208
Exchange adjustment	(1)
Net increase in fair value recognised in profit or loss	10
Transfers from property, plant and equipment	29
At 31 December 2017	246
Exchange adjustment	2
Net increase in fair value recognised in profit or loss	9
Transfers from property, plant and equipment	8
At 31 December 2018	265
Unrealised gains on property revaluation included in profit or loss, as at 31 December 2018	72

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

18. INVESTMENT PROPERTIES *(continued)*

The fair value of the Group's investment properties at 31 December 2018 and 2017 has been arrived at on the basis of a valuation carried out on those dates by Knight Frank Petty, a firm of independent valuers. The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. A significant increase in the market rent used would result in a significant increase in fair value, and vice versa. The Group's investment properties were classified in the Level 3 of fair value hierarchy as at 31 December 2018 and 2017.

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

19. GOODWILL

	2018 **RMB million**	2017 RMB million
COST		
At 1 January	**813**	840
Acquisition of businesses (Note 48)	**2,056**	13
Disposal of subsidiaries (note)	**(570)**	(9)
Exchange adjustments	**–**	(31)
At 31 December	**2,299**	813
IMPAIRMENT		
At 1 January	**(621)**	(652)
Eliminated on disposal of subsidiaries (note)	**570**	–
Exchange adjustments	**–**	31
At 31 December	**(51)**	(621)
CARRYING VALUES		
At 31 December	**2,248**	192

Note: As at 31 December 2017, the total impairment losses in relation to goodwill arising on acquisition of gas refuelling business in the United States and Canada were amounted to RMB570 million. The gas refuelling business in the United States and Canada were disposed of by the Group during the year ended 31 December 2018. Details of the disposal are disclosed in Note 50.

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

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

	2018 **RMB million**	2017 RMB million
Integrated energy business located in the PRC	**1,998**	–
Sale of piped gas business located in Anhui, PRC	**34**	–
Sale of piped gas business located in Lianyungang, the PRC	**18**	18
Sale of piped gas business located in Kaifeng, the PRC	**16**	16
Sale of piped gas business located in Hangzhou, the PRC	**37**	37
Sale of piped gas business located in Guangdong, the PRC	**21**	21
Other CGUs of sales of piped gas business, the PRC	**124**	100
	2,248	192

19. GOODWILL *(continued)*

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

CGU of integrated energy business in the PRC

The Group prepares cash flow projection for integrated energy business in the PRC covering a 7-year period and the cash flow beyond the 7-year period was extrapolated using a steady growth rate of 3%. For the 7-year period, the first three years are based on financial budgets approved by management and based on the pattern consistent with the track record of the respective entity taking into account the stage of the development of the respective integrated energy projects. The revenues beyond the 3-year period but within the seventh year was estimated using an annualised growth rates of 21.55%. The growth rates are based on the management's estimation on the respective entity's projected market share and do not exceed average long-term growth rate for the relevant industry. The gross profit margin will be assumed the same beyond the 7-year period.

The Directors estimate discount rate using pre-tax rate that reflect current market assessment of the time value of money and the risks specific to the CGU and determined the discount rate to be 13.00%.

CGUs of sales of piped gas business in the PRC

For CGUs in the PRC, the Group prepares cash flow projection covering a 10-year period which is shorter than the contractual operating period. The cash flow projections for the first three years are based on financial budgets approved by management. The 3-year period financial budgets are prepared based on the pattern consistent with the track record of the respective entities taking into account the stage of the development of the respective gas projects. The cash flow beyond the 3-year period are extrapolated using an estimated growth pattern at an annualised growth rates of revenue for each CGU ranging from 4.37% to 7.17% (2017: 4.88% to 10.94%) and assuming the gross profit margin will be the same throughout the 10-year period.

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

The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs and determined the discount rate to be 11.12% to 11.76% (2017: 11.25% to 11.89%).

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

20. INTANGIBLE ASSETS

	Right of operation RMB million	Customer base RMB million	Software RMB million	Technology RMB million	Development cost RMB million	Total RMB million
COST						
At 1 January 2017	1,955	50	–	–	25	2,030
Acquisition of subsidiaries and businesses (Notes 48 and 49)	157	–	–	–	–	157
Additions	53	–	26	–	60	139
At 31 December 2017	2,165	50	26	–	85	2,326
Acquisition of subsidiaries and businesses (Notes 48 and 49)	875	1	–	549	–	1,425
Additions	33	–	6	–	34	73
Reclassification	–	–	94	–	(94)	–
At 31 December 2018	3,073	51	126	549	25	3,824
AMORTISATION						
At 1 January 2017	525	18	–	–	–	543
Charge for the year	96	2	4	–	–	102
At 31 December 2017	621	20	4	–	–	645
Charge for the year	117	2	4	19	–	142
At 31 December 2018	738	22	8	19	–	787
CARRYING VALUES						
At 31 December 2018	2,335	29	118	530	25	3,037
At 31 December 2017	1,544	30	22	–	85	1,681

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

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

Development cost mainly represents expenditure incurred during the development phase of the Group's integrated energy service technologies and online LNG data platform.

21. INTERESTS IN ASSOCIATES

	2018 RMB million	2017 RMB million
Cost of investments	**2,258**	1,109
Share of post-acquisition profits, net of dividend received	**765**	370
	3,023	1,479
Deemed capital contribution		
Financial guarantee	**26**	26
	3,049	1,505

Included in the interests in associates is goodwill of approximately RMB47 million (2017: RMB49 million) arising on acquisitions of associates.

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

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

21. INTERESTS IN ASSOCIATES *(continued)*

Aggregate information of associates:

	2018 RMB million	2017 RMB million
Profit and total comprehensive income for the year	**826**	472
Group's share of profit and total income from associates for the year	**275**	129
Aggregate carrying amount of the Group's interests in these associates	**3,049**	1,505

22. INTERESTS IN JOINT VENTURES

	2018 RMB million	2017 RMB million
Cost of investments	**2,302**	2,568
Shares of post-acquisition profits, net of dividends received	**1,261**	1,304
	3,563	3,872
Deemed capital contribution		
Financial guarantee	**53**	53
Fair value adjustments on interest-free advances	**4**	4
	57	57
	3,620	3,929

Included in the interests in joint ventures is goodwill of approximately RMB192 million (2017: RMB192 million) arising on acquisitions of joint ventures.

The fair value adjustments on the interest-free advances are calculated by using an effective interest rate of 4.75% (2017: 4.75%) per annum and average terms of two years.

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

Details of the Group's principal joint ventures as at 31 December 2018 and 2017 are as follows:

Name of company	Form of business structure	Place of establishment/ operation	Proportion of nominal value of registered capital held by the Group 2018	2017	Principal activities
東莞新奧燃氣有限公司 ("Dongguan Xinao") (note)	Incorporated	The PRC	**55%**	55%	Investment in gas pipeline infrastructure and sales of piped gas and gas appliances
長沙新奧燃氣發展有限公司 ("Changsha Xinao") (note)	Incorporated	The PRC	**55%**	55%	Sales of piped gas

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

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

22. INTERESTS IN JOINT VENTURES *(continued)*

Summarised financial information of material joint ventures

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

Dongguan Xinao

	2018 RMB million	2017 RMB million
Current assets	**1,399**	1,079
Non-current assets	**2,859**	2,616
Current liabilities	**2,626**	2,003
Non-current liabilities	**1**	2
Non-controlling interests	**156**	161

The above amounts of assets and liabilities include the following:

	2018 RMB million	2017 RMB million
Cash and cash equivalents	**1,012**	543
Current financial liabilities (excluding trade and other payables and provisions)	**817**	397

	2018 RMB million	2017 RMB million
Revenue	**2,797**	3,524
Profit and total comprehensive income for the year	**207**	493
Dividends received from Dongguan Xinao during the year	**144**	330

The above profit for the year include the following:

	2018 RMB million	2017 RMB million
Depreciation and amortisation	**109**	95
Interest income	**25**	22
Interest expense	**36**	30
Income tax expense	**120**	111

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

	2018 RMB million	2017 RMB million
Net assets of Dongguan Xinao	**1,475**	1,529
Proportion of the Group's ownership interest in Dongguan Xinao	**811**	841
Goodwill	**31**	31
Carrying amount of the Group's interest in Dongguan Xinao	**842**	872

22. INTERESTS IN JOINT VENTURES *(continued)*

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

Changsha Xinao

	2018 RMB million	2017 RMB million
Current assets	1,713	1,318
Non-current assets	215	223
Current liabilities	1,180	747

The above amounts of assets and liabilities include the following:

	2018 RMB million	2017 RMB million
Cash and cash equivalents	141	15
Current financial liabilities (excluding trade and other payables and provisions)	550	230

	2018 RMB million	2017 RMB million
Revenue	2,683	2,374
Profit and total comprehensive income for the year	130	119
Dividends received from Changsha Xinao during the year	97	–

The above profit for the year include the following:

	2018 RMB million	2017 RMB million
Depreciation and amortisation	9	9
Interest income	39	29
Interest expense	30	15
Income tax expense	44	46

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

	2018 RMB million	2017 RMB million
Net assets of Changsha Xinao	748	794
Proportion of the Group's ownership interest in Changsha Xinao	411	437
Capitalisation of financial guarantee	4	4
Carrying amount of the Group's interest in Changsha Xinao	415	441

Aggregate information of joint ventures that are not individually material:

	2018 RMB million	2017 RMB million
Profit and total comprehensive income for the year	803	377
Group's share of profit and total income from joint ventures for the year	416	169
Aggregate carrying amount of the Group's interests in these joint ventures	2,363	2,616

23. TRADE AND OTHER RECEIVABLES

	2018 RMB million	2017 RMB million
Trade receivables	**2,868**	2,651
Less: Allowance for credit losses	**(182)**	(201)
	2,686	2,450
Bills receivable (note b)	**1,786**	552
Other receivables	**339**	359
Loan receivables	**379**	314
	2,504	1,225
Less: Allowance for credit losses	**(21)**	(74)
	2,483	1,151
Deductible input value added tax and prepayment of other taxes and charges	**1,363**	902
Investment in wealth management products	**13**	275
Advances to suppliers and prepayments	**2,160**	1,473
Total trade and other receivables	**8,705**	6,251
Analysed for reporting purpose as:		
Current portion	**8,560**	6,068
Non-current portion (note a)	**145**	183

Notes:

a. The balance that the Directors expect to recover after one year from the end of the reporting period is initially recognised by using an effective interest rate of 4.75% (2017: 4.75%) per annum.

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

The following is an aged analysis of trade receivables, net of allowance for credit losses presented based on invoice date at the end of the reporting period:

	2018 RMB million	2017 RMB million
Within three months	**1,905**	2,120
4 to 6 months	**164**	140
7 to 9 months	**230**	167
10 to 12 months	**171**	23
More than one year	**216**	–
	2,686	2,450

As at 31 December 2018, total bills receivable amounting to RMB1,786 million (2017:RMB552 million) are with a maturity period of less than one year.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB638 million which are past due as at 31 December 2018 and is not considered as in default because the Group is satisfied with the subsequent settlements from the debtors and the credit quality of these customers.

As at 31 December 2017, included in the Group's trade receivable balances were debtors with aggregate carrying amount of approximately RMB214 million which were past due at the end of the reporting period for which the Group had not provided for impairment loss. The Group did not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in Note 54.

23. TRADE AND OTHER RECEIVABLES *(continued)*

Aged analysis of trade receivables which are past due but not impaired as at 31 December 2017

During the year ended 31 December 2017, the Group's trade receivables are assessed not to be impaired individually. Except for certain trade receivables past due beyond one year, which the Group has fully provided impairment, no impairment has been made to the remaining receivables past due as the Group is satisfied with the subsequent settlements from the debtors and the credit quality of these customers.

	2017 RMB million
Past due within one year	214

Movements in the impairment on trade receivables as at 31 December 2017

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

Movements in the impairment on other receivables as at 31 December 2017

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

During the year ended 31 December 2017, the Directors are of the opinion that except for those other receivables that are impaired, the remaining other receivables are not impaired as the counterparties are either companies controlled by non-controlling interests or companies which used equity or future dividends as a guarantee and had satisfactory repayment history.

24. FINANCIAL ASSETS/LIABILITIES AT FVTPL

	2018 RMB million	2017 RMB million
Financial assets measured at FVTPL		
Foreign currency derivative contracts (note a)	**6**	4
Commodity derivative contracts (note b)	**225**	5
Listed equity interest in Shanghai Dazhong Public Utilities (Group) Co., Ltd ("Shanghai Utilities") (note c)	**310**	–
1.13% equity interest in Sinopec Marketing Co., Ltd (note d)	**4,177**	–
Unlisted wealth management products (note e)	**49**	–
Total return swap (note f)	**463**	–
Other unlisted equity securities (note g)	**350**	–
	5,580	9
Financial liabilities measured at FVTPL		
Foreign currency derivative contracts (note a)	**(68)**	(95)
Commodity derivative contracts (note b)	**(1,075)**	(3)
	(1,143)	(98)
Analysed for reporting purpose as:		
Assets		
Current portion	**735**	4
Non-current portion	**4,845**	5
Liabilities		
Current portion	**219**	17
Non-current portion	**924**	81

Notes:

a. The Group is exposed to foreign currency risk mainly arising from various bonds and bank loans denominated in USD. To manage and mitigate the foreign exchange exposure, the Group entered into various foreign currency derivative contracts (the "Foreign Currency Derivatives") with certain financial institutions. As at 31 December 2018, the Foreign Currency Derivatives have a total notional amount of USD700 million (2017: USD1,000 million), of which the maturity dates match to the maturity dates of certain debts denominated in USD. The Foreign Currency Derivatives will enable the Group to buy USD at the predetermined RMB/USD exchange rates on the maturity dates. The Foreign Currency Derivatives are not designated as hedging instruments. Accordingly, they are classified and accounted for as financial instruments at FVTPL. The fair value gain and realised loss of approximately RMB16 million (2017: fair value loss of RMB218 million) and approximately RMB137 million (2017: RMB108 million) on the Foreign Currency Derivative were recognised during the year ended 31 December 2018.

b. The Group is exposed to commodity price risk mainly arising from various long-term sale and purchase contracts on LNG, of which the pricing of LNG is tied to crude oil prices. In order to manage and mitigate the commodity price risk, the Group entered into various commodity derivative contracts (the "Commodity Derivatives") against the underlying LNG contracts with certain financial institutions in order to stabilise its future LNG purchase costs.

