天伦燃气
TIANLUN GAS

China Tian Lun Gas Holdings Limited
中國天倫燃氣控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 01600

Annual Report
2018

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CLEAN ENERGY

CONTENTS

1.	Company Profile	2
2.	Business Regions	4
3.	Project Operation Information	6
4.	Operation & Financial Highlights	10
5.	Chairman's Statement	14
6.	Management Discussion and Analysis	17
7.	Directors and Senior Management	33
8.	Directors' Report	37
9.	Corporate Governance Report	49
10.	Independent Auditor's Report	57
11.	Consolidated Statement of Comprehensive Income	64
12.	Consolidated Balance Sheet	65
13.	Consolidated Statement of Changes in Equity	67
14.	Consolidated Statement of Cash Flows	68
15.	Notes to the Consolidated Financial Statements	69
16.	Five Year Financial Summary	194

COMPANY PROFILE

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Yingcen *(Chairman)*
Mr. Xian Zhenyuan *(Chief Executive)*
Mr. Zhang Suwei *(General Manager)*
(appointed on 26 March 2018)
Mr. Feng Yi
Mr. Sun Heng (resigned on 26 March 2018)
Ms. Li Tao

Non-executive Director

Mr. Wang Jiansheng

Independent Non-executive Directors

Mr. Liu Jin (appointed on 28 May 2018)
Mr. Li Liuqing
Mr. Yeung Yui Yuen Michael
Ms. Zhao Jun

AUDIT COMMITTEE

Mr. Li Liuqing *(Chairman)*
Mr. Yeung Yui Yuen Michael
Ms. Zhao Jun

REMUNERATION COMMITTEE

Ms. Zhao Jun *(Chairlady)*
Mr. Zhang Yingcen
Mr. Yeung Yui Yuen Michael

NOMINATION COMMITTEE

Mr. Zhang Yingcen *(Chairman)*
Ms. Zhao Jun
Mr. Yeung Yui Yuen Michael

AUTHORIZED REPRESENTATIVES

Mr. Feng Yi
Mr. Hung, Man Yuk Dicson

COMPANY SECRETARY

Mr. Hung, Man Yuk Dicson

HEAD OFFICE IN THE PRC

4th Floor,
Tian Lun Group Building,
No.6 Huang He East Road,
Zheng Dong Xin District,
Zhengzhou City,
Henan Province, the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1603, 16th Floor
100 Queen's Road Central
Central
Hong Kong

REGISTERED OFFICE

Clifton House
75 Fort Street PO Box 1350
Grand Cayman
KY1-1108
Cayman Islands

CAYMAN ISLANDS SHARE TRANSFER OFFICE

Estera Trust (Cayman) Ltd
Clifton House
75 Fort Street
PO Box 1350
Grand Cayman
KY1-1108
Cayman Islands

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

AUDITOR

PricewaterhouseCoopers
22nd Floor,
Prince's Building,
Central, Hong Kong

LEGAL ADVISER

Loong & Yeung
Room 1603, 16/F,
China Building
29 Queen's Road Central,
Central, Hong Kong

PRINCIPAL BANKERS

China Construction Bank Corporation
Bank of China Limited
The Hong kong and Shanghai Banking Corporation Limited

STOCK CODE

01600

INVESTOR RELATIONS

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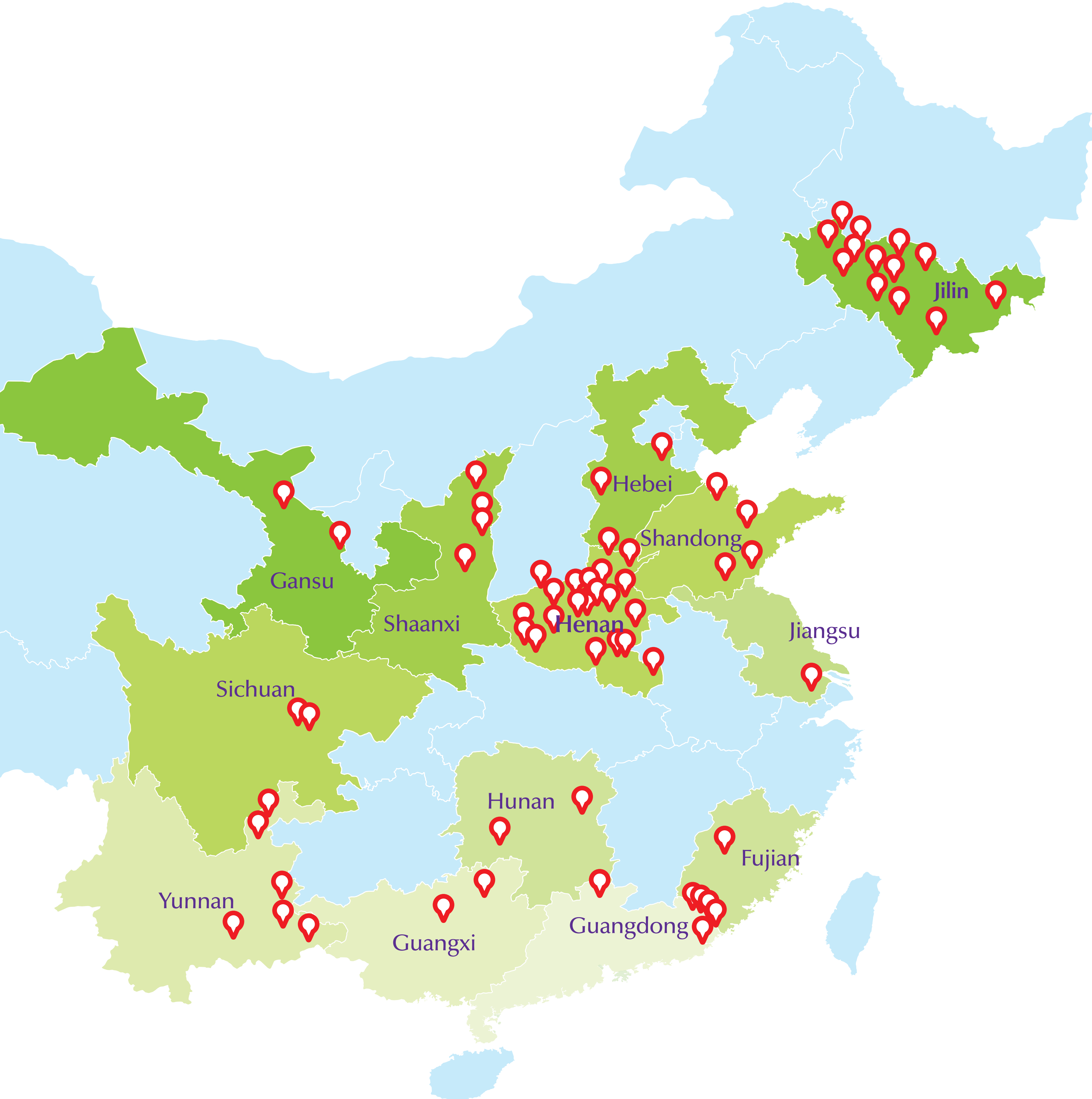
Zip Code	:	450003

BUSINESS REGIONS



BUSINESS REGIONS

Urban Gas Project 🟢 Transportation Gas Project 🟡 LNG Plant Project 🟠 Long-haul Transmission Pipeline 🔴

Henan

- Hebi City 🟢🟡
- Shilin Industrial Assemble Zone 🟢
- Heqi Industrial Assemble Zone 🟢
- Xuchang City 🟢🟡
- Xuchange New Area 🟢
- Shangjie District in Zhengzhou City 🟢🟡
- High-tech District in Puyang City 🟢
- Minquan County 🟢🟡
- Song County 🟢🟡
- Xinye County 🟢🟡
- Weishi County 🟢🟡
- Xinwei Industrial Park 🟢
- Gangwei New District 🟢
- Weibei Technology and Food Industrial Park 🟢
- Lankao County 🟢🟡
- Pingdingshan City 🔴
- Xichuan County 🟢🟡
- Baofeng County 🟢
- Ye County 🟢🟡
- Wugang City 🟢🟡
- Xiping County 🟢

Jilin

- Dunhua City 🟢
- Panshi City 🟢🟡
- Da'an City 🟢🟡🔴
- Jiutai City 🟢🟡
- Baicheng City 🟡
- Tongyu County 🟢🟡
- Zhenlai County 🟢🟡
- Nong'an County 🟢
- Shuangyang District in Changchun City 🟡
- Changchun Airport Economic Zone 🟢
- Yitong Manchu Autonomous County 🟢
- Changling County 🟠
- Qian'an County 🟢

Yunnan

- Huize County 🟢
- Gejiu City 🟢
- Guangnan County 🟢
- Yanshan County 🟢
- Ludian County 🟢
- Hekou County 🟢

Shandong

- Cao County 🟢
- Shan County 🟢
- Gaoxin District in Heze City 🟢
- Dongming County 🟢

Guangxi

- Luzhai County 🟢
- Guanyang County 🟢

Gansu

- Baiyin City 🟢🟡
- Gulang County 🟢🟡

Hunan

- Dongkou County 🟢🟡
- Fenghuang County 🟢

Hebei

- Yuhua District in Shijiazhuang 🟢
- Xingtai City 🟡

Guangdong

- Longhu Town in Chaozhou City 🟢
- Fuyan Town in Chaozhou City 🟢
- Dongfeng Town in Chaozhou City 🟢
- Chenghai District in Shantou City 🟢
- Chaoyang District in Shantou City 🟢
- Lechang City 🟢

Shaanxi

- Qian County 🟢🟡
- Liquan County 🟢🟡
- Mizhi County 🟢
- Wubu County 🟢🟡

Sichuan

- Xindu District in Chengdu City 🟢
- Jintang County in Chengdu City 🟢

Jiangsu

- Wujiang City 🔴

Fujian

- Sanming City 🟢

PROJECT OPERATION INFORMATION

Place of operation					
Province	Project	Date of establishment	Connectable urban population (10,000 persons)	Length of existing pipelines (KM)	Number of existing gas stations and stations under construction
Henan	Xuchang	1 September 2003	89	287	2
	Shangjie	1 July 2007	23	138	2
	Xinye	1 November 2011	22	45	3
	Minquan, Shangqiu	1 March 2011	18	94	2
	Lankao	1 May 2012	50	88	1
	Song County	1 June 2011	56	46	2
	Weishi	1 May 2012	31	108	3
	Xichuan	1 January 2011	74	60	1
	Hebi	1 November 2002	71	585	5
	Puyang	1 March 2010	17	78	1
	Wugang	6 June 2018	12	—	—
Shandong	Cao County	1 September 2012	35	85	2
	Shan County	1 October 2012	10	85	2
	Heze	1 November 2013	14	90	1
	Dongming	1 December 2013	29	96	1
Gansu	Baiyin	1 July 2011	33	106	1
	Gulang	1 November 2012	4	20	1
Shaanxi	Qian County	1 January 2015	15	133	1
	Liquan	1 January 2015	10	122	2
	Mizhi	1 March 2006	16	83	2
	Wubu	1 April 2012	7	18	1
Hunan	Dongkou	1 October 2012	92	32	1
	Fenghuang	1 October 2015	46	20	1
Guangxi	Luzhai	1 January 2012	14	20	1
	Guanyang	1 September 2013	32	13	1
Yunnan	Gejiu	1 August 2013	20	20	1
	Guangnan	2 August 2013	97	30	1
	Hekou	3 August 2013	9	17	1
	Huize	5 August 2013	9	43	1
	Ludian	6 August 2013	—	—	—
	Yanshan	6 August 2013	54	26	1

PROJECT OPERATION INFORMATION

	Daily gas supply capacity of natural gas stations (1,000 m^3)	Residential users	Commercial users	Industrial users	Accumulated daily gas consumption of industrial and commercial users (including public	Number of gas stations
	860	265,480	1,446	89	914,196	3
	360	82,617	333	76	621,357	2
	96	31,488	111	10	45,496	1
	192	48,400	207	42	240,853	2
	100	57,384	277	15	130,519	—
	252	36,750	332	12	45,681	1
	120	36,896	213	26	66,815	1
	60	5,725	45	13	18,419	1
	1,920	189,256	1,365	71	288,287	6
	80	39,054	604	11	31,158	—
	—	—	—	—	—	—
	36	55,821	151	—	19,899	1
	619	49,532	273	87	96,777	1
	180	46,347	108	14	74,420	—
	300	46,141	345	15	130,268	—
	576	111,126	804	28	688,607	2
	36	12,592	55	14	5,000	2
	144	39,600	256	24	214,808	1
	602	44,152	494	48	420,231	3
	710	30,566	1,724	4	273,932	—
	80	4,800	180	—	11,100	1
	96	13,275	101	1	22,521	2
	24	3,090	—	—	300	1
	14	4,724	35	6	10,240	—
	96	1,257	19	—	3,020	—
	28	172	30	1	5,580	1
	40	626	20	1	2,148	1
	10	454	25	—	5,966	1
	20	3,112	124	4	16,682	1
	—	—	—	—	—	—
	36	934	50	2	25,528	1

PROJECT OPERATION INFORMATION

Place of operation					
Province	Project	Date of establishment	Connectable urban population (10,000 persons)	Length of existing pipelines (KM)	Number of existing gas stations and stations under construction
Guangdong	Chaozhou	1 January 2014	—	71	1
	Chaoyang	1 May 2014	220	79	2
	Lechang	1 November 2007	18	32	2
	Chenghai	1 May 2014	94	87	1
Fujian	Sanming	1 March 2015	—	81	1
Jilin	Da'an	1 April 2011	20	69	2
	Dunhua	1 April 2011	53	57	1
	Jiutai	1 April 2011	24	91	1
	Nong'an	1 April 2011	9	27	2
	Panshi	1 April 2011	20	45	1
	Tongyu	1 April 2011	41	33	2
	Yitong	1 April 2011	10	38	1
	Zhenlai	1 April 2011	11	44	1
	Baicheng	1 April 2011	—	—	—
	Shuangyang	1 April 2011	—	—	—
	Qian'an	1 July 2015	11	43	1
	Changling LNG Plant Project	1 December 2013	—	6	—
Hebei	Yuhua District in Shijiazhuang City	20 August 2003	54	73	1
	Xingtai	1 May 2012	—	—	—
Sichuan	Chengdu	1 February 1987	28	234	4
	Jintang County	1 May 1993	39	495	—
Hubei	Songzi	1 April 2015	—	—	—
Beijing	Beijing Tian Lun Investment*	1 December 2016	—	217	—
Total			**1,661**	**4,408**	**69**

* Note: formerly known as Beijing Hui Ji Tai Zhan Investment Company Limited (北京慧基泰展投資有限公司)

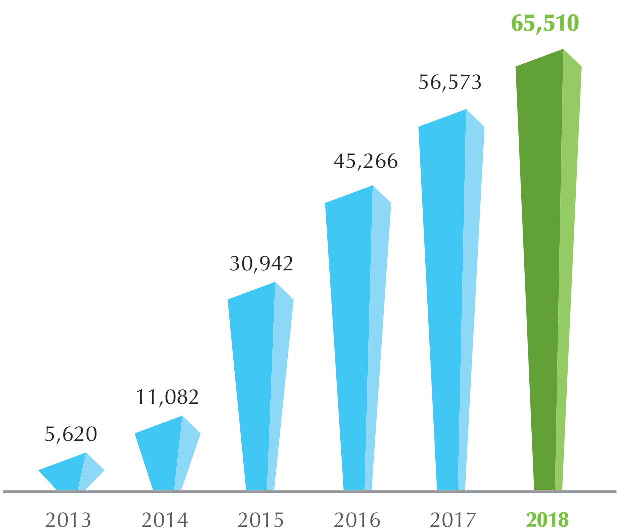
PROJECT OPERATION INFORMATION

	Daily gas supply capacity of natural gas stations (1,000 m³)	Residential users	Commercial users	Industrial users	Accumulated daily gas consumption of industrial and commercial users (including public welfare users) (m³/day)	Number of gas stations
	600	—	—	169	329,005	—
	270	24,654	62	9	55,026	—
	168	11,637	55	6	14,532	—
	52	48,808	241	3	4,025	—
	120	—	2	13	37,400	—
	60	52,533	641	10	110,156	2
	48	35,360	185	12	27,830	1
	150	58,279	548	3	39,663	2
	60	19,243	19	2	8,576	—
	20	35,500	285	1	43,739	1
	15	21,694	272	2	14,010	1
	25	2,864	46	4	8,070	1
	20	24,822	158	—	11,444	2
	—	—	—	—	—	3
	—	—	—	—	—	2
	60	7,597	40	—	5,526	1
	—	—	—	—	—	2
	240	84,037	122	4	124,748	—
	—	—	—	—	—	1
	390	132,024	2,152	82	337,940	—
	1,200	131,701	3,714	280	489,288	—
	—	—	—	—	—	—
	—	—	—	4	1,660,000	1
	11,185	**1,952,123**	**18,269**	**1,218**	**7,750,787**	**51**

OPERATION

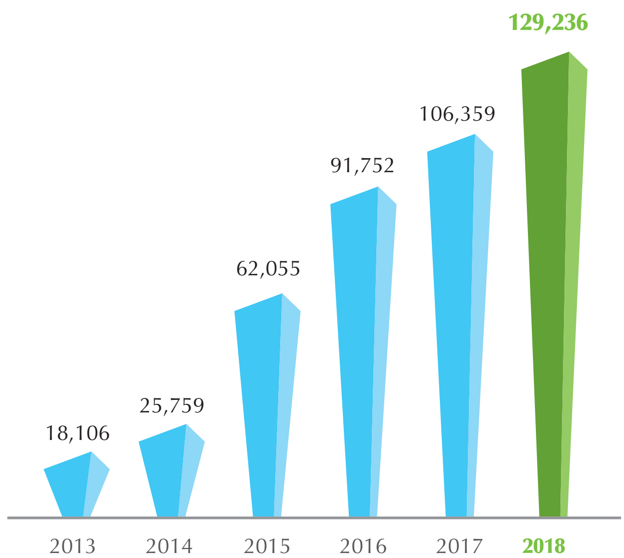
GAS SALES VOLUME TO INDUSTRIAL & COMMERCIAL USERS

(0'000 m^3)

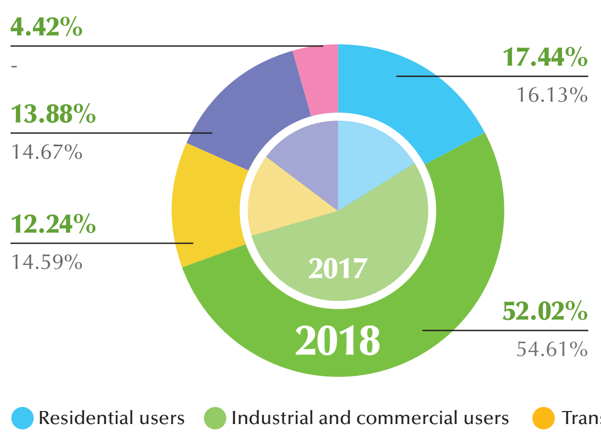


TOTAL GAS SALES VOLUME

(0'000 m^3)



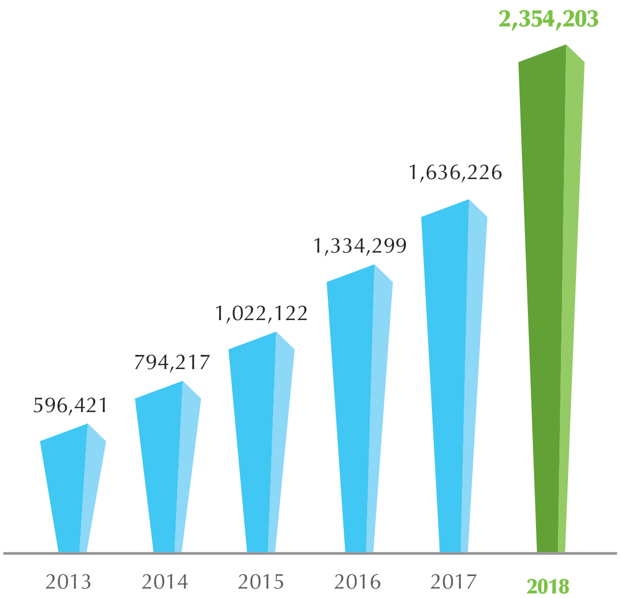
STRUCTURE OF REVENUE FROM GAS SALES



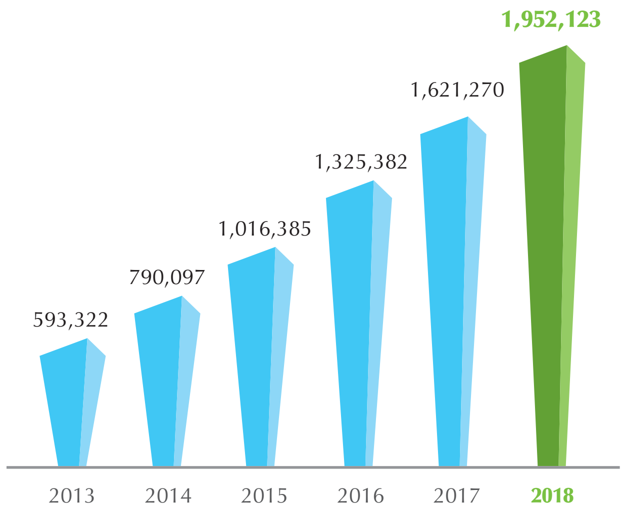
During the year, the revenue from gas sales of the Group to residential users, industrial and commercial users,transportation users, wholesale users and gas source trade accounted for 17.44%, 52.02%, 12.24%,13.88% and 4.42%, respectively of total revenue from gas sales.

OPERATION

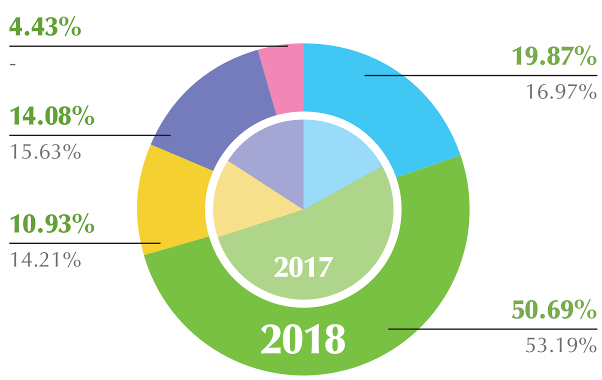
AGGREGATE CONNECTIONS USERS



TOTAL NUMBER OF CONNECTED RESIDENTIAL USERS



GAS SALES STRUCTURE



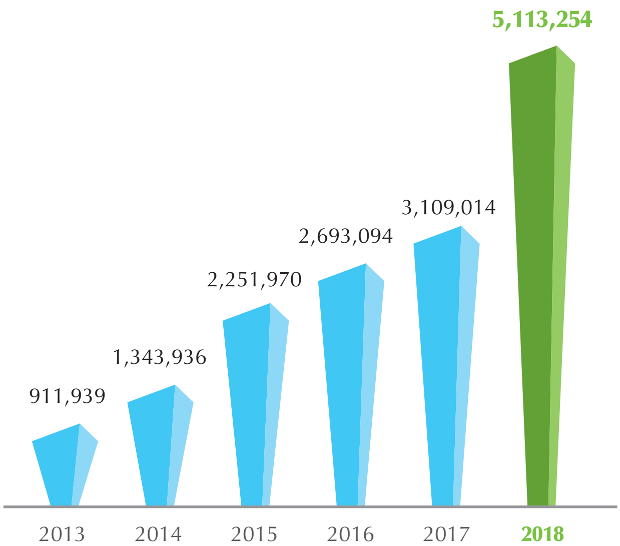
During the year, the volume of gas of the Group sold to residential users, industrial and commercial users, transportation users, wholesale users and gas source trade accounted for 19.87%, 50.69%, 10.93%,14.08% and 4.43% respectively of total gas sales volume.