   The Commodity Derivatives are not designated as hedging instruments. Accordingly, they are classified and accounted for as financial instruments at FVTPL. The fair value loss and realised gain of approximately RMB748 million (2017: fair value gain of RMB2 million) and approximately RMB3 million (2017: RMB10 million) on the Commodity Derivatives were recognised during the year ended 31 December 2018.

   Major terms of the commodity derivative contracts are as follows:

   As at 31 December 2018, the Group entered into various commodity swap or option contracts to buy or sell crude oil of approximate 41,678,000 BOE (barrel of oil equivalent) at different price levels which mainly related to Brent crude oil price. These contracts have different maturity dates between 2019 and 2023.

   As at 31 December 2017, the Group entered into various commodity swap or option contracts to buy or sell crude oil of approximate 428,000 BOE (barrel of oil equivalent) at different price levels which mainly related to Brent crude oil price. These contracts have different maturity dates between 2018 and 2021.

24. FINANCIAL ASSETS/LIABILITIES AT FVTPL *(continued)*

Notes: *(continued)*

c. The above listed investment represents 4.38% of the total issued share capital of Shanghai Utilities (1635.HK). During the year ended 31 December 2018, the fair value loss in respect of the Group's investment amounted to RMB57 million (2017: RMB46 million).

d. The above investment represents 1.13% unlisted equity interest in Sinopec Marketing Co., Ltd ("Sinopec Marketing"). During the year ended 31 December 2018, a fair value gain of approximately RMB114 million for such investment was recognised in the profit or loss and the Group received dividend income of approximately RMB341 million (2017: RMB135 million) from Sinopec Marketing.

e. During the years ended 31 December 2018 and 2017, the Group purchased certain wealth management products from financial institutions. As at 31 December 2018, the fair value in respect of the Group's investment amounted to RMB49 million.

f. On November 30, 2018, the Company entered into a total return swap ("TRS") contract with a third party financial institution and the financial institution may purchase up to 7,000,000 of the Company's equity shares based on certain limitations of market conditions and its own service excellence. The total return swap will be settled by 30 September 2019.

   Under the TRS contract, the Company will receive an amount based on the return on those shares (dividends and share price appreciation) and pay an amount based on share price depreciation and an arrangement fee. The TRS will be settled net, either in cash or in a variable number of shares. As part of the arrangement, the Group will provide HK$525 million to the financial institution in order to reduce the service charges by the financial institution. The TRS was classified as a derivative and the whole arrangement was accounted for as a financial asset at FVTPL.

g. The unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. During the year ended 31 December 2018, the fair value gains in respect of the Group's investments amounted to RMB12 million.

25. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 **RMB million**
Unlisted equity securities	**112**

Note: The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. The Directors have elected to designate these investments as equity instruments at FVTOCI as they believe that the Group will hold these investments for strategic cooperation purpose and has no intention to dispose of these investments in the foreseeable future.

26. AFS FINANCIAL INVESTMENTS

	2017 RMB million
Unlisted equity securities, at cost less impairment (note)	
1.13% equity interest in Sinopec Marketing	4,003
Other unlisted equity securities	208
	4,211
Listed equity securities, at fair value	
equity interest in Shanghai Utilities	367
Unlisted wealth management products, at fair value	528
Total	5,106
Analysed for reporting purpose as:	
Current portion	528
Non-current portion	4,578

Note: The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at 31 December 2017 because these investments did not have a quoted market price in an active market that the Directors are of the opinion that their fair values cannot be measured reliably. Upon the adoption of HKFRS 9 on 1 January 2018, the unlisted equity securities were subsequently measured at FVTPL or FVTOCI as set out stated in Notes 24 and 25.

27. TRANSFER OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2018 and 2017 that were transferred to banks or suppliers by discounting, pledging to banks or endorsing those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and the corresponding liabilities included in secured borrowings or trade payables respectively. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

At 31 December 2018

	Bills receivable discounted or pledged to banks RMB million	**Bills receivable endorsed to suppliers RMB million**	**Total RMB million**
Carrying amount of transferred assets	**217**	**739**	**956**
Carrying amount of associated liabilities	**(217)**	**(739)**	**(956)**
	–	**–**	**–**

At 31 December 2017

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

28. CONTRACT ASSETS

	31 December 2018 RMB million	1 January 2018* RMB million
Gas pipeline installation	**511**	621
Integrated energy construction contracts	**101**	61
	612	682

* The amounts in this column are after the adjustments from the application of HKFRS 9 and HKFRS 15.

29. AMOUNTS DUE FROM/TO ASSOCIATES

	2018 **RMB million**	2017 RMB million
Amounts due from associates:		
Current portion	**523**	367
Non-current portion	**353**	278
	876	645
Amounts due to associates:		
Current portion	**351**	282

Included in the amounts due from/to associates are trade receivables amounting to approximately RMB350 million (2017: RMB235 million) and trade payables amounting to approximately RMB17 million (2017: RMB40 million).

The aged analysis presented based on the invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follows:

	2018 **RMB million**	2017 RMB million
Trade receivables due from associates		
Within three months	**228**	143
4 to 6 months	**40**	44
7 to 9 months	**12**	33
10 to 12 months	**24**	6
More than one year	**46**	9
	350	235

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

29. AMOUNTS DUE FROM/TO ASSOCIATES *(continued)*

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

At 31 December 2018

	Maturity date	Effective interest rate per annum	2018 RMB million
Loan receivables from associates			
Secured	09/05/2022–30/11/2022	5.23%	**29**
Unsecured	06/03/2019–01/01/2021	4.35%–5.47%	**441**
			470
Loan payables to associates			
Savings in ENN Finance		0.35%	**264**
Unsecured	31/07/2019-24/12/2019	1.00%–4.35%	**56**
			320

At 31 December 2017

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

As at 31 December 2017, the Directors were of the opinion that the amounts due from associates were not impaired as the counterparties were financially sound.

Details of impairment assessment of amounts due from associates for the year ended 31 December 2018 are set out in Note 54.

30. AMOUNTS DUE FROM/TO JOINT VENTURES

	2018 **RMB million**	2017 RMB million
Amounts due from joint ventures:		
Current portion	**1,523**	943
Non-current portion	**68**	674
	1,591	1,617
Amounts due to joint ventures:		
Current portion	**1,693**	1,677
Non-current portion	**970**	–
	2,663	1,677

Included in the amounts due from joint ventures was approximately RMB87 million (2017: RMB28 million) arising from the deposits placed for purchases of gas by the Group from the joint ventures. The balance approximates its fair value and is repayable on demand.

Included in the amounts due from/to joint ventures are trade receivables amounting to approximately RMB461 million (2017: RMB379 million) and trade payables amounting to approximately RMB635 million (2017: RMB343 million) and the aged analysis presented based on invoice date, which approximated the respective revenue recognition date, is as follows:

	2018 **RMB million**	2017 RMB million
Trade receivables due from joint ventures		
Within three months	**357**	287
4 to 6 months	**15**	49
7 to 9 months	**16**	9
10 to 12 months	**7**	18
More than one year	**66**	16
	461	379

	2018 **RMB million**	2017 RMB million
Trade payables due to joint ventures		
Within three months	**584**	273
4 to 6 months	**20**	16
7 to 9 months	**9**	2
10 to 12 months	**4**	4
More than one year	**18**	48
	635	343

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

30. AMOUNTS DUE FROM/TO JOINT VENTURES *(continued)*

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

At 31 December 2018

	Maturity date	Effective interest rate per annum	2018 RMB million
Loan receivables from joint ventures			
Unsecured	10/01/2019–26/09/2022	3.90%–8.00%	**716**
Secured	27/04/2019–22/01/2020	6.00%	**250**
			966
Loan payables to joint ventures			
Unsecured	04/02/2019–31/12/2021	4.35%–5.10%	**1,084**
Savings in the ENN Finance		0.35%	**794**
			1,878

At 31 December 2017

	Maturity date	Effective interest rate per annum	2017 RMB million
Loan receivables from joint ventures			
Unsecured	16/01/2018–26/09/2022	2.61%–8.00%	884
Secured	21/04/2019–22/01/2020	6.00%–6.24%	250
			1,134
Loan payables to joint ventures			
Unsecured	01/01/2018–13/08/2020	0.35%–4.35%	839
Savings in the ENN Finance		0.35%	480
			1,319

As at 31 December 2017, the Directors were of the opinion that the amounts due from joint ventures were not impaired as the counterparties were financially sound.

Details of impairment assessment of amounts due from joint ventures for the year ended 31 December 2018 are set out in Note 54.

31. AMOUNTS DUE FROM/TO RELATED COMPANIES

	2018 RMB million	2017 RMB million
Amounts due from companies controlled by a director and shareholder with significant influence	**231**	112
Amounts due to companies controlled by a director and shareholder with significant influence	**793**	642

The related companies are controlled by Mr. Wang Yusuo ("Mr. Wang") who is a director and shareholder of the Company with significant influence. The maximum amount outstanding during the year in respect of the amounts due from companies controlled by Mr. Wang is RMB418 million (2017: RMB358 million).

Included in the amounts due from related companies are trade receivables amounting to approximately RMB215 million (2017: RMB69 million) and trade payables amounting to approximately RMB760 million (2017: RMB630 million) and the aged analysis presented based on invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follow:

	2018 RMB million	2017 RMB million
Trade receivables due from related companies		
Within three months	**132**	14
4 to 6 months	**16**	31
7 to 9 months	**13**	10
10 to 12 months	**19**	4
More than one year	**35**	10
	215	69

	2018 RMB million	2017 RMB million
Trade payables due to related companies		
Within three months	**516**	447
4 to 6 months	**115**	55
7 to 9 months	**54**	42
10 to 12 months	**17**	14
More than one year	**58**	72
	760	630

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

As at 31 December 2017, the Directors were of the opinion that the amounts due from related companies were not impaired as the counterparties were financially sound.

Details of impairment assessment of amounts due from related companies for the year ended 31 December 2018 are set out in Note 54.

32. DEFERRED TAXATION

	2018 RMB million	2017 RMB million
Deferred tax assets	1,159	941
Deferred tax liabilities	(1,001)	(428)

The following are the major deferred tax assets and liabilities recognised and movements thereon during the years ended 31 December 2018 and 2017:

	Intangible assets RMB million	Capitalisation of interest in property, plant and equipment RMB million	Undistributed retained profits of PRC entities from 1 January 2008 RMB million	Deferred income RMB million	Unrealised profits RMB million	Equipment for one time deduction from 1 January 2018 RMB million	Others RMB million	Total RMB million
At 1 January 2017	228	145	108	(710)	(132)	–	13	(348)
Acquisition of businesses (Note 48)	39	–	–	–	–	–	–	39
Charge to profit or loss	–	19	58	54	5	–	6	142
Credit to profit or loss	(15)	(6)	(55)	(201)	(49)	–	(20)	(346)
At 31 December 2017	252	158	111	(857)	(176)	–	(1)	(513)
Acquisition of businesses (Note 48)	325	–	–	–	–	–	–	325
Charge to profit or loss	–	30	153	73	7	252	(15)	500
Credit to profit or loss	(25)	(6)	(131)	(232)	(76)	–	–	(470)
At 31 December 2018	552	182	133	(1,016)	(245)	252	(16)	(158)

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

Deferred taxation of approximately RMB662 million (2017: RMB604 million) has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed retained profit of certain PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

32. DEFERRED TAXATION *(continued)*

As at 31 December 2018, the Group has unused tax losses of approximately RMB1,252 million (2017: RMB1,096 million) available for offsetting against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the uncertainty of future profit streams. The unrecognised tax losses will be expired in the following years ending 31 December:

	2018 RMB million	2017 RMB million
2018	**–**	126
2019	**125**	164
2020	**144**	278
2021	**200**	214
2022	**167**	314
2023	**616**	–
	1,252	1,096

As at 31 December 2018, the Group has other deductible temporary differences of approximately RMB562 million (2017: RMB550 million), which are mainly arising from impairment of trade and other receivables and unrealised profits within the Group. No deferred tax asset has been recognised in relation to such other deductible temporary differences as it is not probable that taxable profit will be available for offsetting against which the deductible temporary differences can be utilised.

33. DEPOSITS PAID FOR INVESTMENTS

The balance as at 31 December 2018 of RMB190 million (2017: RMB35 million) represented the deposits paid for the acquisitions of unlisted equity in the PRC which have not been completed at the end of the reporting period.

34. INVENTORIES

	2018 RMB million	2017 RMB million
Construction materials	**583**	459
Gas appliances	**197**	145
Natural gas	**403**	132
Other energy inventories	**26**	6
Spare parts and consumables	**2**	2
Integrated energy appliances	**120**	–
	1,331	744

The cost of inventories recognised as an expense during the year was approximately RMB41,818 million (2017: RMB33,506 million).

35. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

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

36. CASH AND CASH EQUIVALENTS/RESTRICTED BANK DEPOSITS

	2018 **RMB million**	2017 RMB million
Cash and cash equivalents	**7,923**	7,972
Restricted bank deposits		
Current portion	**62**	241
Non-current portion	**639**	486
	701	727
Bank deposits secured for:		
Letter of credit	**13**	6
Right of operation	**19**	19
Mandatory reserves in the People's Bank of China ("PBOC")	**539**	473
Energy supplies	**56**	145
Bills payable	**74**	84
	701	727

Cash and cash equivalents include bank balances with original maturities less than three months carrying interest at market rates which range from 0.3% to 3.75% (2017: 0.3% to 5.25%) per annum as at 31 December 2018. The bank balances denominated in RMB are deposited with banks in the PRC.