Residential users Industrial and commercial users Transportation users Wholesale users Gas source trade

FINANCIAL HIGHLIGHTS

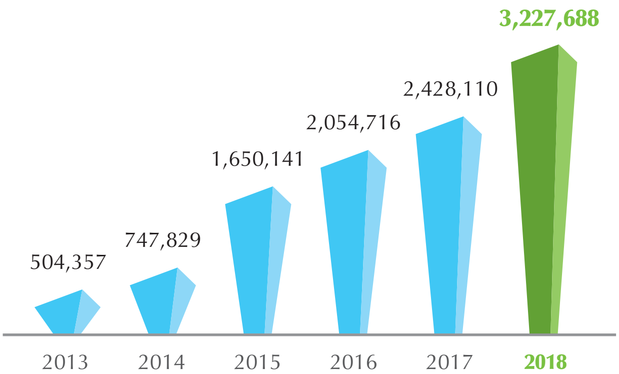
REVENUE

RMB'000



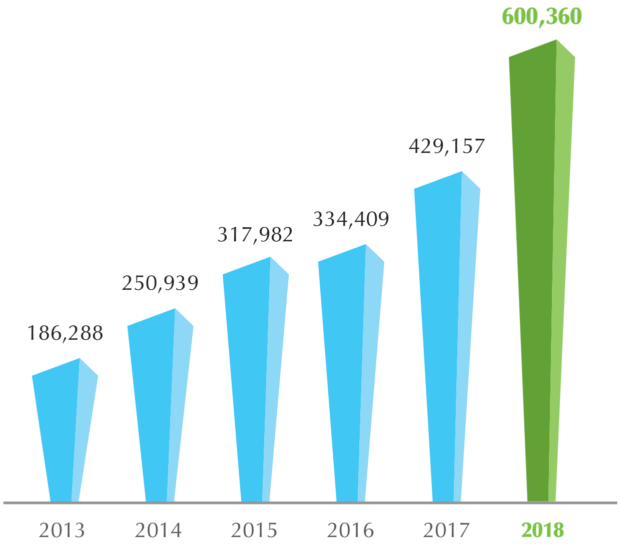
REVENUE FROM GAS SALES

RMB'000



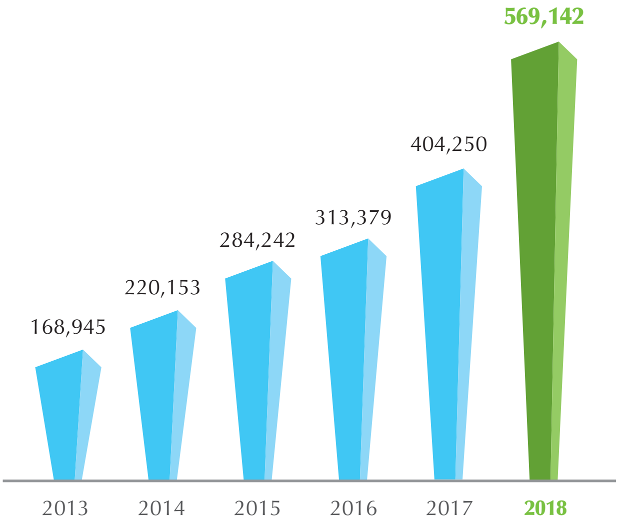
PROFIT FOR THE YEAR

RMB'000



PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

RMB'000



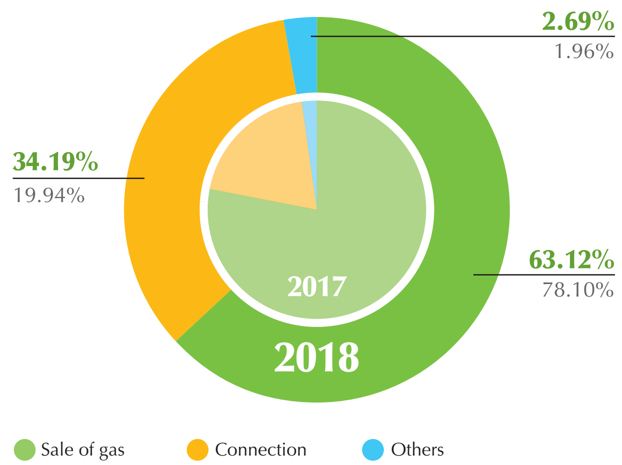
Financial Highlights

	2017 RMB'000	2018 RMB'000
Revenue and profit		
Revenue	3,109,014	**5,113,254**
Profit before income tax	575,839	**864,804**
Income tax expense	146,682	**264,444**
Profit for the year	429,157	**600,360**
Assets and liabilities		
Non-current assets	6,758,099	**7,902,247**
Current assets	1,714,150	**3,531,846**
Non-current liabilities	3,456,336	**4,422,906**
Current liabilities	1,898,110	**3,467,418**
Cash and cash equivalents	678,237	**1,075,907**
Equity		
Share capital	8,340	**8,340**
Share premium	1,264,114	**1,188,151**
Equity attributable to owners of the Company	2,778,353	**3,249,868**
Non-controlling interests	339,450	**293,901**
Total equity	3,117,803	**3,543,769**
Earnings per share - basic (RMB)	0.41	**0.58**

Financial Indicators

	2017	2018
Gross profit margin	24.70%	**27.93%**
Net profit margin	13.80%	**11.74%**
Current ratio	90.31%	**101.86%**
Assets gearing ratio	63.20%	**69.01%**
Weighted average return on capital	14.12%	**18.15%**

REVENUE STRUCTURE



	2017	2018
Sale of gas	78.10%	**63.12%**
Connection	19.94%	**34.19%**
Others	1.96%	**2.69%**

During the year, the revenue from gas pipeline connections operation, transportation and sales of gas operation and other operation of the Group accounted for approximately 34.19%, 63.12% and 2.69% of total revenue, respectively. In 2018, revenue from transport and sales of gas as a percentage of total revenue increased by approximately 32.93% from 2017.

CHAIRMAN'S STATEMENT

The structural reform of the national supply side, the adjustment of the energy structure, the price reform of the gas market, and the intensive introduction of environmental protection policies will drive the fast growth of natural gas consumption.

Zhang Yingcen, Chairman

ANNUAL RESULTS

In 2018, the national economy maintained a stable performance with Gross Domestic Product (GDP) growing by 6.6%. The structural reform of the supply side continued to deepen with constant adjustment on the energy structure. Solid progress was made in new urbanization and the price reform of the gas market. The pace of progress in the construction of the natural gas production, supply, storage, and marketing systems was stepped up, and natural gas consumption maintained rapid growth.

With the concerted efforts of all staff of the Group, its operating results continued to record growth during the year. Its revenue amounted to approximately RMB5,113 million, representing an increase of 64.47% from 2017. Gross profit amounted to approximately RMB1,428 million, representing an increase of approximately 85.98% from 2017. Excluding gains/losses arising from cross currency swap contracts and exchange, core profit of the Company amounted to RMB730 million for the year ended 31 December 2018 (the "Reporting Period), representing an increase of approximately 91.95% from 2017. In 2018, gas sales volume of the Group amounted to approximately 1,292 million m^3, representing an increase of approximately 21.51% as compared with 2017. The total number of the Group's various gas users reached 2,354,203.

CORPORATE MANAGEMENT

During the year, according to the strategic plan, the organizational structure, salary mode, and performance appraisal mode of the Group were adjusted, the Group's organizational functions were improved, and employees' enthusiasm for work was motivated. Internal talent inventory was carried out to lay a good foundation for preparing internal talent selection and external recruitment plans for the Group. Meanwhile, the Group organized a training camp for internal training instructors, to establish and improve a professional internal instructor team. In addition, the training program targeting all levels was launched through the training of internal and external instructors, to implement the human resource strategy plan featuring internal promotion of talents and thus provide a sufficient talent guarantee for the rapid development of the Group.

During the year, the Group also made solid progress in customer services, risk management and safety management. For customer services, the Group established a grid management mode to efficiently respond to user demand while uploading service results to the client to improve customer satisfaction. At the same time, the Group extended natural gas value-added services to bring a better and more comprehensive gas use experience to township users in Henan Province. In terms of risk management, the Group sorted out and perfected the systems of market operations, finance, legal affairs and post-investment evaluation, which reduced the Group associated risks. The Group set up a system for supervision indexes of abnormal information of financial operations, to guarantee the safety of the Group's financial and fund operations. In respect of safety management, the Group supervised "three violations" and eliminated security risks to enhance the construction quality of gas projects.

In addition, the Group kept improving its information-based system, further optimized its financial, gas charging, office automation and payment platform methods, and enhanced its overall operational efficiency and performance. These efforts facilitated the unified, standard and refined management of the gas group.

OUTLOOK

In 2018, while the international environment was complex and volatile, China's national economy continued to operate in a reasonable range and maintained an overall stability, with GDP increasing by 6.6% compared with 2017. Meanwhile, China made solid progress in supply-side structural reform, continued to optimize the energy structure adjustment, and maintained a rapid growth trend in the natural gas market development. During the year, while deeply exploring the growth potential of traditional city gas in the areas where it operates to maintain steady growth, the Group joined hands with Henan Yuzi to establish a coal-to-gas conversion fund to jointly develop the township coal-to-gas conversion business in Henan Province and develop value-added services, so as to bring new business growth points to the Group and ensure the sustained and rapid growth of the Group's results.

In 2019, the Group will continue to adhere to the innovative development concept while maintaining a faster growth of value-added services, try to innovate the primary business model of traditional gas and explore new forms of investment development and external cooperation. The Group will intensify its efforts to continuously improve the operation quality of existing businesses, and at the same time, continue to do a good job in the acquisition of incremental resources. In terms of investment and acquisition, the linkage effect between selective acquisition projects and township coal-to-gas conversion in the blank demonstration zones will be considered as a development factor. In addition, based on the township coal-to-gas conversion practices in Henan Province and combined with the core capabilities of existing operating businesses, the Group will further enhance the building of the Group's development path and further strengthen the industry positioning and operating characteristics of the Group in the capital market by grasping the development opportunities of the industry chain and the midstream and upstream industries, to create better conditions for the Company to increase its market value and to repay the shareholders of the Company (the "Shareholders") with better results.

ACKNOWLEDGEMENT

On behalf of the Board of the Company, I would like to express my sincere gratitude to our staff members for their contributions in 2018, and I highly appreciate the continuing support from the Shareholders and investors of the Company.

Zhang Yingcen
Chairman

29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2018, a rapid growth trend appeared in the demand for natural gas in China, which was attributable to several factors such as the economic recovery and further promotion of environmental protection policy. According to data from the National Development and Reform Commission and the National Bureau of Statistics of the People's Republic of China (the "PRC"), the annual apparent consumption of natural gas was 280.3 billion m^3, representing a year-on-year growth of 18.1%; production of natural gas was 161.0 billion m^3, representing a year-on-year growth of 7.5%; and import volume of natural gas was 903.9 billion tons, representing a year-on-year growth of 31.9%. With the continuous promotion of ecological civilization and the reform on the energy supply side, natural gas boasts of economical advantages over other alternative energy sources in the fields of urban gas and transportation. As one of the main energy sources in China's modern clean energy system, its position is increasingly important and its future market growth potential is huge.

In 2018, the central government of the PRC took the opportunity of the strategy of energy restructuring to vigorously promote the development and utilization of natural gas and issued a series of long-term policies favorable for the industry. The "Guidelines for Energy Work in 2018" issued by National Energy Administration, clearly provided that the construction of facilities for gas storage and peak-sharing should be intensified, enterprises should be introduced to construct gas storage and service facilities with local governments, and the peak-sharing system for natural gas storage should be gradually improved. In addition, the central government also announced the relevant supporting policies and measures to accelerate the reform of the oil and gas pipeline network operation mechanism, rationalize the provincial pipeline network system, promote the fair access to oil and gas infrastructure, and improve the investment and operation mechanism of oil and gas reserve facilities.

Meanwhile, the State Council issued the "Three-Year Action Plan to Win the Blue Sky Defence War", in July 2018, in which the central government of the PRC made it clear that it would vigorously adjust and optimize the industrial structure and energy structure, continuously implement air pollution prevention and control actions, and remain determined to win the blue sky defence war. For clean heating in the northern China, the central government of the PRC required to implement the "coal-to-gas" project on the basis of the supply capacity of natural gas to ensure clean heating and warm home in winter. This policy undoubtedly plays a scientific guiding and standardizing role in the development of the "coal-to-gas" business in the industry and lays a good foundation for the long-term development of the "coal-to-gas" business.

The reform of the oil and gas operation mechanism was accelerated, the infrastructure gradually became accessible for private enterprises, and the promulgation of a series of favorable environmental protection policies such as "coal-to-gas conversion" policy, will continue to strongly promote the growth of natural gas consumption, thus providing a powerful support for our arrangements in the natural gas market.

BUSINESS REVIEW

For the year ended 31 December 2018, the Group deeply explored the potential of traditional urban gas market, and selectively acquired high-quality urban gas projects. As a response of the Group to the call of the country, the Group carried out Henan township coal-to-gas business and promoted value-added services. As a result, the Group maintained the rapid growth of its overall performance.

The key results and operating data of the Group for the year ended 31 December 2018 as compared to the same period of the previous year are as follows:

	As of 31 December		
	2018	2017	Change by
Revenue (RMB'000)	**5,113,254**	3,109,014	64.47%
Gross profit (RMB'000)	**1,428,216**	767,944	85.98%
Core profit for the year* (RMB'000)	**729,890**	380,251	91.95%
Weighted average shares (Unit: '000)	**989,615**	989,615	—
Earnings per share** — basic (RMB)	**0.5751**	0.4085	40.78%
Total pipeline gas users:	**2,354,203**	1,636,226	43.88%
— Urban residential users (households)	**1,952,123**	1,621,270	20.41%
— Township coal-to-gas residential users (households)	**382,591**	—	—
— Industrial and commercial users (users)	**19,489**	14,956	30.31%
— Designed daily gas supply capacity to industrial and commercial users (in ten thousand m^3)	**755**	626	20.61%
Natural gas sales volume (in ten thousand m^3):	**129,236**	106,359	21.51%
— Natural gas sales volume to residential users (in ten thousand m^3)	**25,675**	18,053	42.22%
— Urban natural gas sales volume to industrial and commercial users *** (in ten thousand m^3)	**40,722**	31,853	27.84%
— Natural gas sales volume to transportation users (in ten thousand m^3)	**14,123**	15,117	(6.58%)
— Natural gas sales volume to wholesale users (in ten thousand m^3)	**18,197**	16,616	9.51%
— Gas source trade (in ten thousand m^3)	**5,731**	—	—
Long-haul pipeline gas transmission volume (in ten thousand m^3)	**86,759**	86,383	0.44%
Total length of medium and high-pressure pipelines (kilometre)	**4,408**	3,902	12.97%

* Excluding gains/losses arising from cross currency swap contracts and exchange.

** In accordance with the requirements of the relevant accounting standards, earning per share of the Group will be subject to the weighted average number of ordinary shares.

*** Net of gas sales volume to industrial and commercial users of the long-haul pipeline gas transmission segment.

Gas Pipelines Connections Volume

For the year ended 31 December 2018, the Group connected a total of 235,911 new residential users to gas pipelines, and the total number of urban residential users to gas pipelines increased to 1,952,123, representing an increase of 20.41% as compared with the corresponding period of last year.

To actively respond to the national policy of coal-to-gas project and rural revitalization plan, the Group launched the township coal-to-gas conversion project in Henan at the end of July 2018. Thanks to the established regional network of the Group in Henan province, the strong support from all levels of government and competent authorities and our active development efforts, the Group provided 382,591 rural households in Henan with gas connection services as of 31 December 2018. For the year ended 31 December 2018, the Group connected a total of 2,334,714 residential users to gas pipelines, representing a year-on-year increase of 44.01%, including 1,952,123 urban residential users from company and 382,591 township coal-to-gas conversion users in Henan.

For the year ended 31 December 2018, the Group connected a total of 3,228 industrial and commercial users to gas pipelines, and the total number of its industrial and commercial users under the projects operated by the Group increased to 19,489, representing an increase of 30.31% as compared with the corresponding period of last year.

Gas Sales Volume

For the year ended 31 December 2018, natural gas sales volume of the Group amounted to 1.292 billion m^3, representing an increase of 228 million m^3 or 21.51%, as compared with the corresponding period of last year. Gas volume sold to residential users, industrial and commercial users, transportation gas users, wholesale users and gas source trade accounted for 19.87%, 50.69%, 10.93%, 14.08% and 4.43% of total gas sales volume, respectively.

Total gas sales volume to residential users increased by 42.22% as compared with the corresponding period of last year, mainly because the Group developed residential users for its existing projects and the sales volume to residential users in the Jintang project in Sichuan Province, Xuchang project, Liquan project and newly acquired projects increased significantly.

Benefiting from the continued promotion of the environmental protection policy of the country and the Group's strategy of vigorously developing industrial and commercial coal-to-gas users within the operating area, urban gas sales volume to industrial and commercial users increased by 27.84% as compared with the corresponding period of last year.

During the year ended 31 December 2018, pipeline gas transmission volume of the Group was 868 million m^3, which is basically the same as that of last year.

Development of New Projects

During the year ended 31 December 2018, the Group completed full takeover of the operation and management and consolidation of financial statements of the projects in Mizhi County and Wubu County in Shaanxi Province. At the same time, the Group had another three new urban gas projects, including the acquisition of two urban gas projects in Yuhua District, Shijiazhuang City, Hebei Province and Xiping County, Zhumadian City in Henan Province, among which, the project in Xiping County, Zhumadian City in Henan Province had not been consolidated into the Group in 2018, as well as the acquisition of the exclusive township pipeline gas concession right in Wugang City, Henan Province. At the end of the Reporting Period, the Group had a total of 60 urban gas projects in 17 provinces across China.

Completion of the Acquisition of Shaanxi Mizhi and Wubu Projects

During the year ended 31 December 2018, the Group completed full takeover of the operation and management of the two target companies for the two urban gas projects in Mizhi County and Wubu County in Shaanxi Province, which were newly acquired at the end of 2017, and began to conduct the consolidation of financial statements since 1 February 2018, contributing to the Group's results.

Grant of Exclusive Township Pipeline Gas Concession Right in Wugang City, Henan Province

On 16 June 2018, Henan Tian Lun Gas Pipeline Network Co., Ltd. * (河南天倫燃氣管網有限公司), an indirect subsidiary of the Company, entered into "Wugang Township Pipeline Gas Franchise Agreement" with the Housing and Urban-Rural Development Bureau of Wugang City, Henan Province and obtained the exclusive pipeline gas concession right in 7 townships of Wugang City. Tian Lun Pipeline Network exclusively operates and maintains township pipeline gas facilities in the region, supplies gas to users by pipeline transportation, provides relevant rush repair and rescue services in respect of the pipeline gas facilities and charges fees. The concession period will be 27 years.

Located in the central part of Henan Province, Wugang City is a famous industrial and eco-tourism city. Wuyang Iron and Steel Company Limited* (舞陽鋼鐵有限責任公司) is an important production and scientific research base for wide and thick steel plates in China. Wugang City was listed in the first batch of pilot counties/cities of Henan Province's "Development and Quality Improvement Projects in 100 Cities" in 2017. It vigorously pushed forward construction of new towns under the unified deployment of Henan Provincial Government. The Company believes that Wugang City has great potential for industrial and township coal-to-gas conversion, and due to its adjacency to Baofeng County and Ye County, where the Group also owns exclusive township pipeline natural gas concession rights, it is expected that the above three projects will have synergies and can further enhance the Group's business scale and market share in the central part of China.

Establishment of a Coal-to-Gas Conversion Investment Fund and Initiation of Township Coal-to-Gas Conversion Project in Henan

Henan Province is a large province in the PRC in terms of population and economy. As at the end of 2017, Henan Province had a population of 109 million, ranking No.1 in the PRC in terms of household registered population. Henan Province has 108 county-level administrative regions, approximately 1,900 townships and 15 million households in townships. In 2017, Henan had a gross domestic product of RMB4,500 billion and the government financial spending in people's living of RMB639.0 billion.

Located in the central part of China, Henan Province has good conditions to natural gas supply as national trunk pipelines including the West-East Pipelines I and II and Yulin-Jinan Pipeline go through Henan Province. By 2020, the total natural gas pipeline mileage in Henan Province is expected to exceed 7,000 kilometres. Henan Province vigorously promoted coal-to-gas conversion and plans to reduce total coal consumption in Henan Province by approximately 10% from 2015 to below 213 million tons in 2020 and to increase natural gas consumption to 17 billion m^3, accounting for over 8.5% of total energy consumption in Henan Province.

The Company is of the view that there is great potential in the township coal-to-gas conversion in Henan Province, mainly for the following reasons: (i) the township gas penetration rate in Henan Province currently is lower than 5%; (ii) Henan Province is located in a plain area, with concentrated township population, which is beneficial for large-scale gas connection; (iii) Henan Province is in central China, with a number of national trunk natural gas pipelines going through, which provide good conditions to natural gas supply; and (iv) governments at all levels in Henan Province launched a large number of policies to strongly support the development of township coal-to-gas conversion.

On 27 June 2018, Henan Tian Lun Gas Group Limited* (河南天倫燃氣集團有限公司) ("Henan Tian Lun", as a limited partner), an indirect wholly-owned subsidiary of the Company, entered into a partnership agreement with Henan Zhongyu Financial Holdings and Equity Investment Management Co., Ltd.* (河南省中豫金控股權投資管理有限公司) ("Henan Zhongyu", as the general partner) and Henan Yuzi Urban and Rural Integration Construction and Development Co., Ltd.* (河南省豫資城鄉一體化建設發展有限公司) ("Yuzi Development", as a limited partner) to establish Henan Yuzi Tianlun New Energy Investment Fund Centre (Limited Partnership)* (河南豫資天倫新能源投資基金中心（有限合夥)) (the "Fund") to invest in the township coal-to-gas conversion projects in Henan Province and the upstream and downstream natural gas industrial chain.

Pursuant to the amended Partnership Agreement (as disclosed in the announcement dated 3 August 2018): (i) the total capital contribution to the Fund to be made by all the partners shall be RMB10.0 billion, of which RMB1.00 million, RMB5,999 million and RMB4.0 billion shall be made by Henan Zhongyu, Yuzi Development and Henan Tian Lun, respectively; (ii) the first phase of the Fund is RMB1.0 billion, of which RMB599 million will be contributed by Yuzi Development, RMB400 million by Henan Tian Lun and RMB1.00 million by Henan Zhongyu; and (iii) the remaining capital contribution to the fund to be made by each partner shall be made by tranches in view of the investment plan and progress of the Fund.

Both of Henan Zhongyu and Yuzi Development are controlled by Zhongyuan Yuzi Investment Holding Group Co., Ltd.* (中原豫資投資控股集團有限公司) ("Yuzi Holding"). Yuzi Holding is a provincial investment and financing companies established and wholly-owned by Henan Provincial Finance Department as approved by Henan Provincial Government to support the development of urbanization in new form and foster the integrated development of urban and rural areas in Henan Province. As at the end of 2017, Yuzi Holding had total assets of RMB250.0 billion, ranking No.1 among government investment and financing companies in Henan Province, with a domestic credit rating of AAA and an international credit rating of A-.

The Fund intended to establish a project holding company, which would utilise the funds provided by the Fund, government grants and long-term facilities to be provided by policy banks and financial institutions to invest in the township coal-to-gas conversion projects in Henan Province and the upstream and downstream natural gas industrial chain, so as to capture the opportunities to be brought by the rapid development of the natural gas industry in the PRC and explore the huge potential of the natural gas market in the townships in Henan Province through making full use of the advantages of the partners.

Acquisition of Urban Gas Project in Yuhua District, Shijiazhuang City, Hebei Province

On 24 August 2018, Henan Tian Lun Gas Group Limited* (河南天倫燃氣有限公司), an indirect wholly-owned subsidiary of the Company, entered into an agreement with the then shareholder of Shijiazhuang Jinming Gas Limited* (石家莊金明燃氣有限公司) to acquire the entire equity interest in Shijiazhuang Jinming Gas Limited at a total consideration of RMB265 million.

Located in the North of China, Hebei Province is one of the provinces in the "capital economic cycle". As of 2017, the population in Hebei Province was 75.19 million, and the GDP in Hebei Province reached approximately RMB3,596.4 billion; Meanwhile, pursuant to "National Economic and Social Development Plan of Beijing-Tianjin-Hebei Region during the 13th Five-Year Plan" (「十三五」時期京津冀國民經濟和社會發展規劃), in the future, Beijing, Tianjin and Hebei will form a new synergic mechanism in terms of integration of transportation, protections of ecological environment and the upgrade and transfer of industries, etc.. Shijiazhuang City is the capital city of Hebei Province, and locates in the south central of Hebei Province and along the Bohai Economic Rim. In 2017, the GDP of Shijiazhuang was RMB655.8 billion. Shijiazhuang City locates in the golden zone of the joint development of Beijing, Tianjin and Hebei, 283 kilometres far away from downtown Beijing. Shijiazhuang City is also a city which the implementation of its coastal open-door policy and open financial market was approved by the State Council, as well as the political, economic, technological, financial, cultural and information center of Hebei Province.