At the end of the reporting period, the cash and cash equivalents denominated in foreign currencies other than the functional currency of respective group entities is RMB586 million (2017: RMB 2,116 million), of which approximately RMB578 million (2017: RMB1,988 million) and approximately RMB7 million (2017: RMB116 million) are denominated in USD and Hong Kong dollar ("HK$") respectively.

As at 31 December 2018, the restricted bank deposits carry fixed interest rate ranging from 0.3% to 3.75% (2017: from 0.3% to 5.25%) per annum. Except for the amount of mandatory reserves in the PBOC, other restricted bank deposits will be released upon the settlement of bank loans, the expiry of purchase contracts or right of operation. The mandatory reserves in the PBOC classified as non-current assets are deposits placed by the ENN Finance and the reserves amount is subject to change with respect to the savings accepted by the ENN Finance and the PBOC reserve rate is adjusted from time to time.

37. TRADE AND OTHER PAYABLES

	2018 RMB million	2017 RMB million
Trade payables	**5,095**	3,182
Advances received from customers	–	6,569
Accrued charges and other payables	**2,008**	1,466
	7,103	11,217

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

	2018 RMB million	2017 RMB million
Within three months	**3,253**	2,678
4 to 6 months	**930**	174
7 to 9 months	**121**	72
10 to 12 months	**86**	38
More than one year	**705**	220
	5,095	3,182

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

38. CONTRACT LIABILITIES

	Notes	31 December 2018 RMB million	1 January 2018* RMB million
Deposit for gas charges	a	**6,192**	5,270
Deposit for construction and installation contracts	b	**4,019**	3,433
Deferred income	c	**3,519**	3,095
		13,730	11,798
Analysed for reporting purpose as:			
Current		**10,490**	8,931
Non-current		**3,240**	2,867
		13,730	11,798

* The amounts in this column are after the adjustments from the application of HKFRS 15.

Contract liabilities, which are not expected to be settled within the Group's normal operating cycle, are classified as current and non-current based on the Group's earliest obligation to transfer goods or services to the customers.

The amount recognised in the current year relates to carried-forward contract liabilities were RMB7,701 million.

Notes:

a. The Group requires the customers to deposit gas charges into magnetic cards which connected to the gas meters. When the customers consume the natural gas, corresponding value of deposits will be recognised as revenue in line with the volume of gas consumed at pre-determined unit price. The deposit would be typically consumed within one year.

b. For construction and installation contracts, the Group normally receives a deposit before construction work commences. The Group continues to recognise revenue over time and apply output method in estimating the performance obligations satisfied throughout the construction and the installation period.

c. The deferred income represents connection fees and subsidies received from certain customers for the construction of main gas pipelines and related to maintaining the ongoing deliverability to supply gas at the discretion of the customers. The period to supply gas would be consistent with the operating period as stated in the right of operation.

39. DEFERRED INCOME

	Government grants RMB million	Subsidies received from customers RMB million (note a)	Connection fee received from customers RMB million (note b)	Total RMB million
GROSS				
At 1 January 2017	221	75	3,113	3,409
Additions	137	11	662	810
At 31 December 2017	358	86	3,775	4,219
Reclassified to contract liabilities	–	(86)	(3,775)	(3,861)
Acquisition of subsidiaries	5	–	–	5
Additions	231	–	–	231
At 31 December 2018	594	–	–	594
RECOGNITION				
At 1 January 2017	14	22	539	575
Release to profit or loss	11	2	203	216
At 31 December 2017	25	24	742	791
Reclassified to contract liabilities	–	(24)	(742)	(766)
Release to profit or loss	24	–	–	24
At 31 December 2018	49	–	–	49
CARRYING VALUES				
At 31 December 2018	545	–	–	545
At 31 December 2017	333	62	3,033	3,428

	2018 RMB million	2017 RMB million
Analysed for reporting purposes as:		
Current liabilities	**25**	243
Non-current liabilities	**520**	3,185
	545	3,428

Notes:

a. The balance represented the subsidies received from the customers to subsidise the construction cost of the main gas pipelines to the gas provision site and the gas storage. These customers do not restrict the Group to use the assets constructed for the use of other customers but the Group are committed to provide the gas to these customers for a period from 1 to 40 years. Accordingly, the Group has deferred the subsidies received and released to the profit or loss upon the completion of the assets over the shorter of the committed gas supply period and the useful lives of the related assets, which was reclassified to contract liabilities upon the initial application of HKFRS 15 as set out in Note 38.

b. Since 2009, the local governments in certain provinces in the PRC have issued relevant notice to the Group's subsidiaries governing the subsidiaries that an amount of the connection fee received by the Group's subsidiaries from its customers are for the construction cost of their main gas pipelines. The Directors consider that the arrangement indicates that the subsidiaries are required to maintain the ongoing deliverability to supply gas at the discretion of the customers. As the agreement under such arrangement does not specify a period for provision of the ongoing access to a supply of gas, fees received are deferred and released to the profit or loss over the estimated useful lives of the assets used to provide the ongoing service, which was reclassified to contract liabilities upon the initial application of HKFRS 15 as set out in Note 38.

40. SHARE CAPITAL

	2018 Number of shares	2017 Number of shares	2018 HK$ million	2017 HK$ million
Shares of HK$0.10 each				
Authorised:				
At beginning and end of the year	**3,000,000,000**	3,000,000,000	**300**	300
Issued and fully paid:				
At beginning of the year	**1,082,844,897**	1,081,727,397	**108**	108
Issue of shares on exercise of share options (note a)	**1,025,500**	1,124,500	**–**	–
Share repurchase (notes b & d)	**(1,419,400)**	(7,000)	**–**	–
Issue of shares on acquisition of subsidiaries (Note 48)	**39,926,534**	–	**4**	–
Issue of shares on conversion of convertible bonds (note c)	**1,625,327**	–	**–**	–
At end of the year	**1,124,002,858**	1,082,844,897	**112**	108

	2018 RMB million	2017 RMB million
Presented in consolidated financial statements as:		
At beginning of the year	**112**	112
Share repurchase (notes b & d)	**–**	–
Acquisition of subsidiaries	**4**	–
At end of the year	**116**	112

Notes:

a. During the year ended 31 December 2018, 1,025,500 shares (2017: 1,124,500 shares) were issued at the exercise price of HK$40.34 (2017: HK$40.34) per ordinary share in relation to the exercise of outstanding share options. These shares rank pari passu with the then existing shares in all respects as set out in Note 46.

b. On 4 October 2018, 5 October 2018, 8 October 2018, 11 October 2018, 12 October 2018 and 15 October 2018, the Company repurchased 200,000, 300,000, 274,500, 172,500, 272,400 and 200,000 of its own ordinary shares through the Stock Exchange. The highest price was HK$65.00 and the lowest price was HK$60.80. The aggregate consideration paid was approximately HK$89 million (equivalent to approximately RMB78 million). The above ordinary shares were cancelled on 16 November 2018. None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities up to 31 December 2018.

c. On 15 February 2018, the Company issued 1,625,327 ordinary shares at a price of HK$47.73 per ordinary share to satisfy the conversion rights attaching to the Convertible Bonds as set out in Note 44. The new shares rank pari passu with the existing shares in all respects.

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

41. BANK AND OTHER LOANS

	2018 RMB million	2017 RMB million
Bank loans		
Secured	**656**	405
Unsecured	**9,970**	1,759
	10,626	2,164
Other loans		
Unsecured	**96**	96
	96	96
	10,722	2,260
The bank and other loans are repayable:		
On demand or within one year	**8,621**	1,737
More than one year, but not exceeding two years	**189**	257
More than two years, but not exceeding five years	**1,574**	184
More than five years	**338**	82
	10,722	2,260
Less: Amounts due within one year shown under current liabilities	**(8,621)**	(1,737)
Amounts shown under non-current liabilities	**2,101**	523

As at 31 December 2018, all the bank and other loans are denominated in the functional currency of respective group entities except for approximately RMB5,319 million (2017: approximately RMB262 million) and approximately RMB478 million (2017: nil) which is denominated in USD and HK$ respectively.

The secured bank and other loans are secured by property, plant and equipment, rights to receive fee income of certain subsidiaries and joint ventures as set out in Note 53 and personal guarantee of Mr. Wang and his spouse as set out in Note 57.

41. BANK AND OTHER LOANS *(continued)*

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

At 31 December 2018

	Maturity date	Effective interest rate per annum	Carrying amount RMB million
Fixed-rate borrowings			
Unsecured RMB bank loans	10/01/2019 – 29/12/2019	3.30% – 5.00%	**1,799**
Unsecured RMB other loan	12/06/2019	3.79%	**96**
Secured RMB bank loans	05/03/2019 – 25/05/2020	4.28% – 7.50%	**524**
Unsecured HK$ bank loan	06/07/2019	2.83%	**478**
Unsecured USD bank loans	03/01/2019 – 30/06/2019	3.00% – 4.31%	**3,878**
Total fixed-rate borrowings			**6,775**
Floating-rate borrowings			
Secured RMB bank loans at PBOC base rate	30/03/2020 – 23/11/2023	4.56% – 4.90%	**132**
Unsecured RMB bank loans at PBOC base rate	10/01/2019 – 07/11/2032	4.45% – 5.88%	**2,374**
Unsecured USD bank loan at London Interbank Offered Rate ("LIBOR")	30/11/2021	3.74%	**1,441**
Total floating-rate borrowings			**3,947**
Total borrowings			**10,722**

At 31 December 2017

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

42. CORPORATE BONDS

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

On 16 February 2011, a wholly-owned subsidiary of the Company, Xinao (China) Gas Investment Company Limited ("Xinao (China)"), issued corporate bonds of RMB500 million. The amount is unsecured and carries a fixed interest rate of 6.45% per annum and was repaid on 16 February 2018.

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

On 18 December 2015, Xinao (China) issued the 2015 Corporate Bonds of RMB2,500 million. The amount is unsecured and carries a fixed interest rate of 3.68% per annum and is repayable on 17 December 2020. The interest is payable to the holders of the bond on yearly basis. The net proceeds, after deducting the issuance costs, amounted to RMB2,489 million. The 2015 Corporate Bonds was listed on the Shanghai Stock Exchange on 2 February 2016. The 2015 Corporate Bonds was then early redeemed in full by the bondholders on 18 December 2018.

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

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

The 2016 Corporate Bonds recognised in the consolidated statement of financial position are calculated cumulatively as follows:

	2018 **RMB million**	2017 RMB million
Principal amount	**2,500**	2,500
Issue costs	**(10)**	(10)
	2,490	2,490
Effective interest recognised	**192**	100
Interest paid/payable	**(185)**	(96)
Carrying amount at 31 December	**2,497**	2,494

43. SENIOR NOTES

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

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

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

43. SENIOR NOTES *(continued)*

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

	2018 **RMB million**	2017 RMB million
Nominal value of 2021 Senior Notes	**4,863**	4,863
Issue costs	**(98)**	(98)
Fair value at date of issuance	**4,765**	4,765
Repurchased (note)	**(2,603)**	(2,603)
Effective interest recognised	**1,926**	1,775
Interest paid/payable	**(1,872)**	(1,727)
Exchange loss	**275**	156
Carrying amount at 31 December	**2,491**	2,366

Note: In September 2015 and December 2016, the Company repurchased in aggregate of principal amount of USD35,000,000 and USD349,457,000 (equivalent to approximately RMB222 million and RMB2,410 million) in the open market. The principal amount of 2021 Senior Notes remaining outstanding was USD366 million as at 31 December 2018 and 2017.

44. CONVERTIBLE BONDS AT FVTPL

On 26 February 2013, the Company issued zero-coupon USD denominated convertible bonds with the aggregate principal amount of USD500 million (approximately RMB3,141 million) (the "Convertible Bonds"). Each bond would, at the option of the bondholders, be convertible into fully paid ordinary shares with a par value of HK$0.10 each in the issued and paid up capital of the Company at an initial conversion price of HK$48.62 per share. The conversion price is subject to adjustments in the manner set out in the Convertible Bonds agreement. Conversion may occur at any time on or after 8 April 2013 and up to 16 February 2018. If the Convertible Bonds have not been converted, they would be redeemed on 26 February 2018 at 102.53 per cent of their principal amount.

The Convertible Bonds, which were listed on SGX-ST and dealt in over-the-counter market through a financial institution as the principal agent, were designated as financial instrument at fair value through profit or loss and the over-the-counter market price represents the fair value of the Convertible Bonds.

In December 2017, the Company, through its conversion agent, had received conversion notices from the holders in respect of their exercise of conversion rights attaching to the Convertible Bonds in an aggregate principal amount of USD750,000. The Company had exercised its cash settlement option to satisfy the conversion rights thereof. The consideration paid by the Company was approximately USD875,000 (equivalent to approximately RMB6 million). As a result, a loss on repurchase and redemption of RMB4 million was recognised and included in other gains and losses as set out in Note 9.

During the period from 1 January 2018 to 13 February 2018, the Company, through its conversion agent, had received conversion notices from the bondholders in respect of their exercise of conversion rights attaching to the Convertible Bonds in the aggregate principal amount of USD479,250,000, representing all of the remaining outstanding Convertible Bonds as at 31 December 2017. The Company had exercised its cash settlement option to satisfy the conversion rights of the Convertible Bonds in aggregate principal amount of USD469,250,000 by paying approximately USD597,000,000 (equivalent to approximately RMB3,771 million) pursuant to the terms and conditions governing the Convertible Bonds. As a result, a gain on redemption of RMB34 million was recognised and included in other gains and losses. The Company also satisfied the conversion rights of the Convertible Bonds in aggregate principal amount of USD10,000,000 by delivery of the Company's ordinary shares of 1,625,327 at the adjusted conversion price of HK$47.73 per share pursuant to the terms and conditions governing the Convertible Bonds. All of the outstanding Convertible Bonds were delisted on SGX-ST on 20 February 2018. A fair value loss of approximately RMB249 million (2017: approximately RMB278 million) is recognised during the year ended 31 December 2018.