The project's operating area is located in Yuhua District, Shijiazhuang City, Hebei Province. The total population within the operating area is about 900,000. In addition to the existing households heated by gas, currently, there are still seven large-scale urban villages which are being demolished steadily, while real estate developers such as Sunac, R&F, Country Garden and Evergrande have had a presence into, and at least 110,000 residential users will be connected with the pipeline gas in the next three years. Some of the developed communities within the operating area are heated by gas-fired boilers. Since 2014, the number of installations of heating boilers ranges from 20 to 60 tons per year. Conservatively, at least 30 tons of additional gas-fired boilers can be installed each year, which will result in a stable increase of the gas sales. At the same time, the project's operating area locates in the main urban area of Shijiazhuang, within which there are a large number of commercial users that have not been developed. With the strengthening of the implementation of no coal and no liquefied gas in the urban area of Shijiazhuang City, the development prospects of commercial users are promising in the future. The air pollution prevention work program introduced by the State and policy-type subsidies on a continuous basis will also have a positive impact on the project's coal-to-gas business and industrial and commercial user development in the operating area.

The project has secured gas source from Hebei Natural Gas Company, which is conducive to its stable development in the future. At the same time, the project's business operations are mature and stable. At present, there are 90,000 residential users, 110 industrial and commercial users, and the annual sales volume of gas is about 22 million m^3. Through this acquisition, the Group obtained the gas operation right in a provincial capital city in the north of China, and formed a contiguous scale effect with the Group's gas projects in cities in Henan and Shandong, etc. and it will have important strategic value and influence for the future layout in Hebei market and further expanding of the market share in northern China of the Group.

Acquisition of an urban gas project in Xiping County, Zhumadian City, Henan Province

On 29 November 2018, Henan Tianlun Gas Group Co., Ltd.* (河南天倫燃氣有限公司), an indirect wholly-owned subsidiary of the Company, entered into an agreement with the then shareholders of Xiping Kaida Gas Co., Ltd.* (西平凱達燃氣有限公司) to acquire the entire equity interest of Xiping Kaida Gas Co., Ltd. at a consideration of RMB152 million.

Zhumadian City is located in the south-central part of Henan Province. Functioning as the junction of the south and north, and east and the west part of China, it has the apparent advantage in geography. As of 2017, the city's population was 8.02 million and its GDP reached approximately RMB200.3 billion. The "Huaihe Ecological Economic Belt Development Plan" issued by the National Development and Reform Commission includes Zhumadian City in the inland rising area of the central and western regions, and puts forward specific requirements for infrastructure construction, industrial development and air pollution prevention and control in Zhumadian City.

Xiping County, Zhumadian City, where the project operates, is 130 kilometres away from Xinzheng International Airport and is located in the "One Day Economic Circle" of Zhengzhou and Wuhan, both of which are central cities of China. In 2017, the total population of Xiping County was 860,000, and the GDP reached RMB22.5 billion, representing a year-on-year increase of 8.7% and ranking first in Zhumadian City. At the same time, Xiping County is also a pilot project for the cooperation of the national township enterprises in the east, central and west part of China, and a national strong pilot county for enriching the people by the science and technology.

The project of the Company has a stable and mature business operation and 43,000 residential users, 379 commercial users and 30 industrial users, with an annual gas sales volume of approximately 20.82 million m^3. It has gas supplied by Henan Lantian Gas Yu'nan Branch currently. The long-haul pipeline of the Company in Henan Province is only 26 kilometres away from Xiping County, with a lower cost of pipelines laying. After the completion of the acquisition, the high-pressure pipeline will be extended to Xiping County to provide sufficient gas source supply for the future development of the project and reduce the cost of gas source procurement.

Xiping County has a complete industrial system. It has built Zhishang Industrial Park, Huaxia Zheshang Industrial Park, Leizu Textile Industrial Park and Industrial Cluster Park, which are mainly engaged in garment, agricultural and livestock products processing and mechanical processing. The gradual promotion of coal-to-gas conversion business for the local industrial users and the settlement of new industrial users will bring considerable industrial gas sales growth. In addition, according to the planning of the Xiping County government, the renovation of seven local shanty towns will bring about 20,000 resettlement units. It is expected that nearly 20,000 new units will be delivered in the next three years with the further expansion of urban areas. In addition, there are about 16,000 households in the county that have risers installed but gas supply not commenced. All these have shown a broad prospect in gas sales for residents in the future.

Through this acquisition, the Group can extend to surrounding townships grounding on the operating area of the project, to further expand the coverage of the Company's township coal-to-gas conversion business in Henan Province. At the same time, it can form synergies with the urban gas projects of the Group that have been in operation in Henan Province, to further consolidate the Group's gas network advantages in Henan Province and increase its market share in the province.

LNG Plant Projects

According to the design plan, the Group's gas source bases in Changling County, Jilin Province will have a daily production volume of 150,000 m^3 of CNG and LNG. The CNG production facility currently has an actual daily production of 110,000 m^3 and its production is stable. The LNG production facility has an actual daily production of 140,000 m^3. With the steady production of the project, its advantages in lower gas cost and favourable geographical location and the Group's advantage in strong distribution capability in Northeast China will further lower the Group's gas cost in such area and form synergies with existing urban gas projects of the Group in the Northeast China, thereby laying a solid foundation for its further development of the Northeast China market in the future.

Long-haul Pipelines

The Group has a total of six long-haul pipelines, three of which have been put into operation and are located in Da'an City, Jilin Province, Pingdingshan City, Henan Province and Wujiang City, Jiangsu Province, respectively, which play an important role in securing the Group's gas source supply. As at 31 December 2018, the progress of the Group's three long-haul pipelines under construction/planning is as follows:

- Lushan-Ruzhou Pipeline Branch of the West-East Pipeline II: The construction of first phase has been completed in the second quarter of 2018, and the relevant procedures have been completed. It has been docked with Lushan Substation of the West-East Pipeline II, with nitrogen replacement completed and qualified for gas supply conditions. It is expected that gas pipeline connections will be achieved in the third quarter of 2019.

- Yuzhou-Changge project: The pipeline has been successfully completed. The station line construction and procedures for docking with the 3# valve room of the Pingdingshan-Tai'an Pipeline Branch of the West-East Pipeline II are underway. It is expected that the gas supply will be commenced in the fourth quarter of 2019.

- Puyang-Hebi pipeline: It is currently conducting pre-preparation work. Upon completion, it will further lower the gas supply cost of Puyang subsidiary and Hebi subsidiary of the Company and provide strong gas source support for further expansion into surrounding pipeline market.

The Group will focus on self-construction pipeline projects in the current operation regions, develop new projects and new areas at the right time, explore high-quality and large-scale industrial direct supply projects, and actively participate in the businesses of midstream gas source procurement, distributed energy and gas transmission and supply for industrial parks and power plants to maintain a steady growth in the Group's gas sales business.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the Group's revenue amounted to RMB5,113 million, representing a year-on-year increase of RMB2,004 million or 64.47%. The Group's revenue was primarily derived from the gas pipelines connections and engineering design and construction business, as well as the transportation and sales of gas business, accounting for 34.19% and 63.12% (the corresponding period of last year:19.94% and 78.10%), respectively, of the total revenue for the year ended 31 December 2018.

Revenue from gas pipelines connections and engineering design and construction business

For the year ended 31 December 2018, revenue from urban gas pipeline connections amounted to RMB705 million, representing a year-on-year increase of 13.72% from RMB620 million for the corresponding period of last year. In terms of pipeline connection fee proceeds, for the year ended 31 December 2018, cash received from gas pipeline connections amounted to RMB854 million, representing a year-on-year increase of 21.83% from RMB701 million for the corresponding period of last year.

During the year ended 31 December 2018, the Group cooperated with Henan Yuzi to carry out a township coal-to-gas conversion project in Henan province, contributing revenue of RMB1.043 billion to the Group. The average connection fee was RMB2,727.27 per household. As of the date of this announcement, cash received from coal-to-gas conversion pipeline connections amounted to RMB700 million. It is believed that the Company's township coal-to-gas conversion project in Henan province will continue to be implemented rapidly and create a new driving force for profit growth with the effective fund cooperation model, long-term financial support provided by policy banks and financial institutions, strong gas source guarantee and national favourable policies.

Revenue from sales of gas

The Group delivers, distributes and sells natural gas to industrial and commercial users, residential users, transportation users and wholesale users in the cities in which it operates, and is engaged in pipeline gas transmission business. For the year ended 31 December 2018, the Group had a significant growth in gas sales volume. Revenue from gas sales amounted to RMB3,228 million, representing a year-on-year increase of 32.93% from RMB2,428 million for the corresponding period of last year. In particular, revenue from gas sales to industrial and commercial users was RMB1,679 million, representing a year-on-year increase of 26.63% as compared with RMB1,326 million for the corresponding period of last year; revenue from gas sales to residential users was RMB563 million, representing a year-on-year increase of 43.70% as compared with RMB392 million for the corresponding period of last year.

Gross Profit and Gross Profit Margin

For the year ended 31 December 2018, the Group realized gross profit of RMB1,428 million, representing an increase of RMB660 million or 85.98% from the corresponding period of last year. Overall gross profit margin of the Group was 27.93%. Gross profit margin for gas sales was 14.99%, representing an increase of 0.12 percentage points compared with the same period of last year. Gross profit margin for connection business was 49.70%, representing a decrease of 11.64 percentage points compared with the corresponding period of last year, mainly due to the lower gross profit margin of the township coal-to-gas conversion connection carried out by the Group during the year.

Distribution Cost and Administrative Expenses

The Group's distribution cost for the year ended 31 December 2018 was RMB41.35 million, and administrative expenses for the year were RMB167 million. With the continuous implementation of cost control policies such as the comprehensive budgeting management system, the Group's distribution costs and administrative expenses as a percentage of total revenue for the year ended 31 December 2018 remained almost at the same level as in last year.

Other Income

For the year ended 31 December 2018, other income of the Group amounted to RMB9 million, representing a decrease of RMB18 million as compared with the corresponding period of last year.

Other Gains - Net

For the year ended 31 December 2018, other gains - net of the Group amounted to RMB4 million, representing a decrease of RMB2 million as compared with the corresponding period of last year.

Finance Expenses - Net

For the year ended 31 December 2018, finance expenses - net of the Group amounted to RMB323 million, representing an increase of RMB239 million as compared with the corresponding period of last year.

Share of Loss after Tax of Associates and A Joint Venture

For the year ended 31 December 2018, the Group's share of loss after tax of associates and a joint venture amounted to RMB45 million.

Net Profit and Net Profit Margin

For the year ended 31 December 2018, net profit of the Group amounted to RMB600 million, representing an increase of RMB171 million or 39.89%, as compared with the corresponding period of last year. For the year ended 31 December 2018, net profit margin of the Group was 11.74%.

Net Profit Attributable to Owners of the Company

For the year ended 31 December 2018, net profit attributable to owners of the Company was RMB569 million, representing an increase of RMB165 million or 40.79% as compared with the corresponding period of last year.

FINANCIAL POSITION

The Group has been adopting prudent policies in respect of financial resources management, including maintaining an appropriate level of cash and cash equivalents as well as sufficient credit limits, in order to cope with the needs of daily operation and business development and control the borrowing at a healthy level.

For the year ended 31 December 2018, the Group incurred capital expenditure of RMB706 million, of which RMB381 million was used in project acquisitions and RMB325 million in continuously improving urban gas business. The above capital expenditure was financed by the Group's operating cash flows and bank borrowings.

As at 31 December 2018, the Group held cash and cash equivalents and liquid investment classified as financial assets at fair value through profit or loss of RMB1,381 million in total, of which cash and cash equivalents amounted to RMB1,076 million, of which 97.93% was denominated in RMB, 1.93% was denominated in US dollars and 0.14% was denominated in HK dollars, and its liquid investment of RMB305 million, safeguarding the needs of project expansion and acquisition of businesses of the Group.

As at 31 December 2018, the Group's total borrowing was RMB5,418 million (among which loans denominated in RMB were RMB2,681 million, loans denominated in US dollars were RMB924 million and loans denominated in Hong Kong dollars were RMB1,813 million). The Group's borrowings comprised mainly long-term borrowings, and 70.32% of borrowings were classified as non-current liabilities and 29.68% was classified as current liabilities. The loans repayable within one year amounted to RMB1,608 million, of which RMB496 million was secured by the Group's gas charge rights. As at 31 December 2018, the gearing ratio, calculated based on the percentage of total liabilities over total assets, was 69.01%.

FINANCE COST AND EXCHANGE RISK MANAGEMENT

For the year ended 31 December 2018, the Group's finance cost was RMB290 million, representing an increase of 35.09% as compared with the corresponding period of last year, mainly due to the increase in the Group's financing scale for reserving sufficient funds for the next business development.

For the year ended 31 December 2018, the Group's overseas borrowings denominated in foreign currencies accounted for 50.51% of its total borrowings, which was lower than the average level of industry peers. The Group will continue to closely monitor the changes in exchange rates and strive to lower its finance costs through diversified arrangements, and will adopt necessary measures to lower its exchange risk as and when necessary.

OPERATIONAL REVIEW

Customer Services

The Group has been committed to enhancing its brand presence and identity in the gas user base through good customer service, thus making customer services one of its core competitiveness. While providing customers with a high-quality service experience, the Group could also have the advantage to develop downstream value-added services business and create new market space and profit growth points.

The Group continued to enhance the professional skills and service awareness of front-line employees, and regularly conducted targeted training and formulated relevant rules and regulations. During the year, the Group organized special trainings for technical and service employees repeatedly, and in the second half of the year, it launched an internal skills selection competition based on the region, and finally organized the Group's first vocational skills competition. At the same time, the Group further improved its internal implementation standards and issued systems covering security inspection, hidden danger management and measurement management during the year. The Compilation of Operation Instructions contains more than one hundred operation items, covering all the operations of the Group's first line, effectively improving the service quality of first-line technicians.

The Group actively explored new forms of customer services, and gained good feedback through the establishment of a grid-based management model, whose pilot implementation was carried out at Shangjie Subsidiary and Hebi Subsidiary. The grid-based management model has improved the number of service personnel at site, shortened the feedback time, and greatly improved the timeliness rate of services. At the same time, after the service was over, the service personnel would take photos of the service results and upload them to the system for real-time tracking, which was convenient for feedback and effectively improves the service quality.

In addition, the Group vigorously promoted value-added services for township coal-to-gas conversion users, and strove to provide more comprehensive services for township users, bringing good gas use experience to township users. During the year, the Guidelines for the Promotion of Value-added Business of Tianlun Gas Group, Product Standards, Installation Standards and Security Inspection Service Standards were completed, which laid the foundation for further promotion of value-added business in the later period.

Safety Management

The Group has always regarded safety management as the cornerstone of its continuous operation and development, and continuously raised the standards and requirements for safety management to reduce the possibility that safety management issues might bring risks to the Group's operations.

During the year, the Group initiated and established a three-level safety management review mechanism of company's self-review, regional comprehensive review and group's random review. The review completion rate of each region and each member reached 100%, and a total of more than 30 members met the national three-level standardization requirements. In addition, the Group has formulated and issued a "prevention of three violations" system against "illegal operations, illegal command, and violation of labor discipline". The Group implemented "prevention of three violations" supervision, and carried out "prevention of three violations" supervision of more than 1,000 person-times. It imposed penalties on the relevant responsible persons who were involved in the "three violations" phenomenon, effectively curbing the occurrence of safety accidents and improving the quality of gas engineering construction.

The Group has also attached great importance to the knowledge management of production safety, fostered a team of experts in safety management, and cooperated with relevant consulting agencies to introduce advanced safety management methods in the industry. In addition, through the implementation of special training, revision of relevant systems, and convening of expert seminars and accident case analysis meetings, the advanced safety management knowledge and concepts were integrated into the Company's daily production and management and were absorbed and consolidated, achieving effective safety knowledge management.

Risk Management

In order to ensure the sustainable and healthy development of the Group and the effective achievement of its strategic objectives, the Group has formulated effective risk management measures in line with the external environment and internal development stage to continuously improve the Group's risk management level.

During the year, the Group reorganized and formulated the risk management system in terms of market operations, finance, legal affairs, and post-investment evaluation. In respect of the newly-developed township coal-to-gas conversion business, the Group formulated and issued the Guidelines for the Management of Township Coal-to-Gas Conversion Operation Services, covering operation management model, project reception, operation management, customer service, safety management, measurement management, operation instructions, etc. in order to carry out the township coal-to-gas conversion business in an orderly manner in the future. With the promotion of value-added business to township gas users, and the increasing scope and volume of business, the Group has a higher level of demand for financial management model. The Group reviewed and standardized the potential risks in contract signing, fund settlement, approval process, internal control measures, tax planning and profit calculation.

In terms of legal risks, the Group's Legal Department has established a dynamic management account for the Group's cases, covering the whole process of case management (litigation, preservation, execution, and assistance in execution), and followed up on the Group's cases in trial and execution according to plan, which has laid a good foundation for the Group's comprehensive and effective management of the cases in the future. In addition, the Group formulated the Management Regulations on Post-Investment Evaluation of Tianlun Gas Group during the year, and coordinated the Engineering Technology Department, the Marketing Department, and the Legal Department to form a post-investment evaluation working group in accordance with the operating procedures of such regulations to carry out post-investment evaluation of new projects of the Group's relevant members and issue post-investment evaluation reports. On this basis, the Group's Legal Department led various functional departments to sort out the systems, processes, and responsibilities of each member unit, and successfully complete the finalization of the Authorization System and Process Guidelines of Tianlun Gas Group, further improving the Company's internal control and risk management.

At the same time, the Group has renewed all types of insurance covering the entire group to ensure that all types of risks have corresponding insurance coverage and minimize the possible risk loss of the Group.

Cost Management

Cost management is one of the important strategies to improve the overall profitability of enterprises and ensure their core competitiveness and market share. The Group always attaches great importance to cost management and continuously improves and optimizes the cost management system.

During the year, the Group improved its business standards, including reorganizing the cost standards for single-household connections in new residential areas of its members, and revising the reference indicators for investment in pipe network projects and station projects. For the newly-developed township coal-to-gas conversion business, the Group has determined the pricing standard to formulate a settlement model. In terms of systems, the Group has formulated large-amount investment dynamic cost management measures, and revised the classification cost management measures to divide the engineering categories, and effectively control the additional costs of visa changes.

The Group has strengthened the supervision of the daily cost management system, analyzed and consolidated the carry-over account of resident users and the medium-pressure pipe network every month, carried out the inspection of the regular pre-settlement of projects and cost management system of its members, and conducted special guidance and training to ensure cost management was effectively implemented.

In addition, the Group improved its measurement management mechanism and formulated an optimization plan. During the year, it has organized the optimization of measurement instruments for some of its members to further reduce the difference between purchase and sales. At the same time, the Group established a life cycle management mechanism for asset equipment, focusing on the management of archives and operation phases, and effectively extending the service life of equipment.

Information Management

Scientific information management can improve the operational efficiency and reduce operational risk and cost of the enterprise by integrating the internal and external resources of the enterprise, thereby improving the enterprise's overall management level and its ability of continuous operation, and assisting the simultaneous development of the scale and efficiency of the enterprise.

During the year, the Group established a finance sharing centre to coordinate and standardize the item accounting system and realize centralized processing of the Group's accounting business, which was beneficial for the Group's analysis of financial data and its internal control and supervision, and improved the overall work efficiency and the standardization and integrity of the data. The Group's fund management and control system has realized the management model of "internal bank", established a fund settlement centre, and implemented interest-bearing management for "loans" and "deposits" between its members and settlement centre, thereby assessing the contribution of each member to the Group's funds. The supply chain management system established the Group's unified material coding system, supplier information file and customer information file, and realized the whole process management from procurement and warehouse-in—warehouse management—application for materials—accounting for warehouse-out, which has established a complete and standard business process order. Through system integration, the gas billing system has realized the billing through multiple types of IC card metres on the same platform. Through the formulation of an impeccable metre reading plan, billing and prepayment for different types of users could be carried out. In addition, by connection to major third-party payment platforms in the PRC, gas users are able to pay real-time bills online via Alipay, Wechat, self-service terminals and banks, which has significantly saved waiting time for users to queue up for payment.

Human Resources

As at 31 December 2018, total number of employees of the Group was 2,843. The remuneration of employees of the Group is determined based on their work performance, work experiences and prevailing market rate.

During the year, based on strategic planning and business development needs, the Group adjusted its organizational structure, improved its organizational system, established a command headquarters structure for coal-to-gas conversion and division of responsibilities, strengthened the functions of the regional coordination centre and formulated the classification criteria for its members based on the scale of operations. According to the guidance of the China Stone project team and taking into account the current situation of the gas group, the Group's salary model adjustment and new performance appraisal model were completed to further stimulate the work enthusiasm and cohesiveness of employees.

The Group conducted selection of internal lecturers and organized training camps for internal training lecturers to continuously strengthen the internal lecturers' professional knowledge and experience, build a comprehensive curriculum system and empowerment, and establish and cultivate a team of outstanding internal lecturers. At the same time, it hired external professional lecturers. A total of nearly 700 hours of courses were provided to nearly 1,000 persons all year round, meeting the professional training needs of employees at all levels. The Group carried out cadre rotation training program for senior management, headquarters-based FLT (Future Leader of Tianlun), and region-based MLT (Manager Leader of Tianlun) training plan to realize the human resources strategic planning of "internal promotion of talents" to meet the urgent needs of the Group for talents due to its rapid development. In addition, the Group has innovated incentive mechanism. The Group formulated incentive schemes for township coal-to-gas conversion and value-added businesses, established a project contracting system for internal partners of its members, and a medium- and long-term business partnership system to comprehensively enhance employees' sense of participation and sense of belonging, and mobilize the enthusiasm of employees.

Corporate and Social Responsibility

As a clean energy enterprise committed to improving people's lives, since its establishment, the Group has been providing high-quality and stable natural gas services to all kinds of natural gas users in the regions in which it operates and striving to become a national energy distribution enterprise which is worth customers' trust and wins social respect, with its mission of developing clean energy and improving living environment and its philosophy of putting customer's needs and satisfaction first. During the year, the Group launched a free installation project for township coal-to-gas conversion in Henan Province. It not only responded to the Chinese government's call for ecological civilization construction, but also enabled the vast rural people in Henan Province to be exempted from being charged for the laying of pipe network through ingenious system design, which greatly benefited the people's livelihood.

Economic Responsibility

Since its listing, the Group's presence in the natural gas market had continued to expand. Currently the Group owns 60 gas projects in 17 provinces in the PRC, which has promoted the common development of gas business and local economy in the third- and fourth-tier cities of China and surrounding townships, effectively increased local taxation income, alleviated employment pressure, promoted local economic growth and accelerated local urbanization reforms.

Environment Responsibility

As an enterprise committed to developing clean energy, the Group fully responds to the government's call for air pollution treatment and insists on the utilisation and promotion of natural gas. Leveraging the opportunities brought by China's policies for acceleration for utilisation of natural gas, the Group actively provides optimisation plans to enterprises with high energy consumption and heavy pollution in the areas in which it operates, and further promotes the development of coal-to-gas conversion. In 2018, the Group launched the township coal-to-gas conversion project in Henan Province, and designed a unique system for the needs of rural users. It not only realized economic benefits, but also increased the penetration rate of natural gas in the towns and fulfilled the Group's environmental responsibility.

With the continuous increase in the number of coal-to-gas conversion users of the Group, the emissions of atmospheric pollutants from coal combustion in the areas in which the Group operates are bound to decrease further. The Group will continue to respond to the government's call for energy-saving and emission-reduction and develop green economy with practical actions.

OUTLOOK

In 2018, while the international environment was complex and volatile, China's national economy continued to operate in a reasonable range and maintained an overall stability, with the Gross Domestic Product (GDP) increasing by 6.6% compared with 2017. Meanwhile, China made solid progress in supply-side structural reform, continued to optimize the energy structure adjustment, and maintained a rapid growth trend in the natural gas market development. During the year, while deeply exploring the growth potential of traditional city gas in the areas where it operates to maintain steady growth, the Group joined hands with Henan Yuzi to establish a coal-to-gas conversion fund to jointly develop the township coal-to-gas conversion business in Henan and develop value-added services, so as to bring new business growth points to the Group and ensure the sustained and rapid growth of the Group's results.

In 2019, the Group will continue to adhere to the innovative development concept, while maintaining a faster growth of value-added services, try to innovate the primary business model of traditional gas and explore new forms of investment development and external cooperation. The Group will intensify its efforts to continuously improve the operation quality of existing businesses, and at the same time, continue to do a good job in the acquisition of incremental resources. In terms of investment and acquisition, the linkage effect between selective acquisition projects and township coal-to-gas conversion blank demonstration zones in the will be considered as a development factor. In addition, based on the township coal-to-gas conversion practices in Henan and combined with the core capabilities of existing operating businesses, the Group will further enhance the building of the Group's development path and further strengthen the industry positioning and operating characteristics of the Group in the capital market by grasping the development opportunities of the industry chain and the midstream and upstream industries, to create better conditions for the Company to increase its market value and to repay the Shareholders with better results.

Purchase, sale or redemption of the Company's listed securities

During the year ended 31 December 2018, none of the Company or any of its subsidiaries had repurchased, sold or redeemed any shares of the Company (the "Shares").

Contingent Liabilities

During the year ended 31 December 2018, the Group had no material contingent liabilities.

Final Dividend

In order to thank the Shareholders for their support, the Group has established a long-term steady dividend policy. Pursuant to the resolutions of the Board on 29 March 2019, the Board recommended the payment of a final dividend for the year ended 31 December 2018 of RMB10.00 cents per share (the "Final Dividend"). Together with an interim dividend of RMB5.36 cents per share which had been paid, total dividend paid and recommended for the year ended 31 December 2018 was RMB15.36 cents per share, representing an increase of 50.88% as compared with the corresponding period of 2017.

The Final Dividend will be paid in Hong Kong dollars on or about 20 June 2019 (Thursday) to the Shareholders whose name appear on the register of members of the Company on 5 June 2019 (Wednesday), subject to the Shareholders' approval at the forthcoming annual general meeting. Further announcement will be made by the Company in relation to the exact amount of the Final Dividend in Hong Kong dollars when the conversion rate for Renminbi to Hong Kong dollars to be adopted has been determined by the Board.

Closure of Register of Members

In order to determine the Shareholders' entitlement to the proposed Final Dividend, the register of members of the Company will be closed from 30 May 2019 (Thursday) to 5 June 2019 (Wednesday) (both days inclusive), during which no transfer of Shares will be registered. In order to be eligible to receive the proposed Final Dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Group's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 29 May 2019 (Wednesday).

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code of conduct regarding securities transactions by the Directors. Upon specific enquiries made to all the Directors, each of them confirmed that they strictly complied with the required standards set out in the Model Code for the year ended 31 December 2018.

Corporate Governance Code

The Company has adopted and has complied with all code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules for the period from 1 January 2018 to 31 December 2018.

Audit Committee

The audit committee (the "Audit Committee") of the Company consists of three independent non-executive Directors, namely, Mr. Li Liuqing (chairman of the Audit Committee), Mr. Yeung Yui Yuen Michael and Ms. Zhao Jun. The Audit Committee had held meetings with the management to review accounting principles and practices adopted by the Group and discussed the audit, internal control and financial reporting issues. The Audit Committee had reviewed and discussed the annual results and financial statements of the Group for the year ended 31 December 2018.

Audit of Financial Statements

PricewaterhouseCoopers, the external auditor of the Group, had audited the consolidated financial statements of the Group and issued unqualified opinion.

** For identification purpose only*

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zhang Yingcen, aged 56, is the founder and the Chairman of the Company and an executive Director. He is responsible for the overall strategic planning and has involved in leading the development and investment of the business of the Group in the PRC. Mr. Zhang has more than 22 years of management experience, including 17 years of experience in the management of gas enterprises. Mr. Zhang received the certificate of graduation in advanced EMBA program from Enterprise Research Center of Peking University in 2001, and received a certificate of graduation in the PRC Enterprise CEO/Financial CEO program from Cheung Kong Graduate School of Business in 2014 and obtained his certificate of EMBA from Tsinghua University in 2018. He is currently the vice president of Chinese Xiangqi Association, and the vice president of Henan Charity General Federation.

Mr. Xian Zhenyuan, aged 44, is the chief executive and an executive Director of the Company. Mr. Xian has 15 years of experience in the management of gas enterprises. Mr. Xian joined the Group in 2003 and served as a director and general manager of certain subsidiaries of the Company successively. Mr. Xian obtained a bachelor's degree majoring in International Trade from Southeast University in the PRC in 1997 and obtained a master's degree majoring in Accounting from Macquarie University in Australia in 2003.

Mr. Zhang Suwei, aged 45, is an executive director and the general manager of the Company. Prior to joining our Group, Mr. Zhang served as the chief representative at Sinosteel Corporation in the Africa region and the general manager at ASA Metals (Pty) Ltd. from May 2006 to March 2011, the general manager of Fosun International Resources Group from August 2011 to March 2013 and director and general manager at Inner Mongolia Yili Energy Company Limited, the shares of which are listed on Shanghai Stock Exchange (stock code: 600277) from February 2014 to May 2015. Mr. Zhang obtained a bachelor degree (major in nonferrous metallurgy and minor in international trade) from Northeastern University in China in 1996, and a bachelor degree in Accounting from University of South Africa in 2004. He is a fellow member of the Association of Chartered Certified Accountants. Mr. Zhang has extensive experience in the formulation of corporate strategic planning, platform construction, investment and financing, industrial chain resource integration, staff incentive and capital market. He was awarded the title of Model Worker of Central Enterprises of China, and served as an advisor of the Employment and Economic Development Committee to the Governor of Limpopo Province, South Africa and other social positions.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Feng Yi, aged 40, is an executive Director of the Company. Mr. Feng has 17 years of experience in corporate investment and financing. Mr. Feng joined the Group in 2006 and acted as the assistant to the general manager, deputy general manager and director of Henan Tian Lun Gas Group Limited successively. Prior to joining the Group, Mr. Feng was responsible for investment and financing of Zhengzhou Yutong Bus Co., Ltd. and Zhengzhou Branch of 21 Century Real Estate in the PRC. Mr. Feng obtained a bachelor's degree in International Trade from Southwestern University of Finance and Economics in the PRC in 2002, and obtained EMBA in Guanghua School of Management in Peking University in the PRC in 2015.

Ms. Li Tao, aged 47, is an executive Director and deputy general manager of the Company. She joined the Group in April 2011 and is responsible for the financial management of the Group. Ms. Li has years of experience in corporate finance management. Prior to joining the Group, Ms. Li had served as the head of finance of SDIC Henan Coal Transportation & Sales Co., Ltd. Ms. Li obtained a bachelor's degree in Economics from Henan University of Economics and Law in the PRC in 1994, and obtained a master's degree in applied accounting and finance from Hong Kong Baptist University on 13 November 2014. She is a senior accountant and a Certified Public Accountant in the PRC.

Non-executive Director

Mr. Wang Jiansheng, aged 63, is a non-executive Director. Mr. Wang worked as an economist in the International Monetary Fund and as an investment officer in the World Bank Group in Washington DC. He was a partner in a private equity management firm, and did philanthropic work in energy and environment fields. Mr. Wang has served on the board of several banks and non-bank financial institutions. Mr. Wang graduated from New York University in 1988 with a PhD in Development Economics.

Independent Non-executive Directors

Mr. Liu Jin, aged 50, was appointed as an independent non-executive director of the Company on 28 May 2018. Mr. Liu served as an assistant professor from July 1999 to July 2006 and an associate professor with tenure from July 2006 to July 2008 at Anderson School of Management of the University of California, Los Angeles. He also served as an Economics Instructor at the Department of Economics at Columbia University in 1998. He obtained a doctoral degree in Business Administration from Columbia Business School in 1999. Mr. Liu is currently the vice president and a professor of Accounting and Finance of Cheung Kong Graduate School of Business. Mr. Liu has extensive experience in research on capital markets, financial accounting and equity investment and is an internationally renowned expert in the field of equity investment and securities analysis. Mr. Liu's research has international influence and has been one of the authors whose research achievements are most widely quoted in international literatures among Chinese social science scholars in the past decade. He is a long-term reviewer and editorial board member of various international first-level academic journals. Mr. Liu has received the Outstanding Research Award from Cheung Kong Graduate School of Business, the Eric and "E" Juline Faculty Excellence in Research Award, and the Barclays Global Investors Best Paper Award.

Mr. Li Liuqing, aged 44, is an independent non-executive Director. Mr. Li has over ten years of experience in accounting and auditing, and was a senior manager and vice branch manager of Henan Branch of Ascenda Certified Public Accountants Ltd.. He is currently a partner in Zhongxingcai Guanghua Certified Public Accountants LLP and in charge of its Henan Branch. Mr. Li obtained a bachelor's degree in Accounting from Henan University of Economics and Law in 1998 and a postgraduate certificate majoring in Corporate Management from Tianjin University of Finance and Economics in 2000. Mr. Li is a Certified Public Accountant on securities, a Certified Public Valuer and a Certified Tax Agent in the PRC.

Mr. Yeung Yui Yuen Michael, aged 64, is an independent non-executive Director. Mr. Yeung is experienced in the development and growth of fast-moving consumer products (gum, chocolate, and confections) in emerging markets, and was the president of Wrigley Asia Pacific Ltd.. He worked in R.J Reynolds Tobacco Co. Ltd., SC Johnson Co. Ltd., and Hong Kong TVB Co. Ltd.. Mr. Yeung is a fellow member of the Hong Kong Institute of Directors and a council member of the Gerson Lehman Group (Asia) Ltd.. Mr. Yeung obtained a bachelor's degree in Business Administration and Commerce (Distinction) from the University of Alberta, Canada in 1977.

Ms. Zhao Jun, aged 56, is an independent non-executive Director. Ms. Zhao worked in the Post Office of Zhengzhou City and Postal Transportation Bureau of Henan Province and served as a Senior Lecturer, Education Officer and Occupational Testing Officer successively. Ms. Zhao had been the human resources director of Shanghai Shibang Machinery Co., Ltd. Beijing Office. She is currently a supervisor of Beijing Kelushi Heavy Industrial Technology Co., Ltd.. Ms. Zhao obtained a bachelor's degree majoring in Agricultural Machinery Repair from Agricultural Machinery Department of Henan Agricultural University in the PRC in 1984.

SENIOR MANAGEMENT

Mr. Xue Zhi, aged 55, is a deputy general manager of the Company. He is responsible for the operation and management of the Group. Mr. Xue has accumulated 33 years of technical experience in gas projects. Prior to joining the Group, Mr. Xue worked at Beijing Huacheng Gas Company as chief technology officer and at ENN Energy Group as vice president and engineer. Mr. Xue obtained a bachelor degree from Chongqing Jianzhu University, majoring in gas engineering in 1984 and a master's degree in management from Nanyang Technology University, Singapore in 2009.

Mr. Li Xincheng, aged 38, is a deputy general manager of the Company. He is responsible for the human resource management of the Group. Mr. Li has extensive experience in human resource management. Prior to joining the Group, Mr. Li worked at CIMG Group and its members as director of human resources and operation, and at Xinneng Energy Co., Ltd. Under Enn Energy as director of human resources. Mr. Li obtained a bachelor degree from Taiyuan University of Technology, majoring in industrial design, in 2002.

COMPANY SECRETARY

Mr. Hung, Man Yuk Dicson, aged 43. Prior to joining the Company, Mr. Hung has over 10 years of experience as a corporate secretary. Mr. Hung was the qualified accountant and company secretary of Zhongtian International Limited (Stock Code:2379). He is currently the general manager of Lead &Partners Limited, a secretarial company in Hong Kong, a director of the Professional Consultancy and Advisory Services Department of LEAD CPA Limited, a chartered public accountant firm in Hong Kong, and the company secretary of Come Sure Group (Holdings) Limited (Stock Code: 794). Mr. Hung obtained a master's degree majoring in Finance from Curtin University of Technology in 2002. Mr. Hung was admitted as an associate member of Hong Kong Institute of Certified Public Accountants in 2004 and a fellow member of the Association of Chartered Certified Accountants in United Kingdom in 2006.

DIRECTORS' REPORT

The Directors are pleased to present the annual report for the year ended 31 December 2018 together with the audited consolidated financial statements to the shareholders.

PRINCIPAL BUSINESS

The Company is an investment holding company whose subsidiaries are principally engaged in the investment, operation and management of gas pipeline connections, transportation, distribution and sales of gas, construction and operation of gas filling stations, and production and sales of LNG in the PRC. Further details of the principal business and subsidiaries of the Company are set out in Note 11 to the consolidated financial statements in this annual report.

BUSINESS REVIEW

The Group's business review for the year ended 31 December 2018, and discussion about the Group's future business development, are set out in the section headed "Chairman's Statement" on pages 14 to 16 and the section headed "Management Discussion and Analysis" on pages 17 to 32 of this annual report.

MAJOR RISKS AND UNCERTAINTIES

The Directors are aware that the Group's financial position, operating results and business outlook may be subject to many risks and uncertainties directly or indirectly relating to the business of the Group, and have put in place the relevant policies to ensure continuous identification and management of the adverse impacts such risks might have on the Group. The major risks and uncertainties currently facing by the Group are set out below.

Finance risks

The Group may be exposed to finance risks including foreign currency risk, interest rate risk and liquidity risk. Management of the Group monitors market changes and will adopt various means to mitigate such risks as and when appropriate.

Business risk

The performance of major business of the Group is subject to many factors, including but not limited to overall market and economic conditions, and the performance of property, industry and commerce market where the Group operates its business. The Group will adjust its development plan in a timely manner in line with the development of its local users and in accordance with the relevant policies.

Growth strategy

The Group's business growth objectives will be achieved through internal growth, strategic investments and acquisitions. In the event of change in market condition, insufficient funds generated from operation or other reason, the Group will consider delaying, revising or abandoning its growth strategy in certain aspects.

Human resources risk

The Group may be subject to the risk of loss and recruitment of staff and talents with requisite skills. The Group will provide competitive remuneration packages and career development plans to suitable candidates and employees based on market standard, individual experience and individual performance. The Group will also recognise and encourage employees' contribution to the Group through performance appraisal system and adoption of share option scheme.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group has adopted the relevant environmental protection standards in the PRC, formulated occupational health and environmental protection measures, and established regulated operation procedures to ensure compliance with the laws and regulations relating to environmental protection. During the year, the Group obtained OHSAS18001 (occupational health and safety management system) certification.

As a gas supplier, the Group is committed to environmental protection and improving air pollution. In 2018, the Group's city gas operation and transmission business distributed a total of 2,160 million cubic metres of natural gas. Based on the gas sales volume, the Group helped reduce emissions from approximately 3,600,000 tonnes of coal.

In its day-to-day business operation, the Group continues to promote green measures and improve employees' awareness of environmental protection and advocates the concept of recycling for use. It uses energy-saving lamps for lighting and requires employees to turn off the lights before leaving office so that no lights will be left always on. It requires turning off the faucet after using to avoid water waste. It promotes electronic office and expands the functions of our OA online office system to improve use efficiency. It encourages double-sided printing to reduce resource waste so as to reduce the impacts on the environment.

The Group will review its environmental protection work on a regular basis and adopt more environmental protection measures in respect of business operation to strengthen the environmental sustainability.

IMPORTANT RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group has always considered employees as essential for its continuous business growth, pays great attention to the safety of employee's working environment, and has in place health and safety systems and measures. The Group also organises induction and on-the-job trainings on a regular basis based on the needs of employee position and career development. In addition, the Group has established a fair and effective performance appraisal system and incentive plan to motivate employees to exhibit their talents and achieve performance objectives.

With customer needs in mind and by adhering to the principle of "putting customers above all else", the Group has developed a customer service guidebook and customer complaint management measures, and continues to provide customers with value-added services in order to improve customer satisfaction.

The Group selectively chooses suppliers by setting out requirements for suppliers participating in its public tender in areas such as experience, reputation and production capacity, and assesses successful bidders on a half-yearly basis. The Group has established long-term good cooperation with many suppliers.

Compliance with laws and regulations

The Group's business is mainly conducted by the Company's subsidiaries in Mainland China, and the Company is listed on the Stock Exchange. As such, during the year ended 31 December 2018 and up to the date of this annual report, the Group has been in compliance with the relevant laws and regulations in the PRC and Hong Kong, such as the Environmental Protection Law, the Air Pollution Control Law, the Labour Law, the Labour Contract Law, the Special Provisions on Labour Protection of Female Workers and the Production Safety Law of the People's Republic of China.

SUMMARY FINANCIAL INFORMATION

A summary of the annual results of the Group for the last five financial years is set out on the last page of this annual report. The summary does not form part of the consolidated financial statements in this annual report.

FINAL DIVIDEND

In order to thank the Shareholders for their support, the Group has established a long-term steady dividend policy. Pursuant to the resolutions of the Board dated 29 March 2019, the Board recommended the payment of a final dividend for the year ended 31 December 2018 of RMB10.00 cents per share (the "Final Dividend"). Together with an interim dividend of RMB5.36 cents per share which had been paid, total dividend paid or recommended for the year ended 31 December 2018 was RMB15.36 cents per share, representing an increase of 50.88% as compared with 2017.

The Final Dividend will be paid in Hong Kong dollars on or about 20 June 2019 (Thursday) to the Shareholders whose name appear on the register of members of the Company on 5 June 2019 (Wednesday), subject to the Shareholders' approval at the forthcoming annual general meeting. Further announcement will be made by the Company in relation to the exact amount of the Final Dividend in Hong Kong dollars when the conversion rate for Renminbi to Hong Kong dollars to be adopted has been determined by the Board.

RESERVES

Details of movements of reserves of the Company and the Group during the year are set out in Notes 25, 27 and 40 to the consolidated financial statements.

As at 31 December 2018, the distributable reserves of the Company was RMB592,340,000 being the sum of the amounts of share premium and accumulated losses.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 15 to the consolidated financial statements.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographies of Directors and senior management of the Group are set out in the section headed "Directors and Senior Management" in this annual report.

BANK BORROWINGS

Details of bank borrowings of the Group are set out in Note 29 to the consolidated financial statements.

DIRECTORS AND SERVICE CONTRACTS

The Directors during the year ended 31 December 2018 and as at the date of this report were as follows:

Executive Directors

Mr. Zhang Yingcen *(Chairman)*
Mr. Xian Zhenyuan
Mr. Zhang Suwei (appointed on 26 March 2018)
Mr. Feng Yi
Ms. Li Tao

Non-executive Director

Mr. Wang Jiansheng

Independent Non-executive Directors

Mr. Liu Jin (appointed on 28 May 2018)
Mr. Li Liuqing
Mr. Yeung Yui Yuen Michael
Ms. Zhao Jun

The Company has maintained appropriate directors and senior management liability insurance policies for all Directors and members of senior management and reviews the coverage on an annual basis.

Each Director has entered into a service contract with the Company. Each of the executive Directors has entered into a service contract with the Company for an initial term of 2 years commencing from 26 March 2018 and subject to termination by either party upon giving no less than 1 month' prior written notice to the other party.

Mr. Wang Jiansheng, the non-executive Director, has entered into a service contract with the Company for a term of 3 years commencing from 21 September 2018 and subject to termination by either party upon giving no less than one month's prior written notice to the other party.

Each of Mr. Li Liuqing and Ms. Zhao Jun, being independent non-executive Directors, had entered into a service contract with the Company for a term of three years commencing from 10 November 2018 and subject to termination by either party upon giving no less than one month' prior written notice to the other party. Mr. Liu Jin, an independent non-executive Director, has entered into a service contract with the Company for a term of three years commencing from 28 May 2018 and subject to termination by either party upon giving no less than three month's prior written notice to the other party. Mr. Yeung Yui Yuen Michael, an independent non-executive Director, has entered into a service contract with the Company for a term of three years commencing from 1 September 2018 and subject to termination by either party upon giving no less than one month's prior written notice to the other party.

As at 31 December 2018, none of the Directors had a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under "RELATED PARTY TRANSACTIONS" below, none of the Company or any of its subsidiaries had entered into any contract of significance in which a Director had a material interest, whether directly or indirectly, as at the end of the year or at any time during the year.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into by the Company or existed during the year.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board confirmed that it has received from each of the independent non-executive Directors an annual written confirmation of his or her independence and considered, based on the confirmations received, pursuant to Rule 3.13 of the Listing Rules, the independent non-executive Directors remained independent during the year.

REMUNERATION POLICY

The Directors and senior management of the Company receive compensation in the form of fees, salaries, allowances, benefits in kind or discretionary bonuses relating to the performance of the Group. The Group also reimburses the Directors and senior management for expenses which are necessarily and reasonably incurred for providing services to the Group or discharging their duties in relation to the operation of the Group. When reviewing and determining the specific remuneration packages for the executive Directors and senior management, the remuneration committee of the Company ("Remuneration Committee") takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment elsewhere in the Group and desirability of performance-based remuneration.

Details of the remuneration of the Directors are set out in Note 41 to the consolidated financial statements.

Details of the remuneration of the five highest paid individuals are set out in Note 9 to consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Long Positions in the Shares of the Company (the "Shares"):

Name of Director	Capacity/ Nature of Interest	Number of Shares held	Number of underlying Shares held	Approximate percentage of the Company's total issued share capital
Mr. Zhang Yingcen ("Mr. Zhang")	Beneficial owner (Note 1)	—	181,689,608	18.36%
	Interest of controlled corporation (Notes 2 and 3)	534,899,300	545,068,824	109.13%
	Interest of spouse (Note 4)	5,722,500	181,689,608	18.94%
Mr. Xian Zhenyuan ("Mr. Xian")	Beneficial owner (Note 5)	—	9,000,000	0.91%
	Interest of controlled corporation (Note 6)	12,829,500	—	1.30%
Mr. Feng Yi	Beneficial owner (Note 7)	—	3,000,000	0.30%
Ms. Li Tao	Beneficial owner (Note 8)	—	3,000,000	0.30%

DIRECTORS' REPORT

Notes:

1. On 27 March 2015, (i) Mr. Zhang, Ms. Sun Yanxi ("Ms. Sun") and Mr. Zhang Daoyuan, as sponsors (collectively, the "Sponsors"); (ii) Chequers Development Limited, Gold Shine Development Limited and Tian Lun Group Limited (formerly known as Fortune Hill Group Limited) as special purpose vehicles owned directly and/or indirectly by one or more Sponsors (those special purpose vehicles, together with the Sponsors, the "Grantors"); and (iii) International Finance Corporation ("IFC") and IFC Global Infrastructure Fund, LP ("IFC Fund", "IFC" and "IFC Fund" collectively, the "Investors") entered into a sponsors' agreement (the "Sponsors' Agreement"), pursuant to which the Grantors have, inter alia, granted the Put Option (as defined in the circular of the Company dated 21 April 2015) to IFC and IFC Fund.

   The Grantors assume joint and several obligations to purchase the Put Shares (as defined in the circular of the Company dated 21 April 2015). Accordingly, assuming the Investors elect to exercise the Put Option (as defined in the circular of the Company dated 21 April 2015) in full against Mr. Zhang only, Mr. Zhang is obliged to purchase the Put Shares, being 181,689,608 Shares.

2. Gold Shine Development Limited is interested in 471,171,300 Shares through its wholly-owned subsidiary, namely Tian Lun Group Limited. The entire issued share capital of Gold Shine Development Limited is owned as to 60% by Mr. Zhang. Therefore, Mr. Zhang is deemed or taken to be interested in all the Shares and underlying Shares held by Tian Lun Group Limited for the purposes of the SFO.

   Mr. Zhang wholly-owns Chequers Development Limited, which is interested in 63,728,000 Shares. Therefore, Mr. Zhang is also deemed or taken to be interested in all the Shares and underlying Shares held by Chequers Development Limited for the purposes of the SFO.

   Mr. Zhang is the director of Gold Shine Development Limited, Tian Lun Group Limited and Chequers Development Limited.

3. The Grantors assume joint and several obligations to purchase the Put Shares under the Sponsors' Agreement. Accordingly, assuming the Investors elect to exercise the Put Option in full against the Sponsors' SPVs (as defined in the circular of the Company dated 21 April 2015) only, the Sponsors' SPVs, as a group, is obliged to purchase the Put Shares, being 181,689,608 Shares. Such underlying 545,068,824 Shares represent the aggregation of the maximum number of the Put Shares that may be put by the Investors to each of the Sponsors' SPVs in such circumstances.

4. Ms. Sun the spouse of Mr. Zhang holds 5,722,500 Shares through her individual security account. Therefore, Mr. Zhang is deemed or taken to be interested in all the Shares held by Ms. Sun for the purpose of the SFO.

   The Grantors assume joint and several obligations to purchase the Put Shares under the Sponsors' Agreement. Accordingly, assuming the Investors elect to exercise the Put Option in full against Ms. Sun only, Ms. Sun is obliged to purchase the Put Shares, being 181,689,608 Shares.

5. These 9,000,000 underlying Shares represent the 9,000,000 Shares which may be allotted and issued to Mr. Xian Zhenyuan upon full exercise of the share options granted to him under the share option scheme of the Company effective on 13 October 2010 (each share option granted under the share option scheme is referred to as "Share Option" and each Share Option shall entitle the holder thereof to subscribe for one Share).

6. Mr. Xian beneficially owns 90.0% of the issued share capital of Pleasant New Limited, which in turn owns 12,829,500 Shares. Therefore, Mr. Xian is deemed or taken to be interested in all the Shares held by Pleasant New Limited for the purposes of the SFO. Mr. Xian is the sole director of Pleasant New Limited.

7. These 3,000,000 underlying Shares represent the 3,000,000 Shares which may be allotted and issued to Mr. Feng Yi upon full exercise of the Share Options granted to him on 17 July 2017.