45. UNSECURED BONDS

On 23 October 2014, the Company issued 3.25% bonds with an aggregate nominal value of USD400 million (equivalent to approximately RMB2,460 million) (the "2019 Unsecured Bonds"). The net proceeds after discounting and deducting the issuance costs amounted to USD395 million (equivalent to approximately RMB2,429 million). The 2019 Unsecured Bonds is unsecured and will mature on 23 October 2019. The 2019 Unsecured Bonds are listed on the Stock Exchange and dealt in over-the-counter market through a financial institution as the principal agent.

On 24 July 2017, the Company issued 3.25% bonds with an aggregate nominal value of USD600 million (equivalent to approximately RMB4,066 million) (the "2022 Unsecured Bonds"). The net proceeds after discounting and deducting the issuance costs amounted to USD596 million (equivalent to approximately RMB4,037 million). The 2022 Unsecured Bonds are unsecured and will mature on 24 July 2022. The 2022 Unsecured Bonds are listed on the Stock Exchange and dealt in over-the-counter market through a financial institution as the principal agent.

According to the terms and conditions of the 2019 Unsecured Bonds and 2022 Unsecured Bonds (the "Unsecured Bonds"), the Company may at any time and from time to time, on giving not less than 30 nor more than 60 days' notice to the holders of the Unsecured Bonds, redeem the Unsecured Bonds, in whole but not in part, at a make whole price as of, with an accrued and unpaid interest, if any, to (but excluding), the redemption date. The make whole price means, with respect to a bond at the option redemption date, the amount calculated by the quotation agent that is the greater of (1) the present value of the principal amount of the Unsecured Bonds, assuming a scheduled repayment thereof on the maturity date plus all required remaining scheduled interest repayments due on such bond through the maturity date (but excluding accrued and unpaid interest to the option redemption date), computed using a discount rate equalled to the adjusted treasury rate plus 50 basis points, and (2) the principal amount of such bonds.

The estimated fair value of the early redemption right is insignificant at initial recognition and at the end of the reporting periods. The effective interest rate is approximately 3.56% per annum after deducting the adjustment for transaction costs for 2019 Unsecured Bonds and approximately 3.44% for 2022 Unsecured Bonds.

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

	2018 **RMB million**	2017 RMB million
Nominal value of Unsecured Bonds	**6,526**	6,526
Discount cost	**(17)**	(17)
Issue costs	**(43)**	(43)
Fair value at date of issuance	**6,466**	6,466
Repurchased and cancelled in 2015	**(2,107)**	(2,107)
Effective interest recognised	**328**	179
Interest paid/payable	**(311)**	(169)
Exchange loss (gain)	**163**	(53)
Carrying amount at 31 December	**4,539**	4,316
Less: Amounts due within one year shown under current liabilities	**(443)**	–
Amounts shown under non-current liabilities	**4,096**	4,316

46. SHARE BASED PAYMENT TRANSACTIONS

a. Share award scheme

The Company has adopted a share award scheme pursuant to the board resolution of the Company dated 30 November 2018 (the "Share Award Scheme 2018").

The purpose of the Share Award Scheme 2018 is to recognise the contributions by certain employees and to incentivise them to remain with and excel in their performance for the continuing operation and development of the Group, and to attract suitable personnel for further development of the Group. Pursuant to the Share Award Scheme 2018, the Company had contracted with a trustee to establish a trust (the "Trust") on 12 March 2019. The board of the Directors (the "Board") may from time to time during the effective period of this scheme (a term of 10 years commencing on the adoption of this scheme or early terminated) contribute funds to the Trust and instruct the trustee to purchase shares of the Company on the Stock Exchange or in off-market transactions. Shares purchased and held by the Trust are non-transferrable and have no voting rights, those shares will be granted to the employees selected by the Board at no consideration and as award to the selected employees. The Board may from time to time at its discretion grant award shares to employees selected by the Board and in such a number and on and subject to such terms and conditions as it may in its absolute discretion determine, including but not limited to the vesting conditions attached and the settlement method (cash or share settlement).

The Board shall not make any further award of the shares which will result in the nominal value of the shares awarded by the Board under the Share Award Scheme 2018 exceeding 5% of the issued share capital of the Company from time to time. The maximum number of shares which may be awarded to each selected employee under the Share Award Scheme 2018 shall not exceed 1% of the issued share capital of the Company from time to time.

As of 31 December 2018 and up to the approval date of these consolidated financial statements, the Board had neither decided or selected employee nor granted any awarded shares.

b. Share option schemes

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

The purpose of the share option schemes is to provide incentives for participants to perform their best in achieving the goals of the Group and allow them to enjoy the results of the Company attained through their efforts and contribution. Pursuant to the share option schemes, the Directors may, at its absolute discretion, invite any employee or executive director or any member of the Group, or any employee, partner or director of any business consultant, joint venture partner, financial adviser and legal adviser of and to any member of the Group, to take up options at HK$1 on each grant to subscribe for shares at an exercise price equal to at least the highest of (a) the closing price of the shares on the Stock Exchange on the date of grant; (b) the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant; and (c) the nominal value of a share.

The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 30% of the issued share capital of the Company from time to time. Unless approved by shareholders of the Company, the total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue. Where any further grant of options to a participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

46. SHARE BASED PAYMENT TRANSACTIONS *(continued)*

b. Share option schemes *(continued)*

Scheme 2012

On 9 December 2015, the Company granted share options to the Directors and certain employees ("Grantees") to subscribe for a total of 12,000,000 ordinary shares of HK$0.1 each in the share capital of the Company under the share option scheme adopted by the Company on 26 June 2012, subject to acceptance by the Grantees.

Among the share options granted above, 2,659,000 share options were granted to the Directors to subscribe for a total of 2,659,000 shares in the Company and 9,341,000 share options were granted to certain employees of the Group to subscribe for 9,341,000 shares in the Company. Vesting of the share options is conditional upon the fulfilment of certain vesting conditions as set out in the respective offer letters of the Grantees, which may involve fulfilment of performance target.

The following tables disclose details of the Company's share options held by the employees (including the Directors) and movements in such holdings under the share option scheme during the year:

					Number of options				
	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1. 2018	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2018
Tranche 1	9.12.2015	9.12.2015 to 1.4.2017	1.4.2017 to 8.12.2025	HK$40.34	1,211,250	–	(511,100)	(62,500)	637,650
Tranche 2	9.12.2015	9.12.2015 to 1.4.2018	1.4.2018 to 8.12.2025	HK$40.34	2,558,750	–	(514,400)	(474,750)	1,569,600
Tranche 3	9.12.2015	9.12.2015 to 1.4.2019	1.4.2019 to 8.12.2025	HK$40.34	2,558,750	–	–	(292,250)	2,266,500
Tranche 4	9.12.2015	9.12.2015 to 1.4.2020	1.4.2020 to 8.12.2025	HK$40.34	2,558,750	–	–	(292,250)	2,266,500
					8,887,500	–	(1,025,500)	(1,121,750)	6,740,250
Exercisable at the end of the year									2,207,250
Weighted average exercise price					HK$40.34				HK$40.34

				Number of options				
	Date of grant	Exercise period	Exercise price	Outstanding at 1.1.2018	Exercised during the year	Reclassified during the year	Forfeited during the year	Outstanding at 31.12.2018
Directors	9.12.2015	1.4.2017 to 8.12.2025	HK$40.34	230,750	–	–	–	230,750
	9.12.2015	1.4.2018 to 8.12.2025	HK$40.34	538,750	–	–	–	538,750
	9.12.2015	1.4.2019 to 8.12.2025	HK$40.34	538,750	–	–	–	538,750
	9.12.2015	1.4.2020 to 8.12.2025	HK$40.34	538,750	–	–	–	538,750
Employees	9.12.2015	1.4.2017 to 8.12.2025	HK$40.34	980,500	(511,100)	–	(62,500)	406,900
	9.12.2015	1.4.2018 to 8.12.2025	HK$40.34	2,020,000	(514,400)	–	(474,750)	1,030,850
	9.12.2015	1.4.2019 to 8.12.2025	HK$40.34	2,020,000	–	–	(292,250)	1,727,750
	9.12.2015	1.4.2020 to 8.12.2025	HK$40.34	2,020,000	–	–	(292,250)	1,727,750
				8,887,500	(1,025,500)	–	(1,121,750)	6,740,250
Exercisable at the end of the year								2,207,250
Weighted average exercise price				HK$40.34				HK$40.34

46. SHARE BASED PAYMENT TRANSACTIONS *(continued)*

b. Share option schemes *(continued)*

Scheme 2012 (continued)

The following tables disclose details of the Company's share options held by the employees (including the Directors) and movements in such holdings under the share options scheme during the prior year:

							Number of options		
	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1.2017	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2017
Tranche 1	9.12.2015	9.12.2015 to 1.4.2017	1.4.2017 to 8.12.2025	HK$40.34	2,828,250	–	(1,124,500)	(492,500)	1,211,250
Tranche 2	9.12.2015	9.12.2015 to 1.4.2018	1.4.2018 to 8.12.2025	HK$40.34	2,828,250	–	–	(269,500)	2,558,750
Tranche 3	9.12.2015	9.12.2015 to 1.4.2019	1.4.2019 to 8.12.2025	HK$40.34	2,828,250	–	–	(269,500)	2,558,750
Tranche 4	9.12.2015	9.12.2015 to 1.4.2020	1.4.2020 to 8.12.2025	HK$40.34	2,828,250	–	–	(269,500)	2,558,750
					11,313,000	–	(1,124,500)	(1,301,000)	8,887,500
Exercisable at the end of the year									1,211,250
Weighted average exercise price					HK$40.34				HK$40.34

						Number of options		
	Date of grant	Exercise period	Exercise price	Outstanding at 1.1.2017	Exercised during the year	Reclassified during the year (note)	Forfeited during the year	Outstanding at 31.12.2017
Directors	9.12.2015	1.4.2017 to 8.12.2025	HK$40.34	574,250	(308,000)	(35,500)	–	230,750
	9.12.2015	1.4.2018 to 8.12.2025	HK$40.34	574,250	–	(35,500)	–	538,750
	9.12.2015	1.4.2019 to 8.12.2025	HK$40.34	574,250	–	(35,500)	–	538,750
	9.12.2015	1.4.2020 to 8.12.2025	HK$40.34	574,250	–	(35,500)	–	538,750
Employees	9.12.2015	1.4.2017 to 8.12.2025	HK$40.34	2,254,000	(816,500)	35,500	(492,500)	980,500
	9.12.2015	1.4.2018 to 8.12.2025	HK$40.34	2,254,000	–	35,500	(269,500)	2,020,000
	9.12.2015	1.4.2019 to 8.12.2025	HK$40.34	2,254,000	–	35,500	(269,500)	2,020,000
	9.12.2015	1.4.2020 to 8.12.2025	HK$40.34	2,254,000	–	35,500	(269,500)	2,020,000
				11,313,000	(1,124,500)	–	(1,301,000)	8,887,500
Exercisable at the end of the year								1,211,250
Weighted average exercise price				HK$40.34				HK$40.34

Note: Mr. Jin Yongsheng resigned from office as non-executive director of the Company on 21 March 2017. The outstanding 142,000 share options granted to him were reclassified to employees.

46. SHARE BASED PAYMENT TRANSACTIONS *(continued)*

b. Share option schemes *(continued)*

Scheme 2012 (continued)

Exercise price of the share options granted is HK$40.34 per share, which represents the highest of (i) the closing price of HK$39.00 per share as stated in the daily quotations sheet of the Stock Exchange on 9 December 2015, being the date of grant; (ii) the average closing price of HK$40.34 per share as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the share.

During the year ended 31 December 2018, 1,121,750 (2017: 1,301,000) share options were forfeited. As at 31 December 2018, the number of outstanding share options is 6,740,250 (2017: 8,887,500), among which 4,533,000 share options have not yet vested and hence not exercisable until fulfilment of vesting condition. During the year, the Group recognised share-based payment expenses of RMB19 million (2017: RMB34 million).

The total fair value of the options calculated by using the binomial model was HK$194 million. The following assumptions were used to calculate the fair value of share options:

	Directors	Employees
Spot price	HK$39.00	HK$39.00
Exercise price	HK$40.34	HK$40.34
Risk free rate	1.555%	1.555%
Expected volatility	43.12%	43.12%
Expected dividend yield	1.08%	1.08%
Early exercise behaviour	280% of the exercise price	220% of the exercise price

The Binomial model has been used to estimate the fair value of the options. The expected volatility was determined by referencing to the historical volatility of the Company's share option price over the previous 10 years. The other variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

At the end of each reporting date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to the share options reserve.

Scheme 2002

On 14 June 2010, the Company granted share options to the Directors and certain employees ("Grantees") to subscribe for a total of 33,490,000 ordinary shares of HK$0.1 each in the share capital of the Company under the share option scheme adopted by the Company on 21 May 2002, subject to acceptance by the Grantees.

Among the share options granted above, 14,810,000 share options were granted to the Directors to subscribe for a total of 14,810,000 shares in the Company and 18,680,000 share options were granted to certain employees of the Group to subscribe for 18,680,000 shares in the Company.

46. SHARE BASED PAYMENT TRANSACTIONS *(continued)*

b. Share option schemes *(continued)*

Scheme 2002 (continued)

As at the end 31 December 2018 and 2017, all of outstanding share options are granted to the certain employees of the Group.

The following tables disclose details of the Company's share options held by the employees (including the Directors) and movements in such holdings under the share option scheme during the year:

					Number of options			
	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1 January 2018 and 2017	Granted during the year	Exercised during the year	Outstanding at 31 December 2018 and 2017
Tranche 1	14.6.2010	14.6.2010 to 13.12.2010	14.12.2010 to 13.6.2020	HK$16.26	–	–	–	–
Tranche 2	14.6.2010	14.6.2010 to 13.6.2012	14.6.2012 to 13.6.2020	HK$16.26	**200,000**	–	–	**200,000**
					200,000	–	–	**200,000**
Exercisable at the end of the year								**200,000**
Weighted average exercise price					**HK$16.26**			**HK$16.26**

During the current and prior year, the Group recognised no share-based payment expenses.

47. RETIREMENT BENEFITS SCHEME

	2018 **RMB million**	2017 RMB million
Retirement benefit scheme contribution made during the year	**215**	166

According to the relevant laws and regulations in the PRC, the PRC subsidiaries within the Group are required to contribute a certain percentage of the payrolls of their employees to the retirement benefits scheme to fund the retirement benefits of their employees. The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, contribution of which is matched by employees. The maximum monthly amount of contribution is limited to HK$1,500 per employee.

48. ACQUISITION OF BUSINESSES

a. Acquisition of businesses during the year ended 31 December 2018

On 30 January 2018, the Group acquired 100% of the registered capital of 寧德利拓能源有限公司 ("Ningde") at a consideration of RMB29 million. Ningde is engaged in sales of piped gas.

On 8 February 2018, the Group acquired 55% of the registered capital of 玉田新奧燃氣有限公司 ("Yutian") at a consideration of RMB25 million. Yutian is engaged in sales of piped gas.

On 12 April 2018, the Group acquired 60% of the registered capital of 安徽省安燃燃氣有限公司 ("Anran") at a consideration of RMB96 million. Anran is engaged in sales of piped gas.

On 27 June 2018, the Group acquired further 50% of the registered capital of 聊城金奧燃氣發展有限公司 and 聊城開發區金奧能源有限公司 ("Liaocheng") at a cash consideration of RMB180 million which then became wholly owned subsidiaries of the Group from joint ventures. Liaocheng is engaged in sales of piped gas.

On 21 November 2018, the Group acquired 90% of the registered capital of 懷仁市金源天然氣有限責任公司 ("Huairen") at a consideration of RMB198 million. Huairen is engaged in sales of piped gas.

On 4 December 2018, the Group acquired 100% of the registered capital of 香港天成能源投資集團有限公司 ("Tiancheng") at a consideration of RMB108 million. Tiancheng and its subsidiaries are engaged in sales of piped gas.

On 24 December 2018, the Group acquired 100% of the registered capital of 常熟市銅業總公司有限公司 ("Changshu") at a consideration of RMB1. Changshu is engaged in sales of integrated energy.

On 29 December 2018, 東莞市新奧車用燃氣發展有限公司 ("Dongguan") amended its articles of association, which then became a subsidiary of the Group from a joint venture with no consideration. Dongguan is engaged in vehicle gas refuelling station. The Group's 55% equity interest in Dongguan had not changed subsequent to the acquisition.

Ningde, Yutian, Anran, Liaocheng, Huairen, Tiancheng, Changshu and Dongguan were acquired with the objective of expansion in market coverage of the Group's business.

On 16 August 2018 ("Completion Date"), the Group acquired 100% of the registered capital of Excellence Award Holding Company Limited ("EAH") from a company controlled by Mr. Wang. EAH and its subsidiaries (collectively referred to as "EAH Group") are principally engaged in the provision of technology solutions of multiple forms of energy in the PRC. The acquisition was made as part of the Group's strategy to accelerate its integrated energy business development, to foster new profit growth driver, facilitate its gas distribution business development, and also to eliminate continuing connected transactions between the Group and the EAH Group. The total consideration was approximately RMB2,502 million, representing issuance of 39,926,534 ordinary shares of the Company measured at closing market price on Completion Date of HK$71.35 per share. The Group incurred transaction costs of RMB22 million for this acquisition. Other than the incremental costs directly attributable to issuance of the Company's ordinary shares, all other transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

48. ACQUISITION OF BUSINESSES *(continued)*

a. Acquisition of businesses during the year ended 31 December 2018 *(continued)*

The amounts of fair value of the assets and liabilities at the dates of acquisition are as follows:

	Dongguan & Liaocheng RMB million	EAH Group RMB million	Others RMB million
Non-current assets			
Property, plant and equipment	299	69	317
Intangible assets	250	549	488
Prepaid lease payments	16	–	36
Interests in joint ventures	20	4	–
Other receivables	–	24	–
Current assets			
Inventories	5	170	8
Trade and other receivables	60	782	70
Cash and cash equivalents	154	16	20
Restricted bank deposits	–	15	–
Contract assets	–	20	–
Amounts due from related companies	–	396	–
Current liabilities			
Trade and other payables	(216)	(678)	(223)
Bank and other loans – due within one year	–	(165)	(41)
Contract liabilities	–	(55)	–
Amounts due to related companies	–	(478)	–
Non-current liabilities			
Deferred tax liabilities	(64)	(137)	(124)
Bank and other loans – due after one year	–	(23)	(9)
Deferred income	–	(5)	–
Net assets acquired	524	504	542
Goodwill arising on acquisition			
Total consideration	180	2,502	456
Add: Non-controlling interests	87	–	120
Add: Fair value of previously held interest	281	–	–
Less: Fair value of identified net assets acquired	(524)	(504)	(542)
Goodwill arising on acquisition	24	1,998	34
Gain on remeasurement of the investments in joint ventures previously held by the Group			
Fair value of previously held interest	281	–	–
Less: Carrying amount of the equity interest	(163)	–	–
	118	–	–
Total consideration satisfied by:			
Cash	180	–	387
Consideration payables (included in other payables)	–	–	69
Issuance of the Company's ordinary shares	–	2,502	–
	180	2,502	456
Net cash (outflow) inflow arising on acquisition:			
Cash consideration paid	(180)	–	(387)
Less: Deposit paid in the prior year	–	–	21
Less: Cash and cash equivalents acquired	154	16	20
	(26)	16	(346)

48. ACQUISITION OF BUSINESSES *(continued)*

a. Acquisition of businesses during the year ended 31 December 2018 *(continued)*

Goodwill arises in the acquisition of businesses because the consideration included a control premium. In addition, the consideration paid for the acquisitions effectively included amounts in relation to the benefit of synergies, revenue growth, further market development and the assembled workforce of the businesses. These benefits are not recognised separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

Included in the profit for the year ended 31 December 2018 is RMB119 million of profit attributable to the additional businesses generated by Ningde, Yutian, Anran, Liaocheng, Huairen, Changshu, Tiancheng, Dongguan and EAH Group. Revenue for the year ended 31 December 2018 includes RMB740 million generated from Ningde, Yutian, Anran, Liaocheng, Huairen, Changshu, Tiancheng, Dongguan and EAH Group.

Had the acquisitions of Ningde, Yutian, Anran, Liaocheng, Huairen, Changshu, Tiancheng, Dongguan and EAH Group been effected on 1 January 2018, the revenue of the Group for the year ended 31 December 2018 would have been approximately RMB61,867 million, and the profit for the year would have been approximately RMB3,869 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that would have been achieved had the acquisitions been completed on 1 January 2018, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group, had Ningde, Yutian, Anran, Liaocheng, Huairen, Changshu, Tiancheng, Dongguan and EAH Group been acquired on 1 January 2018, the Directors have calculated the depreciation and amortisation of property, plant and equipment and intangible asset acquired on the basis of the fair values rather than the carrying amounts recognised in the pre-acquisition financial statements.

b. Acquisition of businesses during the year ended 31 December 2017

On 8 November 2017, the Group acquired 60% of the registered capital of 山東魯鴻天然氣有限公司 ("Luhong") at a consideration of RMB35 million. Luhong is engaged in sales of piped gas. Luhong was acquired with the objective of expansion in market coverage of business of the Group.

On 26 December 2017, the Group acquired 60% of the registered capital of 萍鄉長豐燃氣有限公司 ("Pingxiang") at a consideration of RMB84 million. Pingxiang is engaged in sales of piped gas. Pingxiang was acquired with the objective of expansion in market coverage of business of the Group.

On 27 December 2017, the Group disposed of its 11.96% equity interest in 湖南新奧清潔能源有限公司 ("Hunan Clean Energy", a former wholly-owned subsidiary of the Group) to other shareholders of 湖南三湘新奧清潔能源有限公司 ("Sanxiang") in exchange for the entire businesses held and operated by Sanxiang. Prior to this transaction, the Group held 43.35% equity interest in Sanxiang and accounted it as an associate. Sanxiang is engaged in sales of piped gas. Sanxiang was acquired with the objective of expansion of business of the Group. Subsequent to the completion of the transaction, Sanxiang was dissolved and its businesses was merged into Hunan Clean Energy.

48. ACQUISITION OF BUSINESSES *(continued)*

b. Acquisition of businesses during the year ended 31 December 2017 *(continued)*

The provisional amounts of fair value of the assets and liabilities of Luhong, Pingxiang and Sanxiang at the date of acquisition are as follows:

	Luhong RMB million	**Pingxiang** RMB million	**Sanxiang** RMB million
Non-current assets			
Property, plant and equipment	72	84	58
Prepaid lease payment	5	2	–
Intangible assets – right of operation	15	85	–
Interests in joint ventures	–	–	30
Interests in an associate	9	–	–
Current assets			
Inventories	5	4	–
Trade and other receivables	25	5	9
Cash and cash equivalents	4	5	6
Current liabilities			
Trade and other payables	(48)	(89)	(20)
Bank and other loans – due within one year	(25)	–	–
Non-current liabilities			
Deferred tax liabilities	(4)	(21)	(14)
Bank and other loans – due after one year	–	(6)	–
Net assets acquired	58	69	69
Capital injection by the Group	–	50	–
Net assets acquired including capital injection by the Group	58	119	69
Goodwill arising on acquisition (determined on a provisional basis)			
Total consideration	35	84	31
Add: Non-controlling interests	23	48	8
Add: Fair value of 43.35% equity interest of Sanxiang previously held by the Group	–	–	30
Less: Fair value of identified net assets acquired including capital injection by the Group	(58)	(119)	(69)
Goodwill arising on acquisition	–	13	–
Total consideration satisfied by:			
Cash	27	31	–
Consideration payables (included in other payables)	8	3	–
Fair value of 11.96% equity interest of Hunan Clean Energy disposed of by the Group	–	–	31
Capital injection by the Group in Pingxiang	–	50	–
	35	84	31
Net cash (outflow) inflow arising on acquisition:			
Cash consideration paid	(27)	(31)	–
Less: Cash and cash equivalents acquired	4	5	6
	(23)	(26)	6

49. ACQUISITION OF ASSETS THROUGH ACQUISITIONS OF SUBSIDIARIES

a. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2018

To facilitate the Group's overall business, the Group will from time to time liaise with the local PRC governments and potential vendors to acquire the local rights of operation, gas assets and integrated energy related assets by acquisition of subsidiaries. During the year ended 31 December 2018, the Group has acquired assets through the acquisitions of the following subsidiaries:

On 5 January 2018, the Group acquired 90% of the equity interest of 上海綠環加氣有限公司 at a consideration of RMB0.4 million.

On 17 April 2018, the Group acquired 70% of the equity interest of 懷化中油振宇清潔能源有限公司 at a consideration of RMB5 million.

On 21 June 2018, the Group acquired 90% of the equity interest of 天長市徐礦天然氣有限公司 at a consideration of RMB72 million.

On 11 September 2018, the Group acquired 80% of the equity interest of 葉縣東方天然氣有限公司 at a consideration of RMB17 million.

On 26 September 2018, the Group acquired 100% of the equity interest of 上海新晟文化用品有限公司 at a consideration of RMB1 million from a company controlled by Mr. Wang.

On 1 November 2018, the Group acquired 100% of the equity interest of 東營新奧燃氣有限公司 at a consideration of RMB37 million.

On 16 November 2018, the Group acquired 51% of the equity interest of 周口易聖熱力供應有限公司 at a consideration of RMB22 million.

On 28 November 2018, the Group acquired 90% of the equity interest of 商水新奧能源發展有限公司 at a consideration of RMB9 million.

On 26 December 2018, the Group acquired 100% of the equity interest of 壽光卓宇新能源有限公司 at a consideration of RMB0.2 million.

On 26 December 2018, the Group acquired 80% of the equity interest of 新鄉縣中能服熱力有限公司 at a consideration of RMB10 million.

On 28 December 2018, the Group acquired further 51% of the equity interest of 廊坊廣核開新能源服務有限公司 at a consideration of RMB33 million, which then became 90% owned subsidiary of the Group from an associate.

On 6 December 2018, a joint venture of the Group, 開封新奧中原燃氣有限公司 amended its articles of association, which then became 60% owned subsidiary of the Group.

On 17 December 2018, a joint venture of the Group, 淄博新奧燃氣有限公司 amended its articles of association, which then became 60% owned subsidiary of the Group.

49. ACQUISITION OF ASSETS THROUGH ACQUISITIONS OF SUBSIDIARIES *(continued)*

a. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2018 *(continued)*

The transactions were accounted for as acquisition of assets through acquisition of subsidiaries and the fair value of the considerations allocated to the assets and liabilities acquired are as follows:

	RMB million
Non-current assets	
Property, plant and equipment	223
Intangible assets – right of operation	138
Prepaid lease payments	32
Current assets	
Inventories	2
Trade and other receivables	65
Cash and cash equivalents	18
Current liabilities	
Trade and other payables	(186)
Net assets acquired	292
Less: Non-controlling interests	(52)
Less: Fair value of previously held interest	(34)
Total consideration	206
Loss on remeasurement of the investments in a joint venture previously held by the Group	
Fair value of previously held interest	4
Less: Carrying amount of the equity interest	(11)
	(7)
Total consideration satisfied by:	
Cash	150
Consideration payables (included in other payables)	56
	206
Net cash outflow arising on acquisition:	
Cash consideration paid	(150)
Less: Cash and cash equivalents acquired	18
	(132)

49. ACQUISITION OF ASSETS THROUGH ACQUISITIONS OF SUBSIDIARIES *(continued)*

b. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2017

To facilitate the Group's overall business, the Group will from time to time liaise with the local PRC governments and potential vendors to acquire the local rights of operation, gas assets and integrated energy related assets. During the year ended 31 December 2017, the Group has acquired assets through the acquisitions of the following subsidiaries:

On 6 April 2017, the Group acquired 93.41% of the equity interest of 炎陵新奧燃氣有限公司 ("Yanling") at a consideration of RMB32 million.