8. These 3,000,000 underlying Shares represent the 3,000,000 Shares which may be allotted and issued to Ms. Li Tao upon full exercise of the Share Options granted to her on 17 July 2017.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, the underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" above and the section headed "Share Option Scheme" below, at no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTEREST AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to the Directors, as at 31 December 2018, as recorded in the register required to be kept by the Company under Section 336 of the SFO, the following persons (except the Directors and chief executives of the Company) had interests or short positions in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity/Nature of Interest	Number of Shares held	Number of underlying Shares held	Approximate percentage of issued share capital of the Company
Tian Lun Group Limited (Notes 1, 2 and 3)	Beneficial owner	471,171,300	181,689,608	65.97%
Gold Shine Development Limited (Notes 1, 2 and 4)	Beneficial owner	—	181,689,608	18.36%
	Interest of controlled corporation	471,171,300	181,689,608	65.97%
Chequers Development Limited (Notes 2 and 5)	Beneficial owner	63,728,000	181,689,608	24.80%
Ms. Sun Yanxi (Notes 2 and 6) ("Ms. Sun")	Beneficial interest	5,722,500	181,689,608	18.94%
	Interest of spouse	534,899,300	726,758,432	127.49%
Zhang Daoyuan (Notes 2 and 7)	Beneficial interest	—	181,689,608	18.36%
IFC Asset Management Company, LLC (Note 8)	Investment manager	90,844,804	—	9.18%
IFC Fund (Note 8)	Beneficial owner	90,844,804	—	9.18%
IFC (Note 8)	Interest of controlled corporation	90,844,804	—	9.18%
Mr. Koo Yuen Kim	Beneficial owner	69,280,759	—	7.00%

Notes:

(1) The entire issued share capital of Tian Lun Group Limited is held by Gold Shine Development Limited. Tian Lun Group Limited owns 471,171,300 Shares. Therefore, Gold Shine Development Limited is deemed or taken to be interested in all the Shares and underlying Shares held by Tian Lun Group Limited for the purposes of the SFO.

(2) The Grantors assume joint and several obligations to purchase the Put Shares under the Sponsors' Agreement.

(3) Such 181,689,608 underlying Shares represent the maximum number of the Put Shares that may be put by the Investors to Tian Lun Group Limited under the Sponsors' Agreement.

(4) Such 181,689,608 underlying Shares represent the maximum number of the Put Shares that may be put by the Investors to Gold Shine Development Limited under the Sponsors' Agreement.

(5) Such 181,689,608 underlying Shares represent the maximum number of the Put Shares that may be put by the Investors to Chequers Development Limited under the Sponsors' Agreement.

(6) Gold Shine Development Limited is owned as to 60% by Mr. Zhang. Together with Notes (1), (3) and (4) above, Mr. Zhang is deemed or taken to be interested in all the Shares and the underlying Shares held by Tian Lun Group Limited for the purposes of the SFO.

Chequers Development Limited is wholly-owned by Mr. Zhang and owns 63,728,000 Shares. Together with Note (5) above, Mr. Zhang is also deemed or taken to be interested in all the Shares and underlying Shares held by Chequers Development Limited for the purposes of the SFO.

Mr. Zhang may be obliged to purchase the 181,689,608 underlying Shares, representing the maximum number of the Put Shares that may be put by the Investors to Mr. Zhang under the Sponsors' Agreement.

Ms. Sun is the spouse of Mr. Zhang, and therefore Ms. Sun is deemed or taken to be interested in all the Shares and the underlying Shares in which Mr. Zhang is interested and may be obliged to purchase respectively for the purpose of the SFO.

Ms. Sun holds 5,722,500 Shares through her individual security account and may be obliged to purchase the 181,689,608 underlying Shares, representing the maximum number of the Put Shares that may be put by the Investors to Ms. Sun under the Sponsors' Agreement.

(7) Such 181,689,608 underlying Shares represent the maximum number of the Put Shares that may be put by the Investors to Mr. Zhang Daoyuan under the Sponsors' Agreement.

(8) These 90,844,804 Shares are held by IFC Fund, which is owned as to 100% by IFC. IFC also owns the entire issued share capital of IFC Asset Management Company, LLC. IFC is deemed or taken to be interested in all the Shares held by IFC Fund for the purposes of the SFO.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any interests or short positions in the Shares, underlying shares, debentures of the Company which falls to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

In order to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group, the Company conditionally adopted a share option scheme (the "Scheme") on 13 October 2010 whereby the Board was authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe for the Shares to, inter alia, any employees (full-time or part-time), directors, consultants, advisers, major shareholders, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group. The Scheme became unconditional on 10 November 2010 and shall be valid and effective for a period of ten years commencing on 13 October 2010, subject to the early termination provisions contained in the Scheme. An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made.

The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00. The exercise price of a Share in respect of any particular option granted under the Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

The Company shall be entitled to issue options, provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Scheme does not exceed 10.0% of the Shares in issue on the date of approval of the Scheme. The Company may at any time refresh such limit, subject to the Shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the Shares in issue at the time. The total number of Securities available for issue under the Scheme as at the date of this report was 14,800,000 options which represented 8% of the issued share capital of the Company as at the date of this annual report. The total number of Shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1.0% of the Shares in issue.

An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

On 18 July 2017, the Company granted a total of 15,000,000 share options to three executive Directors of the Company to subscribe for a total of 15,000,000 ordinary shares of HK$0.01 each in accordance with the share option scheme adopted on 13 October 2010. On 12 July 2018, the Company granted a total of 30,000,000 ordinary shares of nominal value of HK$0.01 each in the share capital of the Company. For details, please refer to the announcements of the Company dated 18 July 2017 and 12 July 2018 respectively.

DIRECTORS' REPORT

The following table discloses the movements in the Company's share options during the year ended 31 December 2018:

Grantees	As at 1 January 2018	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding as at 31 December 2018	Date of grant	Exerciseable period	Exercise price
Xian Zhenyuan	2,000,000	—	—	(2,000,000)	—	27 January 2014	27 January 2017 - 26 January 2018	HK$7.142
	—	3,000,000	—	—	3,000,000	18 July 2017	18 July 2018 - 17 July 2019	HK$4.97
	—	3,000,000	—	—	3,000,000	18 July 2017	18 July 2019 - 17 July 2020	HK$4.97
	—	3,000,000	—	—	3,000,000	18 July 2017	18 July 2020 - 17 July 2021	HK$4.97
Feng Yi	300,000	—	—	(300,000)	—	27 January 2014	27 January 2017 - 26 January 2018	HK$7.142
	—	1,000,000	—	—	1,000,000	18 July 2017	18 July 2018 - 17 July 2019	HK$4.97
	—	1,000,000	—	—	1,000,000	18 July 2017	18 July 2019 - 17 July 2020	HK$4.97
	—	1,000,000	—	—	1,000,000	18 July 2017	18 July 2020 - 17 July 2021	HK$4.97
Sun Heng (resigned on 28 March 2018)	300,000	—	—	(300,000)	—	27 January 2014	27 January 2017 - 26 January 2018	HK$7.142
Li Tao	300,000	—	—	(300,000)	—	27 January 2014	27 January 2017 - 26 January 2018	HK$7.142
	—	1,000,000	—	—	1,000,000	18 July 2017	18 July 2018 - 17 July 2019	HK$4.97
	—	1,000,000	—	—	1,000,000	18 July 2017	18 July 2019 - 17 July 2020	HK$4.97
	—	1,000,000	—	—	1,000,000	18 July 2017	18 July 2020 - 17 July 2021	HK$4.97
Other employees	6,350,000	—	—	(6,350,000)	—	27 January 2014	27 January 2017 - 26 January 2018	HK$7.142
	—	6,000,000	—	—	6,000,000	12 July 2018	12 July 2019 - 11 July 2020	HK$9.12
	—	6,000,000	—	—	6,000,000	12 July 2018	12 July 2020 - 11 July 2021	HK$9.12
	—	6,000,000	—	—	6,000,000	12 July 2018	12 July 2021 - 11 July 2022	HK$9.12
	—	6,000,000	—	—	6,000,000	12 July 2018	12 July 2022 - 11 July 2023	HK$9.12
	—	6,000,000	—	—	6,000,000	12 July 2018	12 July 2023 - 11 July 2024	HK$9.12
Total	9,250,000	45,000,000	—	(9,250,000)	45,000,000			

RELATED PARTY TRANSACTIONS

The material related party transactions entered into by the Company and subsisting during the year ended 31 December 2018 are set out in Note 38 to the consolidated financial statements. Such related party transactions do not fall under the definition of "connected transaction" or "continuity connected transaction" under Chapter 14A of the Listing Rules and the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

MATERIAL ACQUISITIONS, DISPOSAL AND SIGNIFICANT INVESTMENTS

Save as disclosed in this annual report, during the year ended 31 December 2018 and as at the date of this annual report, the Group had no material acquisition, disposal or significant investments.

PERMITTED INDEMNITY PROVISION

The articles of association of the Company provides that every Director shall be entitled to be of the Company indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Company has adopted and maintained appropriate insurance to provide protection for possible legal action against its directors.

MAJOR CUSTOMERS AND SUPPLIERS

In 2018, sales to the five largest customers of the Group accounted for approximately 15.68% of the turnover of the Group, in which sales to the largest customer accounted for approximately 6.66%, while purchases from the five largest suppliers of the Group accounted for approximately 40.45% of the purchases of the Group in which purchases from the largest supplier accounted for approximately 25.24%. To the best of the Board's knowledge having made all enquiries with all Directors, neither the Directors, their close associates (as defined in the Listing Rules), nor any Shareholders owning more than 5% of the Company's issued share capital had any beneficial interests in the Group's five largest customers or suppliers during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2018, none of the Company or any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

PRE-EMPTIVE RIGHTS

There are no relevant provisions for pre-emptive rights in the Company's articles of association or the laws of Cayman Islands.

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, the public float of the Company is not less than 25% as prescribed under the Listing Rules.

CORPORATE GOVERNANCE

The Company has implemented the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules. The Company has been in compliance with the CG Code throughout the year ended 31 December 2018.

AUDITOR

The Company has appointed PricewaterhouseCoopers as auditor of the Company for the year ended 31 December 2018. A resolution will be proposed in the forthcoming annual general meeting of the Company for the re-appointment of PricewaterhouseCoopers as the Company's auditor.

For and on behalf of the Board of
China Tian Lun Gas Holdings Limited
Chairman
Zhang Yingcen

29 March 2019

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The Company recognises the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the confidence of Shareholders and the public. The Board strives to adhere to the principles of corporate governance and adopt sound corporate governance practices to meet the legal and commercial standards by focusing on areas such as internal control, fair disclosure and accountability to all Shareholders.

The Company has adopted and complied with all code provisions set out in the CG Code contained in Appendix 14 to the Listing Rules during the year from 1 January 2018 to 31 December 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code of conduct regarding securities transactions by the Directors. Upon specific enquiries of all Directors of the Company, each of them confirmed that they strictly complied with the required standards set out in the Model Code during the Reporting Period.

BOARD OF DIRECTORS

Members of the Board of Directors

As at the date of this annual report, the Board of the Company comprised (i) Mr. Zhang Yingcen (Chairman), Mr. Xian Zhenyuan, Mr. Zhang Suwei, Mr. Feng Yi and Ms. Li Tao as executive Directors; (ii) Mr. Wang Jiansheng as non-executive Director and (iii) Mr. Liu Jin, Mr. Li Liuqing, Mr. Yeung Yui Yuen Michael and Ms. Zhao Jun as independent non-executive Directors. The biographies of all the Directors are set out in the section headed "Directors and Senior Management" in this annual report. All executive Directors of the Company have sufficient experiences for their positions to effectively carry out their duties.

In compliance with Rule 3.10 and 3.10A of the Listing Rules, the Company has appointed four independent non-executive Directors and at least one of them has accounting expertise to assist the management in formulating development strategies of the Group, and to ensure that the preparation of the financial reports and other mandatory reports by the Board are in strict adherence to appropriate systems in order to protect the interests of the Shareholders and the Company. Each independent Director has confirmed in accordance with the guidelines specified in Rule 3.13 of the Listing Rules that they are independent of the Company, and the Company considers that they were independent in accordance with the Listing Rules as at the date of this annual report.

There are no relationships (including financial, business, family or other material/relevant relationship) among the members of the Board, and in particular, between the chairman of the Board and the chief executive of the Company.

CORPORATE GOVERNANCE DUTIES

The Board is responsible for performing the corporate governance duties as set out in revised code provision D.3.1 of the CG Code. During the year ended 31 December 2018, the Board had reviewed and discussed the corporate governance policy of the Group and was satisfied with the effectiveness of the corporate governance policy of the Group.

RESPONSIBILITIES OF DIRECTORS AND PROFESSIONAL DEVELOPMENT

All appointed Directors received comprehensive, formal training on the first occasion of their appointments and were ensured to have a proper understanding of the businesses and development of the Group and that they were fully aware of their responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company. To facilitate the Directors to discharge their responsibilities, they are continuously updated with regulatory developments, business and market changes and the strategic development of the Group. All Directors, namely Mr. Zhang Yingcen, Mr. Xian Zhenyuan, Mr. Zhang Suwei, Mr. Feng Yi, Mr. Sun Heng, Ms. Li Tao, Mr. Wang Jiansheng, Mr. Liu Jin, Ms. Zhao Jun, Mr. Yeung Yui Yuen Michael and Mr. Li Liuqing, have participated in a training course on the PRC Company Law organized by the PRC legal adviser to the Company, to develop and refresh their knowledge and skills and provided their training records for the financial year ended 31 December 2018 to the Company.

SUPPLY OF AND ACCESS TO INFORMATION

In respect of regular Board meetings, and so far as practicable in all other cases, an agenda accompanied by the relevant Board papers are sent to all Directors in a timely manner and at least three days before the specified date of a Board meeting. All Directors are entitled to have access to Board papers, Board minutes and related materials.

THE OPERATION OF THE BOARD

The Board supervises the management of the business and affairs of the Company. The Board's primary duty is to ensure the viability of the Company and to ensure that it is managed in the best interests of the Shareholders as a whole while taking into account the interests of other stakeholders. The Group has adopted internal guidelines in setting forth matters that require the Board's approval. Apart from its statutory responsibilities, the Board is also responsible for making decisions of formulating the development targets and strategies, material acquisitions and disposals, material capital investment, dividend policies, the appointment and removal of directors and senior management, remuneration policies and other major operation and financial issues of the Company. The powers and duties of the Board include convening Shareholders' meetings and reporting the Board's work at Shareholders' meetings, implementing resolutions passed at Shareholders' meetings, determining business plans and investment plans, formulating annual budget and final accounts, formulating proposals for profit distributions and for the increase or reduction of registered capital as well as exercising other powers, functions and duties as conferred by the memorandum and articles of association of the Company. The daily business operations and administrative functions of the Group are delegated to the management.

Code provision A.1.1 of the CG Code stipulates that the Board shall convene meetings regularly with at least four board meetings every year (approximately once a quarter).

The Board held 12 meetings during the year ended 31 December 2018.

The attendance of the Directors at the Board meetings is as follows:

Directors	**Attendance/Board Meetings Held**
Executive Directors	
Mr. Zhang Yingcen *(Chairman)*	10/12
Mr. Xian Zhenyuan	12/12
Mr. Zhang Suwei (appointed on 26 March 2018)	8/12
Mr. Feng Yi	11/12
Mr. Sun Heng (resigned on 26 March 2018)	1/12
Ms. Li Tao	11/12
Non-executive Director	
Mr. Wang Jiansheng	10/12
Independent non-executive Directors	
Mr. Liu Jin (appointed on 28 May 2018)	8/12
Ms. Zhao Jun	11/12
Mr. Yeung Yui Yuen Michael	12/12
Mr. Li Liuqing	12/12

In general, the notices of meetings of the Board are sent to all Directors through email and fax before the dates of meetings. In order to enable the Directors to consider the issues to be approved in the meetings with adequate time, the notices of regular Board meetings will be sent to all Directors at least 14 days prior to the convening of the meeting while prior notification of the convening of ad hoc Board meetings will be made to Directors in due course. In order to provide all Directors with a full picture of the latest operating conditions of the Company, the management representatives of the Company will report the latest operating conditions of the Company and the implementation of the issues resolved in the last Board meeting to all the Directors before the convening of the meeting.

COMMITTEES UNDER THE BOARD

The Audit Committee, the Remuneration Committee and the nomination committee (the “Nomination Committee”) were established under the Board. These committees perform supervision and control of the Company based on their written terms of reference.

Audit Committee

The primary duties of the Audit Committee are to make recommendations on the appointment, re-appointment and removal of external auditor, to review financial statements and making recommendations on the financial reporting, and to review and supervise the financial reporting and internal control procedures of the Group. The Audit Committee consists of three independent non-executive Directors, namely, Mr. Li Liuqing, Mr. Yeung Yui Yuen Michael and Ms. Zhao Jun. Mr. Li Liuqing is the chairman of the Audit Committee and has the appropriate professional qualifications. The Audit Committee shall meet at least twice a year.

The Audit Committee had reviewed the Group’s internal control during the financial year ended 31 December 2018. The Group’s final results for the year ended 31 December 2018 had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee had also reviewed this annual report, and confirmed that this annual report is complete and accurate, and complies with all relevant rules and regulations, including but not limited to the Listing Rules. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditor. The Audit Committee held 2 meetings during the year ended 31 December 2018.

The attendance of the members of the Audit Committee at the committee meetings is as follows:

Member	Attendance/Committee Meetings held
Mr. Li Liuqing *(Chairman)*	2/2
Mr. Yeung Yui Yuen Michael	2/2
Ms. Zhao Jun	2/2

Nomination Committee

The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of Directors and management of the Board's succession, to ensure that the candidates to be nominated as Directors are experienced, high caliber individuals. The Nomination Committee consists of two independent non-executive Directors, namely, Mr. Yeung Yui Yuen Michael and Ms. Zhao Jun, and Mr. Zhang Yingcen, an executive Director and the chairman of the Board, who is also the chairman of the Nomination Committee.

The Nomination Committee shall meet at least once every year.

The Nomination Committee held one meeting during the year ended 31 December 2018 for reviewing the structure of the Board, size and composition of the Board, assessing the independence of the independent non-executive Directors and other related matters.

The attendance of the members of the Nomination Committee at the committee meetings is as follows:

Member	Attendance/Board Meetings Held
Mr. Zhang Yingcen *(Chairman)*	1/1
Mr. Yeung Yui Yuen Michael	1/1
Ms. Zhao Jun	1/1

Board Diversity Policy

The Stock Exchange introduced certain amendments to the CG Code set out in Appendix 14 to the Listing Rules which are effective from 1 January 2019 in relation to the Board diversity. In order to achieve the diversity of members of the Board, the Board will take into account a number of factors including gender, age, ethnicity, language, cultural and educational background, industry experience, professional experience, skills and length of service. The terms of reference of the Nomination Committee had been amended to set out its responsibility for overseeing the implementation of the Board diversity policy.

The Group has adopted the policy on Board diversity which is summarized as follows:

(1) Election of members of the Board shall be based on a series of diversified bases, including but not limited to gender, age, ethnicity, language, cultural and educational background, industry experience, professional experience, skills, knowledge and length of service; and

(2) The Nomination Committee will monitor the implementation of the Board diversity policy in order to ensure that the policy produces desirable results.

Nomination Policy

The Board has adopted the "Nomination Policy" on 1 January 2019 in relation to the nomination, appointment, re-appointment of new Directors and the nomination procedure of the Company, which provides that in evaluating and selecting any candidate for directorship, the Nomination Committee shall consider the candidates' character and integrity, skills, experience and professional expertise, diversity on the Board, independence, willingness to devote adequate time to discharge duties as a Board member and such other criteria that are appropriate to the business of the Company.

Remuneration Committee

The primary duties of the Remuneration Committee include (i) reviewing the terms of the remuneration package of each Director and member of senior management, and making recommendations to the Board regarding any adjustment thereof; and (ii) reviewing and evaluating the performance of individual executive Directors for determining the amount of bonus (if any) payable to them.

The Remuneration Committee comprises two independent non-executive Directors, namely Ms. Zhao Jun and Mr. Yeung Yui Yuen Michael, and one executive Director, namely Mr. Zhang Yingcen. Ms. Zhao Jun is the Chairlady of the Remuneration Committee. The Remuneration Committee shall meet at least once every year for reviewing the remuneration policies.

The Remuneration Committee held one meeting during the year ended 31 December 2018.

The attendance of the members of the Remuneration Committee at the committee meetings is as follows:

Member	Attendance/Committee Meetings held
Ms. Zhao Jun *(Chairlady)*	1/1
Mr. Zhang Yingcen	1/1
Mr. Yeung Yui Yuen Michael	1/1

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of Mr. Zhang Yingcen, Mr. Xian Zhenyuan, Mr. Feng Yi, and Ms. Li Tao, all being the executive Directors had entered into a service contract with the Company for an initial term of two years commencing from 26 March 2018 and subject to termination by either party upon giving no less than one month' prior written notice to the other party. Mr. Zhang Suwei, an independent non-executive Director, has entered into a service contract with the Company for a term of three years commencing from 26 March 2018 and subject to termination by either party upon giving no less than one month's prior written notice to the other party.

Mr. Wang Jiansheng, a non-executive Director, had entered into a service contract with the Company for a term of three years commencing from 21 September 2018 and subject to termination by either party upon giving no less than one month's prior written notice to the other party.

Mr. Li Liuqing and Ms. Zhao Jun, independent non-executive Directors, had entered into a service contract with the Company for a term of three years commencing from 10 November 2018 and subject to termination by either party upon giving no less than one month's prior written notice to the other party. Mr. Liu Jin, an independent non-executive Director, has entered into a service contract with the Company for a term of three years commencing from 28 May 2018 and subject to termination by either party upon giving no less than three months' prior written notice to the other party. Mr. Yeung Yui Yuen Michael, an independent non-executive Director, has entered into a service contract with the Company for a term of three years commencing from 1 September 2018 and subject to termination by either party upon giving no less than one month's prior written notice to the other party.

In accordance with Article 108(a) of the Articles of Association, at each annual general meeting, at least one third of the Directors shall retire from office by rotation. Each Director shall retire at least once every three years and such Directors shall include those who have assumed the longest term of office since their last appointment or re-election.

GENERAL MEETINGS

For the period from 1 January 2018 to 31 December 2018, the Board held one general meeting on 28 May 2018. The attendance record of the Directors is as follows:

Directors	Attendance/General Meetings held
Executive Directors	
Mr. Zhang Yingcen *(Chairman)*	–/1
Mr. Xian Zhenyuan	1/1
Mr. Zhang Suwei	1/1
Mr. Feng Yi	–/1
Mr. Sun Heng (resigned on 26 March 2018)	–/1
Ms. Li Tao	1/1
Non-executive Director	
Mr. Wang Jiansheng	–/1
Independent non-executive Directors	
Mr. Liu Jin (appointed on 28 May 2018)	–/1
Mr. Li Liuqing	–/1
Mr. Yeung Yui Yuen Michael	1/1
Ms. Zhao Jun	–/1

The Company's external auditor attended the general meeting held on 28 May 2018.

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

All Directors acknowledge their responsibility for preparing the accounts and the financial statements for the year ended 31 December 2018.

The auditor to the Company acknowledges its reporting responsibilities in the auditor's report on the financial statements for the year ended 31 December 2018. The Directors are not aware of any material uncertainties relating to events or conditions that may raise significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing financial statements.

DIVIDEND POLICY

The Board has adopted the "Dividend Policy" on 1 January 2019 in recommending dividends, to allow the Shareholders to participate in the Company's profits and enable the Company to retain adequate reserves for future growth, which provides that subject to the approval of the Shareholders and requirement of the relevant law, the Company shall pay annual dividends to the Shareholders if the Group is profitable, operations environment is stable and there is no significant investment or commitment made by the Group.

The proposed dividend payout shall be determined with reference to the Group's actual and expected financial performance, the Group's expected working capital requirements and future expansion plans, the Group's debt to equity ratios, any restrictions on payment of dividends that may be imposed by the Group's lenders, general economic conditions, business cycle of the

Group's business, dividends received from the Company's subsidiaries and associates, the Shareholders' and investors' expectation and any other factors that the Board deems relevant. The Board may from time to time pay to the Shareholders such interim dividends as appear to the Directors to be justified by the profits of the Group.

AUDITOR'S REMUNERATION

For the year ended 31 December 2018, the Group's audit expenses amounted to RMB3,400,000. There were no significant non-audit service assignments performed by the auditor of the Group.

INTERNAL CONTROL

The Board is responsible for maintaining operation of the effective internal control system of the Group. The Board performs annual review of the effectiveness of all material controls of the internal control system, including financial supervision, operating supervision, compliance supervision and risk management system through the Audit Committee. Internal review personnel are responsible for assisting the Audit Committee in reviewing the effectiveness of the internal control system. Internal review personnel perform internal review and other relevant review regularly. They report the review results to the Audit Committee and provide the members of the committee with advice to optimize internal control for the Audit Committee's consideration. During the year, internal review personnel mainly reviewed the major risk management systems based on the internal control advice in the report formulated by external audit institutions, and reported the review results to the Board. With the support of the Board, the internal review personnel carried out improvement for the operation of the Group. The Board had conducted a review of the effectiveness of the internal control system of the Group during the year ended 31 December 2018.