On 5 June 2017, the Group acquired 100% of the equity interest of 株洲新奧淥口燃氣有限公司 ("Lukou") at a consideration of RMB25 million.

On 16 October 2017, the Group acquired 100% of the equity interest of 亳州皖華燃氣有限公司 ("Bozhou") at a consideration of RMB53 million.

On 31 December 2017, the Group acquired 100% of the equity interest of 15 electricity wholesale companies at a consideration of RMB21 million from a company controlled by Mr. Wang.

The transactions were accounted for as acquisition of assets through acquisition of subsidiaries and the fair value of the considerations allocated to the assets and liabilities acquired are as follows:

	RMB million
Non-current assets	
Property, plant and equipment	35
Prepaid lease payment	10
Intangible assets – right of operation	57
Current assets	
Trade and other receivables	5
Cash and cash equivalents	44
Current liabilities	
Trade and other payables	(18)
Net assets acquired	133
Less: Non-controlling interests	(2)
Total consideration	131
Total consideration satisfied by:	
Cash	92
Deposit paid in the prior year	18
Consideration payables (included in other payables and amount due to related companies)	21
	131
Net cash outflow arising on acquisition:	
Cash consideration paid	(92)
Less: Cash and cash equivalents acquired	44
	(48)

50. DISPOSAL OF SUBSIDIARIES

a. Disposal of subsidiaries during the year ended 31 December 2018

On 31 January 2018, the Group disposed of 100% equity interest in Green Transportation Fuels North America LLC and ENN Canada Corporation (collectively referred to as "NA subsidiaries") at a cash consideration of USD3 million (approximately RMB18 million) to an independent third party. NA subsidiaries were classified as assets held for sale as at 31 December 2017.

On 5 June 2018, the Group disposed of 60% equity interest in 煙台新奧實業有限公司 ("Yantai Xinao") at cash consideration of RMB62 million to a joint venture. As a result, the Group lost control on Yantai Xinao and its subsidiary.

On 30 November 2018, the Group disposed of 51% equity interest in 邯鄲新奧萬合清潔能源有限公司 ("Handan Xinao") at a cash consideration of RMB10 million.

The net assets at the dates of disposal were as follow:

	NA subsidiaries RMB million	**Yantai Xinao** RMB million	**Handan Xinao** RMB million
Non-current assets			
Property, plant & equipment	47	93	27
Prepaid lease payment	–	3	–
Current assets			
Inventories	–	1	1
Trade and other receivables	5	67	18
Cash and cash equivalents	5	32	–
Current liabilities			
Trade and other payables	(42)	(98)	(15)
Taxation payable	–	(1)	–
Net assets	15	97	31
Less: Non-controlling interests	–	(35)	(16)
Net assets attributable to owners of the Company disposed of	15	62	15

50. DISPOSAL OF SUBSIDIARIES *(continued)*

a. Disposal of subsidiaries during the year ended 31 December 2018 *(continued)*

The gain (loss) on disposal recognised in profit or loss was calculated as below:

	NA subsidiaries RMB million	Yantai Xinao RMB million	Handan Xinao RMB million
Consideration received	18	62	–
Consideration receivable	–	–	10
Less: Net assets attributable to owners of the Company derecognised	(15)	(62)	(15)
Gain (loss) on disposal of subsidiaries	3	–	(5)
Net cash inflow arising from the disposal:			
Cash consideration received	18	62	–
Less: Cash and cash equivalent disposed of	(5)	(32)	–
	13	30	–

b. Disposal of a subsidiary during the year ended 31 December 2017

On 30 June 2017, the Group disposed of 100% equity interest in ENN Clean Fuels B.V. ("ENN Clean Fuels") at a cash consideration of EUR1.25 million (approximately RMB9 million) to an independent third party.

The net assets at the date of disposal were as follow:

	RMB million
Non-current assets	
Property, plant and equipment	12
Current assets	
Trade and other receivables	1
Cash and cash equivalents	1
Current liabilities	
Trade and other payables	(1)
Net assets disposed of	13

The loss on disposal of ENN Clean Fuels recognised in profit or loss was calculated as below:

	RMB million
Cash consideration received	9
Less: Goodwill disposed of	(9)
Less: Net assets disposed of	(13)
Loss on disposal of a subsidiary	(13)
Net cash inflow arising on disposal:	
Cash consideration received	9
Less: Cash and cash equivalents disposed of	(1)
	8

51. COMMITMENTS

a. Capital commitments

	2018 RMB million	2017 RMB million
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**1,113**	643
Capital commitments in respect of		
– investments in joint ventures	**212**	207
– investments in associates	**219**	86
– other equity investments	**92**	86

b. Other commitments

Since the year ended 31 December 2016, the Group has commitments to acquire LNG from certain suppliers. The delivery of LNG under such arrangements commenced in 2018 and last for 5 to 10 years. The Group is obliged to make "take-or-pay" payment to suppliers for the quantity contracted but not delivered.

In the opinion of the Directors, these LNG will be utilised to satisfy the demand of domestic natural gas consumption from both the Group's piped gas customers and wholesale customers. The Directors determined that such LNG purchase arrangements are entered into and continued to be held for the purpose of the receipt of a non-financial item in accordance with the Group's expected purchase, sale and usage. Accordingly, the LNG purchase arrangements are not considered as derivatives financial instruments within the scope of HKFRS 9 since the initial recognition.

The relevant purchase prices of these arrangements will be determined by reference to certain variables, such as petroleum price indexes prevailing at the market, and are denominated in USD. The Directors assessed the economic characteristics and risks of the embedded derivatives and concluded that they are closely related to the economic risks and characteristics of the relevant host contracts. Accordingly, the embedded derivatives are not separated from the LNG purchase arrangements as derivative financial instruments recognised in the consolidated financial statements.

52. LEASE COMMITMENTS

The Group as lessee

	2018 RMB million	2017 RMB million
Minimum lease payments paid under operating leases during the year:		
Premises	**138**	111
Other assets	**27**	10
	165	121

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

	2018 RMB million	2017 RMB million
Within one year	**148**	96
In the second to fifth year inclusive	**347**	203
Over five years	**344**	221
	839	520

Leases are negotiated for an average term of four years and rentals are fixed for an average of one year.

The Group as lessor

The Group's investment properties are held for rental purposes. Property rental income earned during the year was RMB13 million (2017: RMB15 million). All of the properties held have committed tenants for terms ranging from one to twenty years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2018 RMB million	2017 RMB million
Within one year	**14**	14
In the second to fifth year inclusive	**26**	24
Over five years	**24**	26
	64	64

53. PLEDGE OF ASSETS

At the end of the reporting period, the Group pledged certain assets as securities for bank and other loans, bill facilities and contracts granted to the Group, associates and joint ventures as follows:

	2018 RMB million	2017 RMB million
Carrying amount of:		
Property, plant and equipment	**6**	–
Restricted bank deposits	**163**	254
Prepaid lease payments	**–**	5
Bills receivable	**217**	719

In addition to the above, the Group has also pledged its rights to receive construction and installation and gas supply fee income of certain subsidiaries in favour of banks to secure banking facilities amounting to RMB810 million (2017: RMB1,320 million) granted to the Group, of which RMB432 million (2017: RMB395 million) has been utilised up to 31 December 2018.

54. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

a. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern, to maintain the confidence of creditors, to sustain future development of the entities and to maximise the return to the equity holders of the Company. The capital structure of the Group consists of net debt (borrowings disclosed in Notes 41, 42, 43, 44 and 45, net of cash and cash equivalents) and total equity of the Group.

The Group manages its capital base through net gearing ratio. The Directors review the capital structure on a semi-annual basis. The Group has a target of net gearing ratio below 100% and will maintain the ratio within target by issue of new debts, repayment of debts, issue of new shares, repurchase of shares or payment of dividends. The Group's overall strategy remains unchanged from prior year. During the years ended 31 December 2018 and 2017, the Group repurchased and redeemed certain convertible bonds and senior notes in order to better manage its net gearing ratio. The net gearing ratio at the end of the reporting period was as follows:

	2018 **RMB million**	2017 RMB million
Bank and other loans	**10,722**	2,260
Corporate bonds	**2,497**	5,490
Senior notes	**2,491**	2,366
Convertible bonds at FVTPL	**–**	3,635
Unsecured bonds	**4,539**	4,316
	20,249	18,067
Less: Cash and cash equivalents	**(7,923)**	(7,972)
Net debt	**12,326**	10,095
Total equity	**25,554**	20,217

	2018 **%**	2017 %
Net debt to total equity ratio	**48.2**	49.9

b. Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of the reporting period are set out as follows:

	2018 **RMB million**	2017 RMB million
Financial assets		
AFS financial assets	**–**	5,106
Financial assets at FVTPL	**5,580**	9
Equity instruments at FVTOCI	**112**	–
Financial assets at amortised cost	**16,504**	–
Loans and receivables	**–**	16,510
Financial liabilities		
Financial liabilities at FVTPL	**1,143**	3,733
Financial liabilities at amortised cost	**31,159**	21,719
Financial guarantee liability	**–**	5

54. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

c. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, contract assets, equity investments, financial assets/liabilities at FVTPL, amounts due from/to associates, joint ventures and related companies, cash and cash equivalents, restricted bank deposits, trade and other payables, contract liabilities, bank and other loans, corporate bonds, senior notes, convertible bonds at FVTPL, unsecured bonds and financial guarantee liability. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including foreign currency risk, interest rate risk, commodity price risk and other price risk), credit risk and liquidity risk.

Foreign currency risk management

The functional currency of the Group's most entities is RMB in which most of the transactions are denominated. However, certain loans, senior notes, unsecured bonds and convertible bonds issued by the Group, receivables and payables and certain bank balances kept by the Group are denominated in foreign currencies.

To mitigate the foreign exchange exposure, the Group entered into various Foreign Currency Derivatives with certain financial institutions during the current and prior years as set out in Note 24. The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider to hedge its foreign exchange exposure should the need arises.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2018	2017	**2018**	2017
	RMB million	RMB million	**RMB million**	RMB million
Foreign currency:				
USD	**578**	1,988	**12,349**	10,579
HK$	**7**	116	**478**	–

The following table details the Group's sensitivity to a reasonable possible change in exchange rate of each foreign currency against RMB, while all other variables are held constant. The sensitivity analysis includes only outstanding monetary items denominated in foreign currency without considering the impact of the Foreign Currency Derivatives and adjusts their translations at the end of the reporting period for a change in foreign currency exchange rate as set out below:

	USD		**HK$**	
	2018	2017	**2018**	2017
	%	%	**%**	%
Possible change in foreign exchange rate	**5**	5	**5**	5

	2018	2017	**2018**	2017
	RMB million	RMB million	**RMB million**	RMB million
(Decrease) increase in profit after taxation for the year:				
– if RMB weakens against foreign currencies	**(592)**	(439)	**(24)**	6
– if RMB strengthens against foreign currencies	**592**	439	**24**	(6)

In the opinion of the Directors, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure and does not reflect the exposure during the year, and some of the Group's foreign currency exposure has been reduced due to the offsetting effect of the Foreign Currency Derivatives.

54. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

c. Financial risk management objectives and policies *(continued)*

Interest rate risk management

The Group does not have any specific interest rate hedging policy except that the Group would regularly review the market interest rates to capture the potential opportunities to reduce the cost of borrowings. Accordingly, the Group will enter into interest rate swap arrangement to mitigate the interest rate risk if appropriate.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to non-current amounts due from associates and joint ventures, and fixed-rate bank and other loans, corporate bonds, senior notes and unsecured bonds (see Notes 29, 30, 41, 42, 43 and 45 for details of these amounts, loans, bonds and notes respectively).

The fair value interest rate risk on bank balance and deposits is insignificant as the terms of the fixed deposits are relatively short.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to floating-rate bank loans (see Note 41 for details of these amounts). The Directors consider that the Group is not exposed to significant cash flow interest rate risk relating to bank deposits, which are primarily short term in nature and basically carried at stable market interest rates.

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure to interest rates for the floating-rate bank loans. The analysis is prepared assuming that the amount of liabilities outstanding at the end of the reporting period was outstanding for the whole year and excluding the interest expected to be capitalised.

	2018	2017
	%	%
Reasonably possible change in interest rate	**50 basis points**	50 basis points

	2018	2017
	RMB million	RMB million
(Decrease) increase in profit after taxation for the year		
– as a result of increase in interest rate	**(15)**	(4)
– as a result of decrease in interest rate	**15**	4

The possible change in the interest rate does not affect the equity of the Group in both years.

Commodity price risk

In the normal course of business, the Group imported LNG to satisfy the demands of downstream customers under long-term "take-or-pay" purchase agreements as set out in Note 51. Accordingly, the Group is exposed to fluctuations in prevalent crude oil/gas market prices, which are used for the determination of the price of LNG. This exposure is managed with the use of derivative financial instruments by the Group. The profit or loss generated from these derivatives is dependent on the combination of contracts which generate payoffs in any particular range of commodity prices.

Derivative financial instruments are used solely for financial risk management purposes and the Group does not hold or issue derivative financial instruments for speculation purposes. The management of the Group monitors commodity price risk exposure regularly and will consider to hedge its commodity price risk exposure should the need arises.

54. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

c. Financial risk management objectives and policies *(continued)*

Commodity price risk (continued)

Sensitivity analysis on commodity derivative contracts

A decrease of 5% in relevant commodity prices at the end of the year ended 31 December 2018 and 2017 would have affected profit or loss for the years by amount shown below. These amounts represent the change in fair value of commodity derivative contracts at the reporting date.

	2018 **RMB million**	2017 RMB million
Profit or loss	**(194)**	(2)

Other price risk

The Group is mainly exposed to price risk through equity instrument measured at FVTPL and FVTOCI. The Directors do not implement specific measurements to mitigate the price risk.