PROCEDURES FOR CONVENING AN EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS

Pursuant to Article 64 of the articles of association of the Company, extraordinary general meetings shall be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, no less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Pursuant to Article 72 of the Articles of Association, the number of Shareholders necessary for putting forward a proposal at a Shareholders' meetings is as follows:

(i). at least 2 Shareholders entitled to vote at any general meeting; or

(ii). any Shareholder or Shareholders representing no less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the general meeting; or

(iii). any Shareholder or Shareholders holding Shares conferring a right to vote at the general meeting being Shares on which an aggregate sum has been paid up equal to no less than one-tenth of the total sum paid up on all the Shares conferring that right.

Pursuant to Article 113 of the Articles of Association, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

The procedures for Shareholders to propose a person for election as a Director are posted on the website of the Company.

INVESTOR RELATIONS

The Group has already set up the Investor Relations Department to be responsible for investor relations management work and established various channels for the communication with investor, including direct line and mail so as to ensure smooth communication between the Company and investors. In addition, in order to provide a full picture of the business development and prospects of the Company to the media, securities analysts, fund managers and investors, the Company held telephone conferences and luncheons for them, organized visits to the Company from time to time and answered their inquires in a timely manner.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavors to maintain an on-going dialogue with its Shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation. The Company will ensure that there are separate resolutions for separate issues proposed at the general meetings. The Company will continue to maintain an open and effective investor communication policy and to update investors on relevant information on the Group's business in a timely manner, subject to relevant regulatory requirement.

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may at any time put their enquiries to the Board in writing to the Company whose contact details are as follows:

China Tian Lun Gas Holdings Limited
4th Floor, Tian Lun Group Building
No.6 Huang He East Road
Zheng Dong Xin District
Zhengzhou City
Henan Province, the PRC
Email: hk@tianlungas.com
Telephone and Fax No.: 86 371 6370 7151

MATERIAL CHANGES IN CONSTITUTIONAL DOCUMENTS

There were no material changes in the Company's constitutional documents during the year ended 31 December 2018.

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of China Tian Lun Gas Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of China Tian Lun Gas Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 64 to 193, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

羅兵咸永道

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition
- Goodwill impairment assessment

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition	
Refer to Note 5 (segment information) of the consolidated financial statements. During the year, the Group recognised revenue of approximately RMB5,113 million, majority of which was related to sales of gas, engineering design and construction and gas pipelines connections. In relation to sales of gas, significant effort was spent auditing the revenue recognised due to the large volume of transactions. The sales price was controlled by the PRC regulators, and sales volume was determined by reading meters at the period end. The revenue was highly dispersed and derived from a large number of customers in residential, vehicles, commercial and industrial sectors.	Our procedures in relation to the recognition of revenue derived from sales of gas included: • Testing the design and operating effectiveness of key controls; • Testing, on targeting and sampling basis, the transaction records that revenue was recognised to the underlying documents, such as invoices and meter reading records, and evidence of cash receipts; and • Assessing if any unreasonable difference by comparing the total gas sales volume per management with the total gas purchase volume per suppliers during the reporting period.

羅兵咸永道

KEY AUDIT MATTERS *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition *(continued)*	
In relation to revenue derived from engineering design and construction and gas pipelines connections, it was recognised according to the progress towards complete satisfaction of that performance obligation of the related contracts. Revenue was measured with reference to estimates of the contract costs incurred to date and the total estimated contract costs, which involved management judgement.	Our procedures in relation to the recognition of revenue derived from engineering design and construction and gas pipelines connections included: • Testing the design and operating effectiveness of key controls; • Testing, on targeting and sampling basis, the total contract revenue by examining the contracts with customers and invoices; • Testing, on targeting and sampling basis, the amount of contract cost incurred to date and total estimated contract cost to the underlying documents, such as the approved budgeted contract cost, delivery notes of raw materials and invoices and billings from sub-contractors, and assessing the accuracy of the progress towards complete satisfaction of that performance obligation, and if any over-run of the related contracts; and • Assessing if gross profit margins of the related engineering design and construction and gas pipelines connections contracts fell into a reasonable range by benchmarking against the actual results of similar contracts of the Group that had been completed. We found the revenue recorded during the year were supported by the evidence we obtained.

羅兵咸永道

KEY AUDIT MATTERS *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment	
Refer to Note 4 (a) (Critical accounting estimates and judgements) and Note 17 (Intangible assets) of the consolidated financial statements. As at 31 December 2018, the Group had recorded goodwill of approximately RMB1,999 million. We focused on it because the amount is significant and critical judgement was used by management to assess whether goodwill was impaired or not. Goodwill was allocated to each respective legal entity acquired by the Group, which was referred as a cash generating unit ("CGU"), and the recoverable amount of each CGU was determined by management based on value-in-use calculations using cash flow projections. In carrying out the impairment assessments, significant management judgement was used to appropriately identify CGUs and to determine the underlying key assumptions, including operating margins, revenue growth rates and discount rates, being applied in the value-in-use calculations. Management has concluded that there is no impairment in respect of the goodwill.	Our procedures in relation to management's goodwill impairment assessment included: • Assessing management's identification of CGUs based on how independent cash flows are generated and our understanding of the Group's businesses; • Assessing the value-in-use calculations and the methodology adopted by management; • Comparing the current year actual cash flows with the prior year cash flow projections to consider if the projections included assumptions that were overly optimistic; • Assessing the reasonableness of key assumptions (including operating margins, revenue growth rates and discount rates) based on our understanding of the Group's businesses and benchmarking against the available industry data; and • Reconciling input data to supporting evidence, such as approved budgets and capital expenditure ("Capex"), considering the reasonableness of these budgets and Capex, and testing mathematical accuracy of the computation. We considered that the conclusion on management's goodwill impairment assessment was supported by the evidence we obtained.

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OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than 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 AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The audit committee is responsible for overseeing the Group's financial reporting process.

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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.

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

- 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 the audit committee 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 the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with the audit committee 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 the audit committee, 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 this independent auditor's report is Lam Siu Wing, Benny.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in Renminbi ("RMB") thousands unless otherwise stated)

	Notes	Year ended 31 December **2018** **RMB'000**	2017 RMB'000
Revenue	5	**5,113,254**	3,109,014
Cost of sales	8	**(3,685,038)**	(2,341,070)
Gross profit		**1,428,216**	767,944
Distribution expenses	8	**(41,350)**	(29,449)
Administrative expenses	8	**(166,917)**	(134,060)
Other income	6	**9,439**	27,115
Other gains — net	7	**3,731**	5,339
Operating profit		**1,233,119**	636,889
Finance income		**80,410**	47,280
Finance expenses		**(403,785)**	(131,701)
Finance expenses — net	10	**(323,375)**	(84,421)
Share of post-tax (loss)/profit of associates and a joint venture	11(b)	**(44,940)**	23,371
Profit before income tax		**864,804**	575,839
Income tax expense	12	**(264,444)**	(146,682)
Profit for the year		**600,360**	429,157
Profit attributable to:			
— Owners of the Company		**569,142**	404,250
— Non-controlling interests		**31,218**	24,907
		600,360	429,157
Other comprehensive income:			
Item that may be reclassified to profit or loss			
Changes in the fair value of available-for-sale financial assets	27	**—**	15,937
Item that will not be reclassified to profit or loss			
Changes in the fair value of equity investments at fair value through other comprehensive income	27	**13,065**	—
Other comprehensive income for the year, net of tax		**13,065**	15,937
Total comprehensive income for the year		**613,425**	445,094
Attributable to:			
— Owners of the Company		**582,207**	420,187
— Non-controlling interests		**31,218**	24,907
		613,425	445,094
Earnings per share for profit attributable to owners of the Company for the year (expressed in RMB per share)			
— Basic earnings per share	13	**0.58**	0.41
— Diluted earnings per share	13	**0.57**	0.41

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

(All amounts in RMB thousands unless otherwise stated)

	Notes	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Lease prepayments	14	**223,400**	223,872
Property, plant and equipment	15	**2,679,097**	2,353,795
Investment properties	16	**51,637**	30,827
Intangible assets	17	**3,786,504**	3,407,638
Investments accounted for using the equity method	11(b)	**856,835**	501,775
Deferred income tax assets	30	**33,692**	27,431
Financial assets at fair value through other comprehensive income	19	**78,815**	—
Available-for-sale financial assets	19	**—**	61,395
Trade and other receivables	20	**59,454**	69,661
Prepayments related to other non-current assets	21	**132,813**	81,705
		7,902,247	6,758,099
Current assets			
Inventories	22	**200,053**	46,625
Contract assets	5	**210,450**	—
Trade and other receivables	20	**1,462,265**	666,549
Financial assets at fair value through profit or loss	23(a)	**305,000**	300,000
Cash and cash equivalents	24	**1,075,907**	678,237
Restricted cash	24	**278,171**	22,739
		3,531,846	1,714,150
Total assets		**11,434,093**	8,472,249
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	25	**8,340**	8,340
Share premium	25	**1,188,151**	1,264,114
Reserves	27	**281,932**	153,526
Retained earnings	27	**1,771,445**	1,352,373
		3,249,868	2,778,353
Non-controlling interests		**293,901**	339,450
Total equity		**3,543,769**	3,117,803

CONSOLIDATED BALANCE SHEET

(All amounts in RMB thousands unless otherwise stated)

	Notes	As at 31 December 2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	29	**3,809,825**	2,898,385
Deferred income tax liabilities	30	**475,011**	419,881
Trade and other payables	28	**136,598**	136,598
Deferred income		**1,472**	1,472
		4,422,906	3,456,336
Current liabilities			
Trade and other payables	28	**1,244,770**	527,719
Contract liabilities	5	**374,851**	—
Dividend payables		**6,238**	—
Advances from customers	5	**—**	253,618
Current income tax liabilities		**233,336**	125,128
Borrowings	29	**1,608,223**	968,747
Financial liabilities at fair value through profit or loss	23(b)	**—**	22,898
		3,467,418	1,898,110
Total liabilities		**7,890,324**	5,354,446
Total equity and liabilities		**11,434,093**	8,472,249

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 64 to 193 were approved by the Board of Directors on 29 March 2019 and were signed on its behalf.

Mr. Zhang Yingcen
Director

Mr. Xian Zhenyuan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in RMB thousands unless otherwise stated)

	Attributable to owners of the Company						
	Share capital RMB'000 (Note 25)	Share premium RMB'000 (Note 25)	Reserves RMB'000 (Note 27)	Retained earnings RMB'000 (Note 27)	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017	8,340	1,264,114	78,416	1,080,332	2,431,202	320,507	2,751,709
Comprehensive income							
Profit for the year	—	—	—	404,250	404,250	24,907	429,157
Other comprehensive income							
Available-for-sale financial assets	—	—	15,937	—	15,937	—	15,937
Total comprehensive income	—	—	15,937	404,250	420,187	24,907	445,094
Transactions with owners							
Appropriation	—	—	54,580	(54,580)	—	—	—
Interim dividends paid (Note 31)	—	—	—	(77,629)	(77,629)	—	(77,629)
Dividends paid to non-controlling interests	—	—	—	—	—	(5,964)	(5,964)
Employee share option scheme:							
— Value of employee services	—	—	4,593	—	4,593	—	4,593
Total transactions with owners	—	—	59,173	(132,209)	(73,036)	(5,964)	(79,000)
Balance at 31 December 2017	8,340	1,264,114	153,526	1,352,373	2,778,353	339,450	3,117,803
Balance at 1 January 2018	8,340	1,264,114	153,526	1,352,373	2,778,353	339,450	3,117,803
Comprehensive income							
Profit for the year	—	—	—	569,142	569,142	31,218	600,360
Other comprehensive income							
Financial assets at fair value through other comprehensive income	—	—	13,065	—	13,065	—	13,065
Total comprehensive income	—	—	13,065	569,142	582,207	31,218	613,425
Transactions with owners							
Appropriation	—	—	150,070	(150,070)	—	—	—
Acquisition of additional interests of subsidiaries (Note 35)	—	—	(39,563)	—	(39,563)	(34,947)	(74,510)
Interim dividends paid (Note 31)	—	(75,963)	—	—	(75,963)	—	(75,963)
Dividends paid to non-controlling interests	—	—	—	—	—	(48,220)	(48,220)
Capital contribution from non-controlling interests	—	—	—	—	—	6,400	6,400
Employee share option scheme:							
— Value of employee services	—	—	4,834	—	4,834	—	4,834
Total transactions with owners	—	(75,963)	115,341	(150,070)	(110,692)	(76,767)	(187,459)
Balance at 31 December 2018	**8,340**	**1,188,151**	**281,932**	**1,771,445**	**3,249,868**	**293,901**	**3,543,769**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in RMB thousands unless otherwise stated)

		Year ended 31 December	
	Notes	**2018 RMB'000**	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	32(a)	**893,352**	809,917
Interest paid		**(279,150)**	(231,126)
Income tax paid		**(151,308)**	(136,842)
Net cash generated from operating activities		**462,894**	441,949
Cash flows from investing activities			
Purchases of property, plant and equipment and investment properties		**(320,046)**	(298,196)
Increase in lease prepayments		**(2,905)**	(6,508)
Proceeds from disposal of property, plant and equipment and lease prepayments	32(b)	**2,038**	25,415
Purchases of intangible assets		**(2,418)**	(2,975)
Purchases of available-for-sale financial assets		**—**	(400,000)
Purchases of financial assets at fair value through profit or loss		**(2,445,000)**	(300,000)
Investment income on financial assets at fair value through profit or loss		**30,509**	26,235
Proceeds from disposal of available-for-sale financial assets		**—**	420,000
Proceeds from disposal of financial assets at fair value through profit or loss		**2,440,000**	318,882
Dividend income from available-for-sale financial assets		**—**	17,587
Net cash outflow for the acquisition of subsidiaries	36	**(353,007)**	(379,756)
Net cash outflow on disposal of a subsidiary	37	**(1,837)**	—
Changes in restricted cash		**—**	10,113
Interest received		**55,197**	9,678
Prepayments related to share purchase agreements		**(28,291)**	(56,817)
Capital injection to a joint venture and associates		**(400,000)**	(206,600)
Loan to third parties		**(517,041)**	(280,000)
Settlement of cross currency swap		**(14,843)**	(5,365)
Repayment of loan from third parties		**517,041**	280,000
Net cash used in investing activities		**(1,040,603)**	(828,307)
Cash flows from financing activities			
Proceeds from borrowings	32(c)	**2,842,219**	1,619,880
Repayments of borrowings	32(c)	**(1,411,425)**	(1,207,253)
Dividends paid to owners of the Company	31	**(75,963)**	(77,629)
Capital injection from non-controlling interests		**6,400**	—
Changes in restricted cash		**(226,412)**	38,510
Acquisition of additional interests in subsidiaries		**(95,060)**	—
Dividends paid to non-controlling interests		**(41,982)**	(12,107)
Payments related to other financing activities		**—**	(36,881)
Net cash generated from financing activities		**997,777**	324,520
Net increase/(decrease) in cash and cash equivalents		**420,068**	(61,838)
Cash and cash equivalents at beginning of the year	24	**678,237**	755,390
Exchange losses on cash and cash equivalents		**(22,398)**	(15,315)
Cash and cash equivalents at end of the year	24	**1,075,907**	678,237

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

1. GENERAL INFORMATION OF THE GROUP

China Tian Lun Gas Holdings Limited (the "Company") was incorporated on 20 May 2010 in the Cayman Islands under the Companies Law (2010 Revision) of the Cayman Islands as an exempted company with limited liability. The Company is an investment holding company and was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 November 2010.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the engineering design and construction and gas pipelines connections by providing residential, commercial and industrial users with laying and installation and transportation, distribution and sales of gases including natural gas and compressed natural gas ("CNG") and production and sales of liquefied natural gas ("LNG") in bulk and in cylinders in certain cities of the People's Republic of China (the "PRC").

The address of the Company's registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

These consolidated financial statements have been approved for issue by the Board of Directors on 29 March 2019.

These consolidated financial statements are presented in RMB, unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

The consolidated financial statements have been prepared on a historical cost basis, as modified by the revaluation of financial assets at fair value through other comprehensive income and financial assets and liabilities at fair value through profit or loss (including derivative instruments), which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKAS 28 (amendments)	Investments in associates and joint ventures
HKAS 40 (amendments)	Transfers of investment property
HKFRS 2 (amendments)	Classification and Measurement of Share-based Payment Transactions
HK (IFRIC) — Interpretation 22	Foreign Currency Transactions and Advance Consideration
Annual improvement 2014-2016 cycle	Amendment to HKFRS 1 and HKAS 28

Except for impact of the adoption of HKFRS 15 and HKFRS 9 as described in Note 2.2, the adoption of these interpretation and amendments to the standards has no significant impact on the results and financial position of the Group.

2.1.2 New standards and interpretations not yet adopted by the Group

The following new standards and amendments to standards relevant to the Group's operations have been issued and are effective for the financial year beginning 1 January 2019 or after.

		Effective for accounting periods beginning on or after
HKFRS 16	Leases	1 January 2019
HK (IFRIC) — Interpretation 23	Uncertainty over Income Tax Treatments	1 January 2019
HKFRS 10 and HKAS 28 (amendments)	Sale or Contribution of assets between an investor and its associate or joint venture	To be determined
Annual Improvements to HKFRS Standards 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23	1 January 2019

The Group's assessment of the impact of these new standards is set out below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

2.1.2 New standards and interpretations not yet adopted by the Group (continued)

HKFRS 16, "Leases"

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RM7,521,000 (Note 34(b)). The Group estimates those related to payments for short-term and low value lease which will be recognised on straight-line basis as an expense in profit or loss are insignificant.

The Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

2.2.1 Impact on the financial statements

HKFRS 9 was generally adopted without restating comparative information; HKFRS 15 was adopted using the modified retrospective transition method. As a result, the reclassifications and adjustments arising from the adoption of new standards are therefore not reflected in the statement of financial position as at 31 December 2017. The following table shows the adjustments recognised for each individual line item at the date of initial application, 1 January 2018. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. There was no significant impact on retained earnings at 1 January 2018. The adjustments are explained in more detail by standard below.

Balance sheet	**Closing balance 31 December 2017** RMB'000	**HKFRS 15** RMB'000	**HKFRS 9** RMB'000	**Opening balance 1 January 2018** RMB'000
Non-current assets				
Financial assets at fair value through other comprehensive income	—	—	61,395	61,395
Available-for-sale financial assets	61,395	—	(61,395)	—
Total assets	**8,472,249**	**—**	**—**	**8,472,249**
Current liabilities				
Advances from customers	253,618	(253,618)	—	—
Contract liabilities	—	253,618	—	253,618
Total liabilities	5,354,446	—	—	5,354,446
Net assets	**3,117,803**	**—**	**—**	**3,117,803**
Total equity	**3,117,803**	**—**	**—**	**3,117,803**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Changes in accounting policies *(continued)*

2.2.2 HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Notes 2.13 and 2.15 below. In accordance with the transitional provisions in HKFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

There was no significant impact on the Group's retained earnings as at 1 January 2018. The main effects resulting from reclassification are as follows:

(i) Reclassification of financial instruments on adoption of HKFRS 9

		Available-for-sale financial assets	**Financial assets at fair value through other comprehensive income**
Financial assets — 1 January 2018	Notes	RMB'000	RMB'000
Closing balance 31 December 2017 — HKAS 39		**61,395**	**—**
Reclassify gas industry equity interest from available-for-sale financial assets to financial assets at fair value through other comprehensive income	(a)	(61,395)	61,395
Opening balance 1 January 2018 — HKFRS 9		**—**	**61,395**

Due to the above reclassification of equity interest, fair value gains of RMB14,418,000 were reclassified from available-for-sale financial assets reserve to the financial assets at fair value through other comprehensive income reserve on 1 January 2018 (Note 27).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Changes in accounting policies *(continued)*

2.2.2 HKFRS 9 Financial Instruments (continued)

(i) Reclassification of financial instruments on adoption of HKFRS 9 (continued)

(a) Reclassify gas industry equity interest from available-for-sale financial assets to financial assets at fair value through other comprehensive income

The Group elected to present in other comprehensive income for the fair value changes of its equity investment previously classified as available-for-sale financial assets, because the investment is held as a long-term strategic investment that is not expected to be sold in the short to medium term.

On the date of initial application, 1 January 2018, the financial instruments of the Group impacted by the adoption of HKFRS 9 were as follows:

Non-current financial assets	**Measurement category Original (HKAS 39)**	**Carrying amount New (HKFRS 9)**	**Original** RMB'000	**New** RMB'000	**Difference** RMB'000
Available-for-sale financial assets-gas industry equity interest	Fair value through other comprehensive income	Fair value through other comprehensive income	61,395	—	(61,395)
Financial assets at fair value through other comprehensive income-gas industry equity interest	Fair value through other comprehensive income	Fair value through other comprehensive income	—	61,395	61,395

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Changes in accounting policies *(continued)*

2.2.2 HKFRS 9 Financial Instruments (continued)

(ii) Impairment of financial assets

Trade receivables and contract assets relating to sales of gas, gas pipelines connections and engineering design and construction are the main financial assets of the Group that are subject to HKFRS 9's new expected credit loss model.

The Group was required to revise its impairment methodology under HKFRS 9 for the financial assets. The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The Group recognise the loss allowance for expected credit losses on other receivables. The change in impairment methodology is disclosed in Note 2.13. There is no significant impact on the Group's retained earnings and equity at 1 January 2018.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

2.2.3 HKFRS 15 Revenue from Contracts with Customers

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in HKFRS 15, the Group adopted the new standard using the modified retrospective approach with comparatives not be restated and applied the new guidance only to contracts that are not completed at 1 January 2018.

The Group evaluated the impact of the adoption of HKFRS 15 to the retained earnings of 1 January 2018, there is no significant impact on the retained earnings. In summary, liabilities amount to RMB253,618,000 were reclassified from advances from customers to contract liabilities on 1 January 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Principles of consolidation and equity accounting

2.3.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls entities when the Group is exposed to, or has rights to, variable returns from its involvement with the entities and has the ability to affect those returns through its power to direct the activities of the entities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.4).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated balance sheet respectively.

2.3.2 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see Note 2.3.4 below), after initially being recognised at cost.

2.3.3 Joint arrangements

Under HKFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has joint ventures.

Joint ventures

Interests in joint ventures are accounted for using the equity method (see Note 2.3.4 below), after initially being recognised at cost in the consolidated balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Principles of consolidation and equity accounting *(continued)*

2.3.4 Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.12.

2.3.5 Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRS.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

Over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Business combinations *(continued)*

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.5 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.7 Foreign currency translation

2.7.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Foreign currency translation *(continued)*

2.7.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance costs'. All other foreign exchange gains and losses are presented in profit or loss within 'other gains-net'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as financial assets at fair value through other comprehensive income are recognised in other comprehensive income.

2.7.3 Group companies

The results and financial position of Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values at a range of 0% — 5% of the cost, over their estimated useful lives, as follows:

—	Buildings	20-30 years
—	Equipment and machinery	5-10 years
—	Gas pipelines	16-30 years
—	Office equipment and motor vehicles	3-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.12).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost. Cost includes the costs of construction of buildings and costs of plant and machinery. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Investment properties

Investment properties, principally freehold office buildings, are held for rental yields and are not occupied by the Group. Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and impairment losses, if any.

Depreciation is calculated using the straight-line method to write-off the cost of the assets to their residual values over their estimated useful lives of 25 years.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are recorded within 'other gains — net' in profit or loss.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its cost for accounting purposes.

If an item of property, plant and equipment becomes an investment property because its use has changed, the transfer does not change the carrying amount of the property transferred, nor does it change the cost of that property for measurement or disclosure purposes.

2.10 Lease prepayments

Lease prepayments represent upfront prepayments made for the land use rights. Lease prepayments are stated at costs and are amortised on a straight-line basis over the remaining period of the land use rights, net of any impairment losses.

2.11 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquirees and the acquisitiondate fair value of any previous equity interest in the acquirees over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.11 Intangible assets *(continued)*

(a) Goodwill (continued)

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Operating rights for city pipeline network and gas station

Operating rights for city pipeline network and gas station represent the rights for distribution of gas in certain cities or districts in the PRC, and are stated at cost less accumulated amortisation and impairment losses, if any. The cost incurred for the acquisition of operating rights is capitalised and amortised on a straight-line basis over their estimated useful lives (10-50 years).

(c) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3-5 years).