If the market price of equity instrument measured at FVTPL and FVTOCI increased or decreased by 5%, the Group would recognise additional gains or losses of RMB247 million (2017: RMB 45 million) respectively.

Credit risk and impairment assessment

As at 31 December 2018, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of financial guarantees provided by the Group. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risks associated with loan receivables is mitigated because they are secured over equipment, receivables and certain entities' equities and settlement of certain trade receivables are backed by bills issued by reputable financial institutions.

Trade receivables and contract assets arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances based on provision matrix.

Other receivables, amount due from associates/joint ventures/related companies and bank balances

In order to minimise the credit risk, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on other receivables, amounts due from associates/joint ventures/related companies individually. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts.

The credit risks on bank balances are limited because the counterparties are reputable international and PRC banks and other financial institutions with high credit ratings assigned by international credit-rating agencies regulated by the PRC government.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

54. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

c. Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Notes	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount RMB million
Financial assets at amortised cost					
Amounts due from associates*	29	N/A	(note a)	12-month ECL	536
				Lifetime ECL (not credit impaired)	355
					891
Amounts due from joint ventures*	30	N/A	(note a)	12-month ECL	1,155
				Lifetime ECL (not credit impaired)	465
					1,620
Amounts due from related companies*	31	N/A	(note a)	12-month ECL	16
				Lifetime ECL (not credit impaired)	219
					235
Restricted bank deposits	36	AA	N/A	12-month ECL	701
Bank balances	36	AA+	N/A	12-month ECL	7,923
Other receivables	23	N/A	(note a)	12-month ECL	339
Loan receivables	23	N/A	(note a)	12-month ECL	379
Trade receivables	23	N/A	(note b)	Lifetime ECL (provision matrix)	2,680
				Lifetime ECL (not credit impaired)	143
				Credit-impaired	45
					2,868
Bills receivable	23	N/A	(note a)	12-month ECL	1,786
Contract assets	28	N/A	(note b)	Lifetime ECL (provision matrix)	636
				Credit-impaired	2
					638

* The gross carrying amounts disclosed above include both trade nature receivables and non-trade nature receivables. All trade nature receivables are applying lifetime ECL.

54. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

c. Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment (continued)

Notes:

a. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due RMB million	Not past due/ No fixed terms of repayment RMB million	Total RMB million
Amounts due from associates	–	891	891
Amounts due from joint ventures	–	1,620	1,620
Amounts due from related companies	–	235	235
Bills receivable	–	1,786	1,786
Other receivables	–	339	339
Loan receivables	–	379	379

b. For trade receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances, the Group determines the expected credit losses on these items by using a provision matrix, grouped by past due status.

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL.

	Average loss rate	Trade receivables and contract assets RMB million
Gross carrying amount		
Within three months	0.41%	2,349
4 to 6 months	7.10%	262
7 to 9 months	8.60%	315
10 to 12 months	10.52%	81
1 to 2 years	24.46%	199
2 to 3 years	37.50%	110
		3,316

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

54. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

c. Financial risk management objectives and policies *(continued)*

Credit risk and impairment assessment (continued)

As at 31 December 2018, the Group provided RMB130 million and RMB24 million impairment allowance for trade receivables and contract assets respectively, based on the provision matrix. Impairment allowance of RMB52 million and RMB2 million were made on debtors with significant balances for trade receivables and contract assets respectively.

The following table shows reconciliation of loss allowances that have been recognised for trade receivables, contract assets, bills receivables, other receivables, amounts due from associates, joint ventures, related companies.

	12-month ECL RMB million	**Lifetime ECL (not credit-impaired)** RMB million	**Lifetime ECL (credit-impaired)** RMB million	**Total** RMB million
As at 31 December 2017 under HKAS 39	–	–	275	275
Adjustment upon application of HKFRS 9	28	50	(75)	3
As at 1 January 2018 under HKFRS 9	28	50	200	278
Changes due to financial instruments recognised				
– Transfer to credit-impaired	–	(3)	3	–
– Impairment losses recognised	39	65	51	155
– Impairment losses reversed	(28)	(48)	(15)	(91)
– Eliminated on disposal of subsidiaries	–	–	(65)	(65)
As at 31 December 2018	39	64	174	277

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs earlier.

Liquidity risk management

To manage the liquidity risk, the Group reviews the level of cash and cash equivalents to ensure their adequacy to finance the Group's operations, capital expansion plans and mitigate the effects of fluctuation in cash flows. The Group also reviews the utilisation of borrowings and ensures the compliance of loan covenants.

The Group relies on various bonds and bank and other loans as a significant source of liquidity, detail of which are set out in Notes 41, 42, 43 and 45. A subsidiary of the Group has been approved to issue corporate bonds amounting to RMB5,000 million by China Securities Regulatory Commission on 10 December 2018 and issued the 3-year corporate bonds of RMB500 million in January 2019 and RMB1,000 million in March 2019. Except for the unutilised issuance quota of the corporate bonds, the Group has unutilised credit facilities of approximately RMB8,779 million (2017: RMB6,509 million) at the date of approval of the consolidated financial statements, of which approximately RMB5,574 million (2017: RMB5,500 million) are subject to renewal within twelve months from the end of the reporting period as set out in Note 2.

54. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

c. Financial risk management objectives and policies *(continued)*

Liquidity risk management (continued)

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are carried at floating rate, the undiscounted amount is derived from interest rate existed at the end of the reporting period.

	Weighted average interest rate %	Repayable on demand or within one year RMB million	Within the second year RMB million	Within the third year RMB million	Within the fourth year RMB million	Within the fifth year RMB million	Over five years RMB million	Total undiscounted cash flows RMB million	Carrying amount at end of the reporting period RMB million
At 31 December 2018									
Non-derivative financial liabilities									
Trade and other payables		7,103	–	–	–	–	–	7,103	7,103
Amounts due to associates	0.35	351	–	–	–	–	–	351	351
Amounts due to joint ventures	4.50	1,739	46	1,016	–	–	–	2,801	2,663
Amounts due to related companies		793	–	–	–	–	–	793	793
Bank and other loans									
– fixed rate	3.98	6,768	102	–	–	–	–	6,870	6,775
– variable rate	4.68	2,092	167	1,600	64	67	386	4,376	3,947
Corporate bonds	3.55	2,589	–	–	–	–	–	2,589	2,497
Senior notes	6.00	151	151	2,584	–	–	–	2,886	2,491
Unsecured bonds	3.25	593	134	134	4,252	–	–	5,113	4,539
Financial guarantee contracts		203	–	–	–	–	–	203	–
		22,382	600	5,334	4,316	67	386	33,085	31,159
Derivatives									
–inflow		(719)	(159)	(487)	(4,252)	–	–	(5,617)	
–outflow		1,002	492	711	4,350	3	–	6,558	

54. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

c. Financial risk management objectives and policies *(continued)*

Liquidity risk management (continued)

	Weighted average interest rate %	Repayable on demand or within one year RMB million	Within the second year RMB million	Within the third year RMB million	Within the fourth year RMB million	Within the fifth year RMB million	Over five years RMB million	Total undiscounted cash flow RMB million	Carrying amount at end of the reporting period RMB million
At 31 December 2017									
Non-derivative financial liabilities									
Trade and other payables		4,648	–	–	–	–	–	4,648	4,648
Amounts due to associates	0.35	283	–	–	–	–	–	283	282
Amounts due to joint ventures	4.35	1,710	–	–	–	–	–	1,710	1,677
Amounts due to related companies		642	–	–	–	–	–	642	642
Bank and other loans									
– fixed rate	4.36	1,034	203	–	–	–	–	1,237	1,225
– variable rate	4.62	755	74	97	66	46	82	1,120	1,035
Corporate bonds	3.55-6.45	3,213	2,589	–	–	–	–	5,802	5,490
Senior notes	6.00	143	143	143	2,460	–	–	2,889	2,366
Unsecured bonds	3.25	141	564	127	127	3,793	–	4,752	4,316
Convertible bonds at FVTPL		3,592	–	–	–	–	–	3,592	3,635
Financial guarantee contracts		126	–	–	–	–	–	126	5
		16,287	3,573	367	2,653	3,839	82	26,801	25,321
Derivatives									
–inflow		(2,741)	(129)	(130)	(128)	(4,048)	–	(7,176)	
–outflow		2,804	185	184	184	4,201	–	7,558	

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on the expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, these estimates are subject to change depending on the probability of the counterparties claiming under the guarantee in case that the financial receivables held by the counterparty suffer credit losses.

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

The contractual expiry periods of financial guarantee contracts at the end of the reporting period are as follows:

	2018		2017	
	RMB million	**Expiry period**	RMB million	Expiry period
Guarantees issued to banks to secure loan facilities granted to joint ventures	**203**	**2025**	126	2020

54. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

d. Fair value measurement of financial instruments

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

The Group measures its following financial instruments at fair value at the end of the reporting period on a recurring basis:

	Fair value as at 31 December		Fair value hierarchy	Valuation technique and key input
	2018 RMB million	2017 RMB million		
Financial assets				
Derivative financial instruments	**231**	9	Level 2	Discounted cash flow for swap Future cash flows are estimated based on forward commodity price and forward exchange rates at settlement date, contracted strike rate, cap rate and premium payment, discounted at the swap curves expected by various counterparties Black-Scholes Model for option Fair value estimated based on strike price, commodity price, time to expiration, volatility and risk-free interest rate
Listed equity securities, equity interest in Shanghai Utilities	**310**	367	Level 1	Fair values are derived from quoted bid prices in an active market
Unlisted wealth management products	**49**	528	Level 3	Discounted cash flow Future cash flows are estimated based on the recoverable amount expected, discounted at a rate that reflects the credit risk of the counterparty
1.13% equity interest in Sinopec Marketing	**4,177**	N/A	Level 3	Estimated based on the P/B ratio of comparable listed companies and a liquidity discount
Total return swap	**463**	N/A	Level 2	Fair value is with reference to the similar assets' quoted price in an active market.
Other unlisted equity securities – FVTPL	**350**	N/A	Level 3	Fair value is derived from price multiples of similar assets that have been traded in the market
Unlisted equity securities – FVTOCI	**112**	N/A	Level 3	Fair values are derived from the fair value of the underlying assets and liabilities held by the investee
Financial liabilities				
Convertible Bonds at FVTPL	**–**	3,635	Level 2	Fair values are derived from quoted prices in an over-the-counter market
Derivative financial instruments	**1,143**	98	Level 2	Discounted cash flow for swap Future cash flows are estimated based on forward commodity price and forward exchange rates at settlement date, contracted strike rate, cap rate and premium payment, discounted at the swap curves expected by various counterparties Black-Scholes Model for option Fair value estimated based on strike price, commodity price, time to expiration, volatility and risk-free interest rate

54. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

d. Fair value measurement of financial instruments *(continued)*

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

The Group's 1.13% equity interest in Sinopec Marketing which is classified as financial assets at FVTPL under Level 3 hierarchy amounted to RMB4,177 million as at 31 December 2018 under HKFRS 9. The significant unobservable input is the liquidity discount rate. The higher liquidity discount rate, the lower fair value of the financial assets at FVTPL will be. A 5% increase/decrease in the liquidity discount rate, holding all other variables constant, the fair value of the investments would decrease/increase by RMB21 million as at 31 December 2018.

(ii) Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

Except as detailed in the following table, the Directors consider that the carrying amounts of financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values:

	2018		2017	
	Carrying amount RMB million	**Fair value RMB million**	Carrying amount RMB million	Fair value RMB million
Fixed-rate bank and other loans	**6,775**	**6,599**	1,225	1,215
Senior notes	**2,491**	**2,622**	2,366	2,757
Unsecured bonds	**4,539**	**4,456**	4,316	4,322
Corporate bonds	**2,497**	**2,500**	5,490	5,509

In the above table, other than the fair values of bank loans disclosed which are under the fair value hierarchy of Level 3, the rest of the fair values disclosed are under the fair value hierarchy of Level 2. The fair values of the senior notes and unsecured bonds are derived from the quoted prices in an over-the-counter market, and the fair values of corporate bonds are derived from the inactive quoted prices in the Shanghai Stock Exchange. The fair values of the rest of the financial liabilities at amortised cost are derived from discount cash flow technique by reference to the market interest rate of the loans with comparable maturity and credit risk of the respective group entities at the end of the reporting period.

55. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank and other loans RMB million (Note 41)	Convertible bonds RMB million (Note 44)	Corporate bonds RMB million (Note 42)	Unsecured bonds RMB million (Note 45)	Senior notes RMB million (Note 43)	Others RMB million (note)	Total RMB million
At 1 January 2018	**2,260**	**3,635**	**5,490**	**4,316**	**2,366**	**1,705**	**19,772**
Financing cash flows	**7,852**	**(3,771)**	**(3,000)**	**–**	**–**	**(2,249)**	**(1,168)**
Acquisition of subsidiaries	**238**	**–**	**–**	**–**	**–**	**–**	**238**
Fair value adjustments	**–**	**249**	**–**	**–**	**–**	**–**	**249**
Foreign exchange translation	**372**	**–**	**–**	**216**	**119**	**–**	**707**
Gain on repurchase and redemption of convertible bonds	**–**	**(34)**	**–**	**–**	**–**	**–**	**(34)**
Issue of shares on conversion of convertible bonds	**–**	**(79)**	**–**	**–**	**–**	**–**	**(79)**
Dividends paid to shareholders	**–**	**–**	**–**	**–**	**–**	**952**	**952**
Interest expense	**–**	**–**	**7**	**7**	**6**	**468**	**488**
At 31 December 2018	**10,722**	**–**	**2,497**	**4,539**	**2,491**	**876**	**21,125**

	Bank and other loans RMB million (Note 41)	Convertible bonds RMB million (Note 44)	Corporate bonds RMB million (Note 42)	Medium-term notes RMB million	Unsecured bonds RMB million (Note 45)	Senior notes RMB million (Note 43)	Others RMB million (note)	Total RMB million
At 1 January 2017	4,141	3,515	5,482	700	446	2,507	1,760	18,551
Financing cash flows	(1,890)	(158)	–	(700)	4,037	–	(1,294)	(5)
Acquisition of a subsidiary	31	–	–	–	–	–	–	31
Fair value adjustments	–	278	–	–	–	–	–	278
Foreign exchange translation	(22)	–	–	–	(170)	(146)	–	(338)
Dividends paid to shareholders	–	–	–	–	-	–	775	775
Interest expense	–	–	8	–	3	5	464	480
At 31 December 2017	2,260	3,635	5,490	–	4,316	2,366	1,705	19,772

Note: The amounts include the interest payables, non-trade payables due to joint ventures, associates and related companies.