(d) Network

Network acquired in a business combination is the distribution network of pipelined gas and is recognised at fair value at the acquisition date. The network is carried at cost less accumulated amortisation and impairment losses, if any. Amortisation is calculated using the straight-line method to allocate the cost over the estimated lives of 30 years.

(e) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives (23-25 years) which are determined by the length of the adjusted lengths based on the existing sales contracts with its customers while taking into account the possibility of renewals by the management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.12 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.13 Investments and other financial assets

2.13.1 Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Investments and other financial assets *(continued)*

2.13.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.13.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other gains — net" together with foreign exchange gains and losses. Impairment losses are presented as administrative expenses in profit or loss.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in "other gains — net". Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in "other gains — net" and impairment expenses are presented as administrative expenses in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Investments and other financial assets *(continued)*

2.13.3 Measurement (continued)

Debt instruments *(continued)*

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain orloss on a debt investment that is subsequently measured at fair value through profit or loss is recognised in profit or loss and presented net within "finance expenses — net" in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in "other gains — net" in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

2.13.4 Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 20 for further details.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Investments and other financial assets *(continued)*

2.13.5 Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017 the Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables, and
- Available-for-sale financial assets.

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition. See Note 18 for details about each type of financial asset.

(i) Reclassification

The Group could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the Group could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Investments and other financial assets *(continued)*

2.13.5 Accounting policies applied until 31 December 2017 (continued)

(ii) Subsequent measurement

The measurement at initial recognition did not change an adoption of HKFRS 9, see description above.

Subsequent to the initial, recognition loans and receivables was subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss were subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for 'financial assets at fair value through profit or loss' — in profit or loss within "finance expense — net"
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency — translation differences related to changes in the amortised cost of the security were recognised in profit or loss and other changes in the carrying amount were recognised in other comprehensive income
- for equity interests classified as available-for-sale financial assets — in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale — in profit or loss within "other gains — net"

Details on how the fair value of financial instruments is determined are disclosed in Note 3.3.

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognised in other comprehensive income were reclassified to profit or loss as gains and other losses from investment securities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Investments and other financial assets *(continued)*

2.13.5 Accounting policies applied until 31 December 2017 (continued)

(iii) Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group could measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

Impairment testing of trade and other receivables is described in Note 20.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Investments and other financial assets *(continued)*

2.13.5 Accounting policies applied until 31 December 2017 (continued)

(iii) Impairment *(continued)*

Assets classified as available-for-sale

If there was objective evidence of impairment for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — was removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss were not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss.

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.15 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in the fair value of any derivative instrument are recognised immediately in profit or loss.

2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises materials for gas pipelines, spare parts, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.17 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.13 for further information about the Group's accounting for trade receivables and Note 3.1(b) for a description of the Group's impairment policies.

2.18 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, that are convertible to known amounts of cash and while are subject to an unsignificant risk.

2.19 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.20 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.22 Borrowings costs

General and specific 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 profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.23 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

2.23.1 Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.23.2 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates and joint ventures. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associates' and joint ventures' undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint ventures, only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.23 Current and deferred income tax *(continued)*

2.23.2 Deferred income tax (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred taxes balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.24 Employee benefits

(a) Pension obligations

The Group's subsidiaries in the PRC contribute on a monthly basis to various defined contribution retirement schemes managed by the PRC Government. The contributions to the schemes are charged to profit or loss as and when incurred. The Group's obligations are determined at a certain percentage of the salaries of the employees.

(b) Housing fund and other benefits

All full-time employees of the Group's subsidiaries in the PRC are entitled to participate in various government-sponsored housing and other benefits funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

2.25 Share-based payments

(a) Equity-settled share-based payment transactions

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.25 Share-based payments *(continued)*

(a) Equity-settled share-based payment transactions (continued)

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

(b) Share-based payment transactions among Group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.26 Revenue recognition

The Group derives its revenue primarily from gas sales, gas pipelines connections and engineering design and construction and recognises revenue when the control of the goods or services is transferred to the customer. Depending on the terms of the contract and the laws applicable, control of the goods and services may be transferred over time or at a point in time. If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.25 Share-based payments *(continued)*

(a) Connection of gas pipelines and engineering design and construction services

Revenue in respect of the connection and construction of gas pipelines and engineering design and construction is recognised over time, by reference to completion of the specific transaction using input method which recognises revenue using costs incurred relative to total estimated costs to determine the extent of progress toward completion. The Group recognises revenue over time only if it can reasonably measure its progress toward complete satisfaction of the performance obligation. However, if the Group cannot reasonably measure the outcome but expects to recover the costs incurred in satisfying the performance obligation, then it recognises revenue to the extent of the costs incurred.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenue or costs are reflected in profit or loss in the period which the circumstances that give rise to the revision become known by management.

The customers are required to pay in advance for certain contract amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payment exceed the services rendered, a contract liability is recognised.

(b) Sale of gases

Revenue from the sale of gases, including pipelined gases, CNG and LNG, are recognised at the point of time when control is transferred to the customer, which generally coincides with the time when the gas is delivered to customers and title has passed, and is based on the gas consumption derived from metre readings. Payment of the transaction price is due immediately at the point the customer consume the gas. Payments received in advance that are related to sales of natural gas not yet delivered are recognised as contract liabilities and deferred in the consolidated balance sheet.

(c) Rental income

Rental income from investment properties is recognised in profit or loss on a straight-line basis over the period of the leases.

(d) Service income

Service income represents income from engineering and consulting services provided to customers and is recognised when services are rendered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.26 Revenue recognition *(continued)*

(e) Accounting policies applied until 31 December 2017

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Connection of gas pipelines

Revenue in respect of the connection and construction of gas pipelines is recognised using the percentage of completion method, but when the period of construction works is short, the revenue is recognised when the relevant construction works are completed and connection services are rendered. The average time required for the Group to complete a gas pipeline construction project is approximately two to four months.

(ii) Sale of gases

Revenue from the sale of gases, including pipelined gases, CNG and LNG, is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the gas is delivered to customers and title has passed, and is based on the gas consumption derived from metre readings.

(iii) Rental income

Rental income from investment properties is recognised in profit or loss on a straight-line basis over the period of the leases.

(iv) Service income

Service income represents income from engineering designing and consulting services provided to customers and is recognised when services are rendered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.27 Earnings per share

2.27.1 Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

2.27.2 Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.28 Dividend income

Dividends are received from financial assets measured at fair value through other comprehensive income (2017 — from available-for-sale financial assets). Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in other comprehensive income if it relates to an investment measured at fair value through other comprehensive income. However, the investment may need to be tested for impairment as a consequence.

2.29 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to profit or loss on a straight- line basis over the expected lives of the related assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.30 Interest income

Interest income from financial assets at fair value through profit or loss is included in finance income, see Note 10 below.

Interest income on financial assets at amortised cost (2017 — loans and receivables) calculated using the effective interest method is recognised in profit or loss as part of finance income. Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 10 below.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.31 Provisions

Provisions for legal claims and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.32 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Leases come from operating lease where the Group is a lessor is recognised in income on a straight line basis over the lease term (Note 16). The respective leased assets are included in the balance sheet based on their nature.

2.33 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.34 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by Group finance department under the policies approved by the board of directors. Group finance department identifies and evaluates financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and use of non-derivative and derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar ("USD") and HK dollar ("HKD"). Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Management has set up a policy to require the Group companies to manage their foreign exchange risk against their functional currency, and the Group companies may mitigate the foreign exchange risk through entering into foreign exchange forward or cross-currency swap contracts.

During 2016, the Group entered into two Euro/USD cross currency swap contracts with notional principal amounts of USD40,000,000 and USD50,000,000, respectively, so as to deconcentrate the foreign exchange risk arising from the borrowings denominated in USD. During 2017, one Euro/USD cross currency swap contract with notional principal amount of USD40,000,000 was settled upon its maturity.

During 2018, the other Euro/USD cross currency swap contract with notional principal amount of USD50,000,000 was settled upon its maturity. There were no additional cross currency swap contracts entered into by the Group.

As at 31 December 2018, if RMB had weakened/strengthened by 1% (2017: 1%) against the USD with all other variables held constant, the Group's post-tax profit for the year then ended would have been approximately RMB6,772,000 (2017: RMB12,707,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated bank borrowings, cash and cash equivalents.

As at 31 December 2018, if RMB had weakened/strengthened by 1% (2017: 1%) against the HKD with all other variables held constant, the Group's post-tax profit for the year then ended would have been approximately RMB13,585,000 (2017: RMB2,501,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of HKD-denominated bank borrowings, cash and cash equivalents.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from borrowings and bank deposits. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. As at 31 December 2018, the Group's borrowings of RMB4,917,385,000 (2017: RMB3,590,321,000) bore interest at variable rates and borrowings of RMB500,663,000 (2017: RMB276,811,000) at fixed rates. The Group currently does not use any interest rate swaps to hedge its exposure to interest rate risk.

As at 31 December 2018, if interest rates on borrowings at variable rates had been 0.3% higher/lower with all other variables held constant, profit before income tax for the year would have been approximately RMB14,752,000 (2017: RMB10,771,000) lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

As at 31 December 2018, if interest rates on all interest-bearing bank deposits within cash and cash equivalents had been 0.3% higher/lower with all other variables held constant, profit before income tax for the year would have been approximately RMB3,227,000 (2017: RMB2,033,000) higher/lower, respectively, mainly as a result of higher/lower interest income earned.

(b) Credit risk

The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables, contract assets and financial assets at fair value through other comprehensive income and at fair value through profit or loss.

(i) Risk management

As at 31 December 2018 and 2017, all of the Group's bank deposits are deposited in major financial institutions which management believes are of high credit quality without significant credit risk.

Financial assets at fair value through profit or loss include non-derivative financial products purchased from major listed banks in the PRC with comparatively lower risk and the trust investment. The Group closely monitors and assesses the credit quality of the trust investment by reviewing the investment report prepared by the trust agency, focusing on the quality of the investment product, past performance and the collateral. The financial department is responsible for such monitoring procedures.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

(i) Risk management *(continued)*

Financial assets at fair value through other comprehensive income is the equity investment on an investee who also operates in the gas industry that do not pose any significant credit risk to the Group.

The Group generally requests advances from customers in relation to the gas pipelines connections business and engineering design and construction services, and grants credit periods up to two months to the customers in relation to the transportation and sales of gases business. In circumstances of credit sales, to manage the credit risk in respect of trade and other receivables, the Group has policies in place to ensure that sales are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers, and generally does not require collateral from the customers on the outstanding balances.

(ii) Impairment of financial assets

The Group has four types of financial assets that are subject to the expected credit loss model:

- trade and bills receivables for sales of gas, gas pipelines connections and engineering design and construction;
- contract assets relating to engineering design and construction;
- other financial assets at amortised cost;
- cash and cash equivalents and restricted cash.

Cash and cash equivalents and restricted cash

While cash and cash equivalents and restricted cash are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

(ii) Impairment of financial assets *(continued)*

Bills receivables

As at 31 December 2018, all the bills receivables are bank acceptance bills (see Note 20), which will be accepted mainly by large state-owned banks or national commercial banks. The Group believes that there is no significant credit losses due to the bank default.

Trade receivables and contract assets

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 24 month before 31 December 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of China in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2018 (on adoption of HKFRS 9) was determined as follows for trade receivables and contract assets:

(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

(ii) Impairment of financial assets *(continued)*

Gas sales group

31 December 2018	Current	1-30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	0.31%	1.01%	10.63%	17.50%	24.86%	
Gross carrying amount — trade receivables	93,172	3,178	395	360	6,801	103,906
Loss allowance	**289**	**32**	**42**	**63**	**1,691**	**2,117**

Long-haul pipeline gas transmission and sales group

31 December 2018	Current	1-30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	0.16%	—	—	—	—	
Gross carrying amount — trade receivables	33,261	—	—	—	—	33,261
Loss allowance	**53**	**–**	**–**	**–**	**–**	**53**

Gas pipelines connections group

31 December 2018	Current	1-30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	0.54%	3.25%	15.84%	24.07%	33.69%	
Gross carrying amount — trade receivables	303,243	6,769	1,690	2,430	11,601	325,733
Loss allowance	**1,638**	**220**	**268**	**585**	**3,908**	**6,619**

Engineering design and construction group

31 December 2018	Current	1-30 days past due	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	0.15%	—	—	—	—	
Gross carrying amount — trade receivables	438,026	—	—	—	—	438,026
Gross carrying amount — contract assets	210,766	—	—	—	—	210,766
Loss allowance	**973**	**–**	**–**	**–**	**–**	**973**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

(ii) Impairment of financial assets *(continued)*

For the opening loss allowances for trade receivables as at 1 January 2018, the restatement on transaction as a result of applying the expected credit risk model was not material. The closing loss allowances for trade receivables and contract assets as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Contract Assets		Trade receivables	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
31 December — calculated under HKAS 39	**–**	—	**2,404**	—
Amounts restated through opening retained earnings	**–**	—	**–**	—
Opening loss allowance as at 1 January 2018 — calculated under HKFRS 9	**–**	—	**2,404**	—
Increase in loss allowance recognised in profit or loss during the year	**316**	—	**7,333**	2,404
Unused amount reversed	**–**	—	**(291)**	—
At 31 December	**316**	—	**9,446**	2,404

Impairment losses on trade receivables and contract assets are presented as administrative expenses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

(ii) Impairment of financial assets *(continued)*

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables. For the opening loss allowances for other financial assets as at 1 January 2018, the restatement on transaction as a result of applying the expected credit risk model was not material. The closing loss allowances for other financial assets at amortised cost as at 31 December 2018 reconcile to the opening loss allowances as follows:

	More than 90 days past due: expected credit losses throughout lifetime RMB'000	Total RMB'000
Closing loss allowance as at 31 December 2017 (calculated under HKAS 39)	—	—
Amounts restated through opening retained earnings	—	—
Opening loss allowance as at 1 January 2018 (calculated under HKFRS 9)	—	—
Increase in the allowance recognised in profit or loss during the period	280	280
Closing loss allowance as at 31 December 2018	**280**	**280**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk (continued)

(ii) Impairment of financial assets *(continued)*

Net impairment losses on financial assets and contract assets recognised in profit or loss

During the year, the following losses were recognised in profit or loss in relation to impaired financial assets:

	2018 RMB'000	2017 RMB'000
Impairment losses		
— individually impaired receivables (previous accounting policy)	**–**	2,404
— movement in loss allowance for trade receivables and contract assets	**7,649**	—
Impairment losses on other financial assets	**280**	—
Reversal of previous impairment losses	**(291)**	—
Net impairment losses on financial and contract assets	**7,638**	2,404

Of the above impairment losses, RMB7,042,000 (2017:RMB2,404,000) relate to trade receivables arising from contracts with customers.

(c) Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of undrawn borrowing facilities and cash and cash equivalents deemed adequate by the management to finance the Group's operations, mitigate the effects of fluctuations in cash flows, and meet its financial obligations when they fall due. The Group expects to fund its future cash flow needs through internally generated cash flows from operations, borrowings from financial institutions, as well as equity financing through shareholders when necessary. The Group also reviews the utilisation of borrowings and ensures the compliance of loan covenants.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk (continued)

The table below analyses the Group's non-derivative and derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group	**Less than 1 year RMB'000**	**Between 1 and 2 years RMB'000**	**Between 2 and 5 years RMB'000**	**Over 5 years RMB'000**
At 31 December 2018				
Non-derivatives				
Bank borrowings	**1,688,721**	**1,482,602**	**2,050,794**	**346,455**
Other borrowings	**156,013**	**147,784**	**140,392**	**4,321**
Trade and other payables(i)	**1,243,792**	**13,411**	**160,448**	**54,000**
Total non-derivatives	**3,088,526**	**1,643,797**	**2,351,634**	**404,776**
At 31 December 2017				
Non-derivatives				
Bank borrowings	1,118,225	677,510	1,725,769	397,248
Other borrowings	20,339	149,543	296,621	4,353
Trade and other payables(i)	502,418	12,192	160,448	54,000
Total non-derivatives	1,640,982	839,245	2,182,838	455,601
Derivatives				
Cross currency swap contract	22,898	—	—	—

(i) Trade and other payables include notes payables, trade payables, amounts due to related parties, contingent considerations, interest payables, other taxes payables and other payables as stated in Note 28.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital risk on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt. The Group aims to maintain the gearing ratio at a reasonable level.

The gearing ratios as at 31 December 2018 and 2017 were as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Total borrowings (Note 29)	**5,418,048**	3,867,132
Less: cash and cash equivalents (Note 24)	**(1,075,907)**	(678,237)
Net debt	**4,342,141**	3,188,895
Total equity	**3,543,769**	3,117,803
Total capital	**7,885,910**	6,306,698
Gearing ratio	**55%**	51%

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2018 and 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2018.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
— Investment in a trust	—	—	300,000	300,000
— Bank financial products	—	—	5,000	5,000
Financial assets at fair value through other comprehensive income				
— Unlisted equity securities in gas industry	—	—	78,815	78,815
Total assets	—	—	383,815	383,815
Liabilities				
Other payables				
— Contingent consideration	—	—	339,680	339,680
Total liabilities	—	—	339,680	339,680

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2017.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
— Investment in a trust	—	—	300,000	300,000
Available-for-sale financial assets				
— Unlisted equity securities in gas industry	—	—	61,395	61,395
Total assets	—	—	361,395	361,395
Liabilities				
Financial liabilities at fair value through profit or loss				
— Cross currency swap contract	—	22,898	—	22,898
Other payables				
— Contingent consideration	—	—	294,021	294,021
Total liabilities	—	22,898	294,021	316,919

There were no transfers among levels 1, 2 and 3 during the year.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

(a) *Financial instruments in level 1*

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

(b) *Financial instruments in level 2*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The valuation technique used to value the financial instrument is discounted cash flow analysis.

Specific valuation techniques used to value financial instruments include:

- The fair value of cross currency swap contracts is determined using forward exchange rates and forward LIBOR rates at the balance sheet date, with the resulting value discounted back to present value.

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

(c) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2018.

	Investment in a trust RMB'000	Bank financial products RMB'000	Unlisted equity securities RMB'000	Contingent consideration RMB'000	Total RMB'000
Balance at 1 January	300,000	–	61,395	(294,021)	67,374
Acquisition of subsidiaries (Note 36)	–	–	–	(175,662)	(175,662)
Additions	–	2,445,000	–	–	2,445,000
Net gain transfer to other comprehensive income	–	–	17,420	–	17,420
Disposals	–	(2,440,000)	–	–	(2,440,000)
Cash paid	–	–	–	130,003	130,003
Balance at 31 December	300,000	5,000	78,815	(339,680)	44,135
Total gains for the year for assets and liabilities held at the end of the year included in:					
Profit or loss	30,509	4,819	–	–	35,328
Other comprehensive income	–	–	17,420	–	17,420
	30,509	4,819	17,420	–	52,748

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

(c) Financial instruments in level 3 (continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2017.

	Investment in a trust RMB'000	Bank financial products RMB'000	Unlisted equity securities RMB'000	Contingent consideration RMB'000	Total RMB'000
Balance at 1 January	318,882	2,000	40,145	(220,594)	140,433
Acquisition of subsidiaries	—	18,000	—	(129,771)	(111,771)
Additions	300,000	400,000	—	—	700,000
Net gain transfer to other comprehensive income	—	—	21,250	—	21,250
Disposals	(318,882)	(420,000)	—	—	(738,882)
Cash paid	—	—	—	56,344	56,344
Balance at 31 December	300,000	—	61,395	(294,021)	67,374
Total gains for the year for assets and liabilities held at the end of the year included in:					
Profit or loss	26,235	—	12,945	—	39,180
Other comprehensive income	—	—	21,250	—	21,250
	26,235	—	34,195	—	60,430

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.11. The recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 17).

In the opinion of the Company's directors, the recoverable amounts of the CGUs will not be lower than the carrying amount even if taking into account a reasonably possible change in a key assumption on the calculations of recoverable amounts of CGUs.

(b) Income taxes

The Group's subsidiaries that operate in the PRC are subject to corporate income tax in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and income tax expense in the period in which such estimate is changed.

Deferred tax liabilities are generally recognised for all taxable temporary differences, except that the temporary differences arise from the initial recognition of goodwill, or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

(c) Purchase price allocation for business combinations other than common control combinations

Accounting for business combinations requires the Group to allocate the cost of the acquisition to the specific assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The Group undertakes a process to identify all assets and liabilities acquired, including any identified intangible assets where appropriate. The judgments made in identifying all acquired assets, determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as assets useful lives, may materially impact the Group's financial position and results of operation. In determining the fair values of the identifiable assets acquired and liabilities assumed, valuations were conducted by an independent valuer and estimated fair values are based on information available near the acquisition date and on expectations and assumptions that have been deemed reasonable by management.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(d) Useful life and residual value of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are depreciated or amortised 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 intangible assets and if the expectation differs from the original estimates, such differences from the original estimates will impact the depreciation or amortisation charges in the year in which the estimates change.

(e) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in Note 3.1.

5. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the senior executive management team on monthly basis that are used to make strategic decisions.

The senior executive management team considers the business from a "product" perspective only, as geographically all the products are provided within the PRC, which is considered as one geographic location with similar risks and returns.

The reportable segments derive their revenue and profit primarily from city gas sales, engineering design and construction and gas pipelines connections.

In 2018, due to the expansion of the operation and increase in significance of the engineering design and construction functions, the Group separates the engineering design and construction segment which the senior executive management team reviewed it individually for better resource allocation and assessment of segment performance.

The revenue from rental income of investment properties and other miscellaneous income, has been reviewed by the senior executive management team, and its results are included in the "all other segments" column.

The senior executive management team assesses the performance of the operating segments based on the measure of sales revenue and gross profit, which are determined by using the accounting policies which are the same as disclosed in Note 2 above. Meanwhile, the Group does not allocate operating expenses, assets or liabilities to its segments, as the senior executive management team does not use this information to allocate resources to or evaluate the performance of the operating segments. Therefore, the Group does not report a measure of segment assets and segment liabilities for each reportable segment.

5. SEGMENT INFORMATION *(continued)*

The segment information provided to the senior executive management team for the reportable segments for the year ended 31 December 2018 is as follows:

	City gas sales RMB'000	Long-haul pipeline gas transmission and sales RMB'000	Engineering design and construction RMB'000	Gas pipelines connections RMB'000	All other segments RMB'000	Inter-segment elimination RMB'000	Unallocated RMB'000	Total RMB'000
Total revenue	2,318,336	909,352	1,043,429	704,978	168,006	(30,847)	–	5,113,254
Inter-segment revenue	–	–	–	–	30,847	(30,847)	–	–
External revenue	2,318,336	909,352	1,043,429	704,978	137,159	–	–	5,113,254
Timing of revenue recognition								
At a point in time	2,318,336	909,352	–	–	133,750	–	–	3,361,438
Over time	–	–	1,043,429	704,978	3,409	–	–	1,751,816
Gross profit	385,754	98,106	417,146	451,872	75,338	–	–	1,428,216
Distribution expenses							(41,350)	(41,350)
Administrative expenses							(166,917)	(166,917)
Other income							9,439	9,439
Other gains — net							3,731	3,731
Operating profit								1,233,119
Finance expenses — net							(323,375)	(323,375)
Share of post-tax loss of associates and a joint venture							(44,940)	(44,940)
Profit before income tax								864,804
Income tax expense							(264,444)	(264,444)
Profit for the year								600,360

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

5. SEGMENT INFORMATION *(continued)*

The segment information provided to the senior executive management team for the reportable segments for the year ended 31 December 2017 is as follows:

	City gas sales RMB'000	Long-haul pipeline gas transmission and sales RMB'000	Gas pipelines connections RMB'000	All other segments RMB'000	Inter-segment elimination RMB'000	Unallocated RMB'000	Total RMB'000
Total revenue	1,603,673	824,437	619,931	60,973	—	—	3,109,014
Inter-segment revenue	—	—	—	—	—	—	—
External revenue	1,603,673	824,437	619,931	60,973	—	—	3,109,014
Timing of revenue recognition							
At a point in time	1,603,673	824,437	—	58,155	—	—	2,486,265
Over time	—	—	619,931	2,818	—	—	622,749
Gross profit	271,348	89,656	380,289	26,651	—	—	767,944
Distribution expenses						(29,449)	(29,449)
Administrative expenses						(134,060)	(134,060)
Other income						27,115	27,115
Other gains — net						5,339	5,339
Operating profit							636,889
Finance expenses — net						(84,421)	(84,421)
Share of post-tax profit of associates						23,371	23,371
Profit before income tax							575,839
Income tax expense						(146,682)	(146,682)
Profit for the year							429,157

The principal subsidiaries of the Company are domiciled in the PRC. All the revenue from external customers are derived from the PRC, and all the non-current assets are located in the PRC.