56. MAJOR NON-CASH TRANSACTIONS

During the year, the Company issued 39,926,534 ordinary shares to settle the consideration for acquisition of EAH. Further details of the acquisition is set out in Note 48.

57. RELATED PARTY TRANSACTIONS

Apart from the related party balances as stated in Notes 29, 30 and 31 and the equity transactions as stated in Notes 48, 49 and 50, the Group had the following transactions with certain related parties:

	2018 **RMB million**	2017 RMB million
Nature of transaction		
Associates:		
– Sales of gas to	**482**	355
– Sales of materials to	**237**	288
– Purchase of gas from	**311**	235
– Purchase of equipment from	**–**	1
– Loan interest received from	**22**	10
– Provision of gas transportation services to	**–**	3
– Provision of gas transportation services from	**9**	14
– Lease of vehicles to	**1**	–
– Deposit interest paid to	**2**	2
– Provision of supporting services by	**–**	1
– Provision of supporting services to	**2**	1
Joint ventures:		
– Sales of gas to	**1,580**	1,234
– Sales of materials to	**220**	125
– Purchase of gas from	**3,308**	2,454
– Provision of gas transportation services to	**379**	362
– Loan interest received from	**60**	63
– Loan interest paid to	**36**	40
– Provision of construction and installation services to	**–**	80
– Provision of supporting services to	**33**	7
– Purchase of equipment from	**6**	4
– Deposit interest paid to	**12**	9
– Provision of proprietary services to	**20**	30
– Provision of construction services by	**29**	33
– Provision of gas transportation services by	**–**	1
– Provision of supporting services by	**2**	1
– Lease of premises from	**1**	1
– Lease of vehicles to	**2**	2

57. RELATED PARTY TRANSACTIONS *(continued)*

	2018 **RMB million**	2017 RMB million
Companies controlled by Mr. Wang:		
Transactions exempt from shareholders' approval under Chapter 14A of the Listing Rules:		
– Provision of energy efficiency technology services by	**188**	218
– Purchase of equipment from	**122**	26
– Provision of construction services by	**1,079**	861
– Provision of information technology services by	**279**	256
– Purchase of LNG from	**669**	12
Transactions fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules:		
– Sales of gas, gasoline and diesel to	**12**	8
– Sales of materials to	**42**	31
– Provision of construction and installation services to	**11**	11
– Provision of property management services by	**17**	16
– Provision of property management services to	**–**	1
– Lease of premises to	**3**	4
– Lease of premises from	**3**	4
– Provision of supporting services by	**56**	64
– Provision of supporting services to	**9**	3
– Purchase of outsourcing services from	**44**	31
– Provision of electronic business services by	**1**	1
– Provision of technology services to	**42**	4
– Purchase of property from	**–**	23

The Company issued senior notes on 13 May 2011, unsecured bonds on 23 October 2014 and 24 July 2017 and entered into a club loan agreement with various banks on 23 November 2018. The terms and conditions of these debts require Mr. Wang to retain certain percentage of shareholding over the Company, failing which the Company would be required to repay or repurchase all outstanding debts at predetermined prices.

Compensation of key management personnel

The remuneration of the Directors who are also the members of key management personnel during the years ended 31 December 2018 and 2017 was disclosed in Note 12.

Financial guarantee contracts

As at 31 December 2018, the guaranteed facilities amount utilised by the joint ventures were RMB203 million. In the opinion of the Directors, the fair values of the financial guarantee contracts of the Group issued during the year ended 31 December 2018 were insignificant at the date of issue of the financial guarantee and no provision is necessary. In addition, the Directors do not consider it probable that a claim will be made against the Group under any of these guarantees.

In 2018, Mr. Wang and Ms. Zhao Baoju, spouse of Mr Wang have provided personal guarantees to the Group to the extent of RMB620 million (2017: nil).

58. PARTICULAR OF PRINCIPAL SUBSIDIARIES

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest/voting power held by the Group 2018	2017	Principal activities
ENN Gas Investment Group Limited ("ENN Gas")	British Virgin Island	USD1,000	**100.00%**	100.00%	Investment holding
北京新奥華鼎貿易有限公司 Beijing Xinao Huading Trading Company Limited#	PRC	USD23,800,000	**100.00%**	100.00%	Retail of gas pipelines, related materials and equipment
長沙新奥燃氣有限公司 Changsha Xinao Gas Company Limited*	PRC	RMB120,000,000	**55.00%**	55.00%	Investment in gas pipeline infrastructure and sales of piped gas
常州新奥燃氣發展有限公司 Changzhou Xinao Gas Development Company Limited*	PRC	USD600,000	**60.00%**	60.00%	Sales of piped gas
常州新奥燃氣工程有限公司 Changzhou Xinao Gas Engineering Company Limited*	PRC	USD5,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure
滁州新奥燃氣有限公司 Chuzhou Xinao Gas Company Limited*	PRC	USD7,100,000	**90.00%**	90.00%	Sales of piped gas
泉州市燃氣有限公司 Quanzhou City Gas Company Limited ("Quanzhou City Gas")	PRC	RMB450,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
晉江新奥燃氣有限公司 Jinjiang Xinao Gas Company Limited	PRC	RMB60,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
洛陽新奥華油燃氣有限公司 Luoyang Xinao Huayou Gas Company Limited*	PRC	RMB160,000,000	**70.00%**	70.00%	Investment in gas pipeline infrastructure and sales of piped gas
石家莊新奥燃氣有限公司 Shijiazhuang Xinao Gas Company Limited* ("Shijiazhuang Xinao")	PRC	RMB300,000,000	**60.00%**	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
肇慶新奥燃氣有限公司 Zhaoqing Xinao Gas Company Limited#	PRC	RMB52,700,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
株洲新奥燃氣有限公司 Zhuzhou Xinao Gas Company Limited*	PRC	RMB135,000,000	**55.00%**	55.00%	Investment in gas pipeline infrastructure
湘潭新奥燃氣有限公司 Xiangtan Xinao Gas Company Limited*	PRC	RMB70,000,000	**85.00%**	85.00%	Investment in gas pipeline infrastructure
蚌埠新奥燃氣有限公司 Bengbu Xinao Gas Company Limited*	PRC	RMB110,000,000	**70.00%**	70.00%	Investment in gas pipeline infrastructure

58. PARTICULAR OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest/voting power held by the Group 2018	2017	Principal activities
蚌埠新奧燃氣發展有限公司 Bengbu Xinao Gas Development Company Limited*	PRC	USD600,000	**70.00%**	70.00%	Sales of piped gas
葫蘆島新奧燃氣發展有限公司 Huludao Xinao Gas Development Company Limited*	PRC	USD1,200,000	**90.00%**	90.00%	Investment in gas pipeline infrastructure
青島新奧新城燃氣有限公司 Qingdao Xinao Xincheng Gas Company Limited*	PRC	USD839,000,000	**90.00%**	90.00%	Sales of piped gas
浙江新奧智能裝備貿易有限公司 Zhejiang Xinao Intelligent Equipment Trading Company Limited	PRC	RMB10,000,000	**100.00%**	100.00%	Retail of gas pipelines and intelligent equipment
新奧泛能網絡科技有限公司 ENN Ubiquitous Energy Network Technology Company Limited	PRC	RMB103,000,000	**100.00%**	–	Solutions and operating services of integrated energy
新奧能源物流有限公司 Xinao Energy Logistics Company Limited#	PRC	USD22,230,000	**100.00%**	100.00%	Transportation of oil products and gas
新奧能源貿易有限公司 Xinao Energy Sales Company Limited#	PRC	USD30,200,000	**100.00%**	100.00%	Wholesale and retail of LNG and CNG, piped gas facilities, gas equipment, appliances and others
新奧財務有限責任公司 ENN Finance	PRC	RMB2,000,000,000	**95.50%**	95.50%	Provision of financial services
新奧燃氣發展有限公司 Xinao Gas Development Company Limited#	PRC	USD23,000,000	**100.00%**	100.00%	Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and sales of piped gas
新奧燃氣工程有限公司 Xinao Gas Engineering Company Limited#	PRC	USD7,000,000	**100.00%**	100.00%	Investment in gas pipeline infrastructure
新奧（中國）燃氣投資有限公司 Xinao (China)#	PRC	USD231,778,124	**100.00%**	100.00%	Investment holding

* Sino-foreign equity joint venture

\# Wholly-owned foreign enterprise

All of the above subsidiaries, except for ENN Gas and Xinao (China), are indirectly held by the Company.

All of the above subsidiaries operate principally in the places of their incorporation/establishment respectively, except that ENN Gas operates principally in Hong Kong. The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or net assets of the Group. Giving the details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

58. PARTICULAR OF PRINCIPAL SUBSIDIARIES *(continued)*

None of the subsidiaries issued any debt securities as at 31 December 2018 or at any time during the year except for Xinao (China) which has issued the following debt securities.

	2018 **RMB million**	2017 RMB million
Corporate bonds	**2,497**	5,490

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	**Incorporation/ establishment/ registration and operation**	**Proportion ownership interest held by non-controlling interests**		**Profit allocated to non-controlling interests**		**Accumulated non-controlling interests**	
		2018 **%**	2017 %	**2018** **RMB million**	2017 RMB million	**2018** **RMB million**	2017 RMB million
Quanzhou City Gas*	PRC	**40**	40	**96**	115	**278**	263
Shijiazhuang Xinao*	PRC	**40**	40	**78**	104	**259**	228

* excluding non-controlling interests of Quanzhou City Gas's and Shijiazhuang Xinao's subsidiaries.

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Quanzhou City Gas	**2018** **RMB million**	2017 RMB million
Non-current assets	**1,062**	1,010
Current assets	**612**	506
Current liabilities	**977**	857
Revenue	**3,948**	3,219
Profit and total comprehensive income for the year (note)	**239**	287
Dividends paid to non-controlling interests	**81**	96
Net cash inflow from operating activities	**395**	292
Net cash inflow (outflow) from investing activities	**31**	(58)
Net cash outflow from financing activities	**(334)**	(250)
Net cash inflow (outflow)	**92**	(16)

Note: Included in the amount for the year ended 31 December 2018 is dividends income from Quanzhou City Gas's subsidiaries and joint venture of RMB193 million (2017: RMB189 million).

Shijiazhuang Xinao	**2018** **RMB million**	2017 RMB million
Non-current assets	**1,716**	1,526
Current assets	**1,229**	709
Non-current liabilities	**123**	12
Current liabilities	**2,175**	1,653
Revenue	**2,189**	1,933
Profit and total comprehensive income for the year	**196**	260
Dividends paid to non-controlling interests	**47**	92
Net cash inflow from operating activities	**191**	681
Net cash outflow from investing activities	**(242)**	(429)
Net cash outflow from financing activities	**(7)**	(56)
Net cash (outflow) inflow	**(58)**	196

59. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 RMB million	2017 RMB million
Non-current Assets		
Property, plant and equipment	–	1
Investment in subsidiaries	7,303	4,801
Investment in an associate	39	44
Financial assets at FVTPL	242	–
Amounts due from subsidiaries	4,622	4,361
	12,206	9,207
Current Assets		
Financial assets at FVTPL	464	4
Amounts due from subsidiaries	5,940	2,655
Cash and cash equivalents	453	1,741
	6,857	4,400
Current Liabilities		
Other payables	295	82
Taxation payables	226	126
Amounts due to subsidiaries	1,463	1,572
Bank loans – due within one year	4,356	–
Unsecured bonds	443	–
Convertible bonds at FVTPL	–	3,635
Financial liabilities at FVTPL	63	17
	6,846	5,432
Net Current Assets (Liabilities)	11	(1,032)
Total Assets less Current Liabilities	12,217	8,175
Capital and Reserves		
Share capital	116	112
Reserves	4,073	1,303
Total Equity	4,189	1,415
Non-current Liabilities		
Bank loans – due after one year	1,441	–
Unsecured bonds	4,096	4,316
Senior notes	2,491	2,366
Financial liabilities at FVTPL	–	78
	8,028	6,760
	12,217	8,175

59. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

The statement of changes in equity is as follow:

	Share capital RMB million	**Share premium** RMB million	**Share options reserve** RMB million	**Retained earnings** RMB million	**Total** RMB million
At 1 January 2017	112	20	54	3,401	3,587
Loss and total comprehensive loss for the year	–	–	–	(1,469)	(1,469)
Recognition of equity-settled share-based payment (Note 46)	–	–	34	–	34
Issue of ordinary shares upon exercise of share options (Note 46)	–	52	(14)	–	38
Share repurchase (Note 40)	–	–	–	–	–
Dividends appropriation (Note 14)	–	–	–	(775)	(775)
At 31 December 2017	112	72	74	1,157	1,415
Profit and total comprehensive income for the year	–	–	–	1,176	1,176
Recognition of equity-settled share-based payment (Note 46)	–	–	19	–	19
Issue ordinary shares on conversion of convertible bonds (Note 44)	–	79	–	–	79
Issue of ordinary shares on acquisition of subsidiaries (Note 48)	4	2,493	–	–	2,497
Issue of ordinary shares upon exercise of share options (Notes 40 & 46)	–	48	(15)	–	33
Share repurchase (Note 40)	–	(78)	–	–	(78)
Dividends appropriation (Note 14)	–	–	–	(952)	(952)
At 31 December 2018	116	2,614	78	1,381	4,189

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