During the year ended 31 December 2018, revenue of approximately RMB1,043,429,000 and 20% of the Group's total revenue, is derived from a single customer (Note 38(b)) (2017: RMB336,566,000 and 11%). The revenue is attributable to the engineering design and construction segment (2017: the long-haul pipeline gas transmission and sales segment).

5. SEGMENT INFORMATION *(continued)*

The Group has recognised the following assets and liabilities related to contracts with customers:

	As at 31 December 2018 RMB'000	As at 1 January 2018* RMB'000
Current contract assets relating to engineering design and construction	**210,766**	—
Loss allowance	**(316)**	—
Total contract assets	**210,450**	—
Contract liabilities		
Gas pipeline connections	**243,291**	134,630
Gas sales	**125,540**	114,411
Long-haul pipeline gas transmission and sales	**5,317**	3,947
Other	**703**	630
Total contract liabilities	**374,851**	253,618

* See Note 2.2 for reclassification following the adoption of HKFRS 15 Revenue from Contracts with Customers.

As of 1 January 2018, the balance of the Group's contract liabilities was RMB253,618,000, of which RMB118,747,000 from Gas pipeline connections, RMB112,686,000 from Gas sales, RMB3,947,000 from Long-haul pipeline gas transmission and sales and RMB559,000 from other segment have been recognised in revenue in 2018.

6. OTHER INCOME

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Government grants in relation to		
— Tax refund	**4,905**	2,990
— Subsidies for local investment rewards and other incentives	**4,534**	11,180
Dividend income from available-for-sale financial assets	**—**	12,945
	9,439	27,115

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

(All amounts in RMB thousands unless otherwise stated)

7. OTHER GAINS — NET

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Gains on disposal of a subsidiary (Note 37)	**2,984**	—
Gains/(losses) on disposal of property, plant and equipment and lease prepayments (Note 32(b))	**47**	(2,347)
Penalty and overdue fines	**(548)**	(1,566)
Reversal of trade payables	**—**	3,615
Others	**1,248**	5,637
	3,731	5,339

8. EXPENSES BY NATURE

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Raw materials and consumables used	**2,995,547**	1,999,266
Changes in inventories of finished goods and work in progress	**6,272**	3,761
Depreciation on property, plant and equipment (Note 15)	**124,513**	109,203
Depreciation on investment properties (Note 16)	**2,175**	1,312
Amortisation of lease prepayments (Note 14)	**6,107**	4,764
Amortisation of intangible assets (Note 17)	**81,129**	73,075
Employee benefit expenses (Note 9)	**171,631**	149,111
Licensing fee for the exclusive operating rights for city pipeline network	**1,100**	1,100
Engagement of construction and design services	**378,597**	73,839
Transportation costs	**6,682**	6,081
Travelling expenses	**8,335**	6,103
Maintenance costs	**13,347**	10,249
Auditors' remuneration		
— Audit services	**3,400**	3,300
Professional expenses	**5,725**	3,756
Advertising expenses	**5,928**	2,214
Entertainment expenses	**10,388**	7,284
Office expenses	**15,243**	9,276
Taxes	**16,478**	14,881
Energy consumption	**29,907**	21,008
Impairment loss	**7,638**	2,404
Other expenses	**3,163**	2,592
Total cost of sales, distribution expenses and administrative expenses	**3,893,305**	2,504,579

9. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Wages and salaries	**125,165**	110,922
Pension costs — defined contribution plans	**16,780**	13,824
Social security benefits costs	**14,814**	12,252
Share options granted to directors and employees (Note 26)	**4,834**	4,593
Others	**10,038**	7,520
	171,631	149,111

(a) Five highest paid individuals

The five individuals whose emoluments were highest in the Group for the year ended 31 December 2018 included three (2017: three) directors whose emoluments are reflected in the analysis shown in Note 41. The emoluments paid to the remaining two individuals for the year ended 31 December 2018 (2017: two) are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Basic salaries, and allowances	**697**	730
Retirement benefit contributions	**108**	137
	805	867

The emoluments of the above individual fell within the following bands:

	Year ended 31 December	
	2018	2017
Nil to HKD1,000,000 (approximate to RMB872,000)	**2**	2

No emoluments were paid by the Group to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

10. FINANCE EXPENSES — NET

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Finance income		
— Interest income from bank deposits, bank financial products and loans to third parties	**(41,846)**	(21,045)
— Investment gains on financial assets at fair value through profit or loss:		
Investment in a trust	**(30,509)**	(26,235)
Cross currency swap contracts	**(8,055)**	—
	(80,410)	(47,280)
Finance expenses		
— Interest expense on borrowings	**289,933**	214,618
— Net exchange losses/(gains)	**142,520**	(119,382)
— Investment losses on cross currency swap contracts	**—**	64,434
— Others	**2,294**	1,518
Less: amounts capitalised on qualifying assets	**(30,962)**	(29,487)
	403,785	131,701
	323,375	84,421

11(a) INVESTMENTS IN SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2018:

Name	Country/ Place and date of incorporation	Type of legal entity	Issued/ paid-in capital (RMB'000)	Effective interest held	Principal activities and place of operation
Upsky Holdings Limited ("Upsky Holdings")	BVI/ 8 July 2003	Limited liability company	7*	100%**	Intermediary holding company in BVI
Tian Lun New Energy Limited ("Tian Lun New Energy")	Hong Kong/ 10 May 2010	Limited liability company	—*	100%	Intermediary holding company in HK
Hebi Tian Lun New Energy Limited ("Hebi New Energy") (鶴壁市天倫新能源有限公司)	PRC/ 13 May 2010	Limited liability company	15,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Henan Tian Lun Gas Group Limited ("Henan Tian Lun Gas") (河南天倫燃氣集團有限公司)	PRC/ 1 November 2002	Limited liability company	1,600,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Hebi Tian Lun Vehicle-use Gas Limited ("Hebi Tian Lun Vehicle") (鶴壁市天倫車用燃氣有限公司)	PRC/ 29 October 2007	Limited liability company	10,000	100%	Sales of CNG in the PRC
Xuchang Tian Lun Gas Limited ("Xuchang Tian Lun") (許昌市天倫燃氣有限公司)	PRC/ 29 September 2003	Limited liability company	25,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Xuchang Tian Lun Vehicle-use Gas Limited ("Xuchang Tian Lun Vehicle") (許昌市天倫車用燃氣有限公司)	PRC/ 12 September 2008	Limited liability company	10,000	100%	Sales of CNG in the PRC
Zhengzhou Shangjie Tian Lun Gas Limited ("Shangjie Tian Lun") (鄭州市上街區天倫燃氣有限公司)	PRC/ 18 July 2007	Limited liability company	15,000	90%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC

11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued/ paid-in capital (RMB'000)	Effective interest held	Principal activities and place of operation
Baiyin Natural Gas Limited ("Gansu Baiyin") (白銀市天然氣有限公司)	PRC/ 16 June 2003	Limited liability company	30,361	98.97%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Baiyin Wantong Gas Limited ("Baiyin Wantong") (白銀市萬通燃氣有限公司)	PRC/ 15 October 2009	Limited liability company	8,500	100%	Sales of CNG in the PRC
Jilin Zhongji Dadi Gas Group Limited ("Jilin Zhongji") (吉林省中吉大地燃氣集團有限公司)	PRC/ 25 March 2005	Limited liability company	140,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines and sales of CNG in the PRC
Jiutai Dadi Gas Limited ("Jiutai Dadi") (九台市大地燃氣有限公司)	PRC/ 8 July 2008	Limited liability company	24,000	100%	Sales of pipelined natural gas in the PRC
Panshi Dadi Gas Limited ("Panshi Dadi") (磐石市大地燃氣有限公司)	PRC/ 26 October 2006	Limited liability company	10,000	100%	Sales of pipelined natural gas and CNG in the PRC
Da'an Dadi Gas Limited ("Da'an Dadi") (大安市大地燃氣有限公司)	PRC/ 25 January 2008	Limited liability company	12,000	100%	Sales of pipelined natural gas and CNG in the PRC
Baicheng Dadi Natural Gas Limited ("Baicheng Dadi") (白城市大地天然氣有限公司)	PRC/ 23 March 2006	Limited liability company	6,000	100%	Sales of CNG in the PRC
Zhenlai County Dadi Gas Limited ("Zhenlai County Dadi") (鎮賚縣大地燃氣有限公司)	PRC/ 30 September 2009	Limited liability company	16,000	100%	Sales of pipelined natural gas in the PRC
Tongyu County Dadi Gas Limited ("Tongyu County Dadi") (通榆縣大地燃氣有限公司)	PRC/ 30 November 2005	Limited liability company	10,000	100%	Sales of pipelined natural gas in the PRC
Puyang Tian Lun Gas Limited ("Puyang Tianlun") (濮陽市天倫燃氣有限公司)	PRC/ 9 November 2009	Limited liability company	20,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Dunhua Dadi Gas Limited ("Dunhua Dadi") (敦化市大地天然氣有限公司)	PRC/ 15 January 2007	Limited liability company	13,000	100%	Sales of pipelined natural gas in the PRC
Changchun Zhongji Dadi Trade Limited ("Changchun Zhongji") (長春市中吉大地經貿有限公司)	PRC/ 22 June 2010	Limited liability company	100	100%	Sales of gas equipment in the PRC

11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued/ paid-in capital (RMB'000)	Effective interest held	Principal activities and place of operation
Jilin Dadi Technology Consultancy Limited ("Jilin Dadi") (吉林市大地技術諮詢有限公司)	PRC/ 7 March 2002	Limited liability company	5,000	100%	Engineering design and consulting services in the PRC
Xinye County Tian Lun Gas Limited ("Xinye Tian Lun") (新野縣天倫燃氣有限公司)	PRC/ 2 November 2011	Limited liability company	10,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Henan Luyuan Gas Limited ("Henan Luyuan") (河南綠源燃氣有限公司)	PRC/ 6 January 2005	Limited liability company	33,330	70%	Sales of pipelined natural gas, construction and connection of gas pipelines and sales of CNG in the PRC
Song County Tian Lun Gas Limited ("Henan Songxian") (嵩縣天倫燃氣有限公司)	PRC/ 24 June 2011	Limited liability company	13,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Shangqiu Luyuan Vehicle Gas Limited ("Shangqiu Luyuan Vehicle") (商丘市綠源汽車燃氣有限公司)	PRC/ 22 August 2006	Limited liability company	1,060	70%	Sales of CNG in the PRC
Dongkou Senbo Gas Limited ("Dongkou Senbo") (洞口森博燃氣有限公司)	PRC/ 6 January 2011	Limited liability company	10,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Kaifeng Xi'Na Natural Gas Limited ("Kaifeng Xi'Na") (開封西納天然氣有限公司)	PRC/ 28 October 2004	Limited liability company	30,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Cao County Zhongtian Gas Limited ("Caoxian Zhongtian") (曹縣中天燃氣有限公司)	PRC/ 9 May 2012	Limited liability company	10,000	80%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Shan County Zhongtian Gas Limited ("Shanxian Zhongtian") (單縣中天燃氣有限公司)	PRC/ 27 April 2006	Limited liability company	12,000	80%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued/ paid-in capital (RMB'000)	Effective interest held	Principal activities and place of operation
Guangxi Luzhai Tianlun Gas Limited ("Luzhai Tianlun") (廣西鹿寨天倫燃氣有限公司)	PRC/ 6 January 2012	Limited liability company	30,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Xingtai Tianlun Yunyu Vehicle Gas Limited ("Xingtai Tianlun") (邢臺天倫運輿車用燃氣有限公司)	PRC/ 31 May 2012	Limited liability company	20,000	70%	Sales of CNG in the PRC
Gulang Tianlun Gas Limited ("Gulang Tianlun") (古浪天倫燃氣有限公司)	PRC/ 30 November 2012	Limited liability company	10,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Chongqing Tianlun Kaida New Energy Gas Limited ("Tianlun Kaida") (重慶天倫凱達新能源燃氣有限公司)	PRC/ 22 October 2012	Limited liability company	20,000	70%	Sales of liquefied natural gas in the PRC
Jilin Changling County Tianlun Gas Limited ("Changling Tianlun") (吉林長嶺縣天倫燃氣有限公司)	PRC/ 4 December 2013	Limited liability company	10,000	70%	New energy technology development services in the PRC
Dongming Wanji Natural Gas Industrial Limited ("Dongming Wanji") (東明萬吉天然氣實業有限公司)	PRC/ 3 June 2005	Limited liability company	10,000	80%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Heze Guanghe Natural Gas Limited ("Heze Guanghe") (菏澤市廣菏天然氣有限公司)	PRC/ 24 January 2002	Limited liability company	10,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Guangxi Guanyang Tianlun Gas Limited ("Guanyang Tianlun") (廣西灌陽天倫燃氣有限公司)	PRC/ 27 November 2013	Limited liability company	10,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Zhengzhou Shangjie Tianlun Vehicle Gas Limited ("Shangjie Tianlun Vehicle") (鄭州市上街區天倫車用燃氣有限公司)	PRC/ 18 April 2013	Limited liability company	10,000	100%	Sales of CNG in the PRC
Yunnan Datong Natural Gas Limited ("Yunnan Datong) (雲南大通天然氣有限公司)	PRC/ 24 March 2013	Limited liability company	30,000	100%	Engineering design and consulting services in the PRC

11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued/ paid-in capital (RMB'000)	Effective interest held	Principal activities and place of operation
Huize Datong Natural Gas Limited ("Huize Datong") (會澤縣大通天然氣有限公司)	PRC/ 21 December 2007	Limited liability company	8,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Gejiu Datong Natural Gas Limited ("Gejiu Datong") (個舊大通天然氣有限公司)	PRC/ 15 January 2009	Limited liability company	10,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Guangnan Datong Natural Gas Limited ("Guangnan Datong") (廣南縣大通天然氣有限公司)	PRC/ 2 September 2010	Limited liability company	6,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Hekou Datong Natural Gas Limited ("Hekou Datong") (河口縣大通天然氣有限公司)	PRC/ 24 September 2013	Limited liability company	6,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Yanshan Datong Natural Gas Limited ("Yanshan Datong") (硯山縣大通天然氣有限公司)	PRC/ 10 May 2011	Limited liability company	5,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Honghe Datong Natural Gas Limited ("Honghe Datong") (紅河大通天然氣有限公司)	PRC/ 25 August 2009	Limited liability company	10,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Ludian Datong Natural Gas Limited ("Ludian Datong") (魯甸縣大通天然氣有限公司)	PRC/ 22 July 2010	Limited liability company	5,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Weishi Tianlun Gas Limited ("Weishi Tianlun") (尉氏縣天倫燃氣有限公司)	PRC/ 30 July 2013	Limited liability company	10,000	100%	Sales of pipelined natural gas in the PRC
Jilin Yitong Tianlun Gas Limited ("Yitong Tianlun") (吉林伊通天倫燃氣有限公司)	PRC/ 26 August 2013	Limited liability company	10,000	100%	Engineering design and consulting services in the PRC

11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued/ paid-in capital (RMB'000)	Effective interest held	Principal activities and place of operation
Hong Kong Xin Rong Limited ("HK Xin Rong") (香港信融有限公司)	Hong Kong/ 13 June 2013	Limited liability company	610*	100%	Trading of natural gas equipment in HK
Shantou Chaoyang District Minan Pipelined Gas Limited ("Shantou Chaoyang") (汕頭市潮陽區民安管道燃氣有限公司)	PRC/ 15 October 2008	Limited liability company	10,000	90%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Shantou Chenghai Gas Construction Limited ("Shantou Chenghai") (汕頭市澄海燃氣建設有限公司)	PRC/ 24 June 1994	Limited liability company	17,250	90%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Chaozhou Huamao Energy Distribution Limited ("Chaozhou Huamao") (潮州市華茂能源配送有限公司)	PRC/ 6 September 2010	Limited liability company	133,224	60%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Tangyin Yuneng Gas Limited ("Tangyin Yuneng") (湯陰豫能燃氣有限公司)	PRC/ 30 May 2013	Limited liability company	10,000	100%	Provision of designing service of gas pipelines in the PRC
Wah Shing Century Limited ("Wah Shing Century") (華盛世紀有限公司)	Hong Kong/ 5 August 2014	Limited liability company	79*	100%	Investment in equity and assets in HK
Beijing Tian Lun Investment Company Limited ("Beijing Tian Lun Investment") (北京天倫投資有限公司)	PRC/23 May 2006	Limited liability company	70,000	100%	Intermediary holding in the PRC
Beijing Hui Ji Energy Holdings Limited ("Hui Ji Energy") (北京慧基能源控股有限公司)	PRC/2 April 2014	Limited liability company	343,320	100%	Intermediary holding in the PRC
Henan Tianlun Pipeline Company Limited ("Tianlun Pipeline") (河南天倫燃氣管網有限公司)	PRC/19 February 2008	Limited liability company	265,411	90%	Sales and transportation gas/PRC
Sanming Hui Ji Energy Company Limited ("Sanming Huiji") (三明慧基能源有限公司)	PRC/9 January 2012	Limited liability company	24,000	100%	Sales and transportation gas, gas pipelines connections/PRC

11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued/ paid-in capital (RMB'000)	Effective interest held	Principal activities and place of operation
Suzhou Tianlun Natural Gas Pipeline Network Company Limited ("Suzhou Tianlun") (蘇州天倫燃氣管網有限公司)	PRC/17 March 2008	Limited liability company	50,000	85%	Sales and transportation gas/PRC
Li Quan County Hong Yuan Natural Gas Company Limited ("Liquan Hongyuan") (禮泉縣宏遠天然氣有限公司)	PRC/12 December 2005	Limited liability company	3,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Qian County Hong Yuan Natural Gas Company Limited ("Qianxian Hongyuan") (乾縣宏遠天然氣有限公司)	PRC/18 September 2006	Limited liability company	3,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Jilin Qian'an Tianlun Gas Company Limited ("Jilin Qian'an") (吉林乾安天倫燃氣有限公司)	PRC/21 May 2010	Limited liability company	19,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Hunan Zhongyou Zhiyuan Gas Company Limited ("Hunan Zhongyou") (湖南中油致遠燃氣有限公司)	PRC/31 March 2011	Limited liability company	10,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Jingzhou Tian Lun Clean Energy Company Limited ("Jingzhou Tianlun") (荊州天倫清潔能源有限公司)	PRC/25 December 2015	Limited liability company	10,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Sichuan Mingsheng Natural Gas Company Limited ("Sichuan Mingsheng") (四川省明聖天然氣有限責任公司)	PRC/20 December 2000	Limited liability company	30,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Xichuan Longcheng Natural Gas Company Limited ("Xichuan Longcheng") (淅川縣龍成天然氣有限責任公司)	PRC/1 September 2015	Limited liability company	39,800	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC

11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued/ paid-in capital (RMB'000)	Effective interest held	Principal activities and place of operation
Lechang Anshunda Pipeline Nature Gas Company Limited ("Lechang Anshunda") (樂昌市安順達管道天然氣有限公司)	PRC/15 February 2007	Limited liability company	20,000	85%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Sichuan Jintang County Tian Lun Gas Company Limited ("Jintang Gas") (四川省金堂縣天倫燃氣有限公司)	PRC/12 May 1993	Limited liability company	51,145	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Nantong Tian Lun Gas Company Limited ("Nantong Gas") (南通天倫燃氣有限公司)	PRC/22 January 2017	Limited liability company	10,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Anshan City Tian Lun Gas Company Limited ("Anshan Gas") (鞍山市天倫燃氣有限公司)	PRC/17 March 2017	Limited liability company	10,000	100%	Construction and maintenance of gas pipelines in the PRC
Wubu Changxing Natural Gas Limited ("WubuChangxing") (吳堡縣長興天然氣有限責任公司)	PRC/18 April 2012	Limited liability company	10,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Mizhi Changxing Natural Gas Limited ("Mizhi Changxing") (米脂縣長興天然氣有限責任公司)	PRC/14 April 2006	Limited liability company	12,000	100%	Sales of pipelined natural gas; construction and connection of gas pipelines in the PRC
Shanghai Tian Lun Enterprise Development Limited ("Shanghai Enterprise Development") (上海天倫企業發展有限公司)	PRC/14 April 2018	Limited liability company	5,000	100%	Consulting services and new energy technology development services in the PRC
Shanghai Tian Lun Natural Gas Limited ("Shanghai Natural Gas") (上海天倫天然氣有限公司)	PRC/11 April 2018	Limited liability company	100,000	70%	Sales of natural gas and trading of natural gas equipment in the PRC

11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued/ paid-in capital (RMB'000)	Effective interest held	Principal activities and place of operation
Shijiazhaung Jinming Gas Limited ("Shijiazhuang Jinming") (石家莊金明燃氣有限公司)	PRC/20 August 2013	Limited liability company	10,000	100%	Sales of pipelined natural gas, construction and connection of gas pipelines in the PRC
Sichuan Tian Lun Shuxin Clean Energy Limited("Sichuan Shuxin") (四川天倫蜀新清潔能源有限公司)	PRC/11 Febrary 2018	Limited liability company	10,000	51%	Wholesales of natural gas in the PRC
Xingyang City Tian Lun Intelligent Energy Limited("Xingyang TianLun") (滎陽市天倫智慧能源有限公司)	PRC/ 20 September 2018	Limited liability company	10,000	100%	Electricity generation, supply and sales services in the PRC
Henan Boju New Energy Limited ("Henan Boju") (河南博聚新能源有限責任公司)	PRC/28 April 2018	Limited liability company	10,000	100%	Promotion and consulting services of new energy technology in the PRC
Xiayi County Tian Lun Gas Company Limited ("Xiayi TianLun") (夏邑縣天倫燃氣有限公司)	PRC/22 May 2018	Limited liability company	10,000	100%	Sales of urban gas and gas appliances in the PRC
Dongming Tian Lun Yunzhen Energy Limited ("Dongming TianLun") (東明天倫雲振能源有限公司)	PRC/11 July 2018	Limited liability company	6,900	58.20%	Sales of natural gas, construction consulting and connection of gas pipelines in the PRC

* The issued capital of Upsky Holdings is USD1,000.
The issued capital of Tian Lun New Energy is HKD2.
The issued capital of HK Xin Rong is USD100,000.
The issued capital of Wah Shing Century is HKD100,000.

** Shares hold directly by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

(a) Material non-controlling interests

The total non-controlling interests as at 31 December 2018 are approximately RMB293,901,000 (2017: RMB339,450,000), of which approximately RMB95,725,000 (2017: RMB96,273,000) is attributed to Chaozhou Huamao, approximately RMB39,348,000 (2017: RMB38,861,000) is attributed to Tianlun Pipeline, and approximately RMB43,659,000 (2017: RMB43,280,000) is attributed to Suzhou Tianlun. As at 31 December 2017 the non-controlling interest of Jilin Zhongji is approximately RMB58,962,000.

On 31 July 2018, the Group acquired an additional 13% of the equity interests of Jilin Zhongji from its related party Henan Tian Lun Gas Engineering Investment Limited. See Note 35 for transactions with non-controlling interests.

The non-controlling interests in respect of other subsidiaries are not material.

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

Summarised balance sheets

	Jilin Zhongji		Chaozhou Huamao		Tianlun Pipeline		Suzhou Tianlun	
	As at 31 July	As at 31 December	As at 31 December		As at 31 December		As at 31 December	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current								
Assets	**180,766**	205,346	**35,765**	38,850	**104,711**	82,880	**79,190**	55,184
Liabilities	**(254,264)**	(80,566)	**(92,158)**	(104,492)	**(140,404)**	(242,776)	**(135,955)**	(97,623)
Total net current (liabilities)/assets	**(73,498)**	124,780	**(56,393)**	(65,642)	**(35,693)**	(159,896)	**(56,765)**	(42,439)
Non-current								
Assets	**255,541**	257,071	**171,636**	176,944	**483,022**	421,227	**174,483**	183,765
Liabilities	**–**	—	**–**	—	**(174,060)**	—	**(151)**	—
Total net non-current assets	**255,541**	257,071	**171,636**	176,944	**308,962**	421,227	**174,332**	183,765
Net assets	**182,043**	381,851	**115,243**	111,302	**273,269**	261,331	**117,567**	141,326

11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

(a) Material non-controlling interests *(continued)*

Summarised statements of comprehensive income

	Jilin Zhongji		Chaozhou Huamao		Tianlun Pipeline		Suzhou Tianlun	
	Seven months ended 31 July	Year ended 31 December	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue	**109,792**	248,938	**127,376**	84,683	**446,569**	374,923	**546,509**	487,699
Profit/(loss) before income tax	**21,030**	60,242	**5,254**	(1,893)	**35,319**	24,083	**61,544**	58,358
Income tax expense	**(7,046)**	(15,231)	**(1,313)**	450	**(8,791)**	(5,850)	**(15,410)**	(14,610)
Profit/(loss) for the period/year	**13,984**	45,011	**3,941**	(1,443)	**26,528**	18,233	**46,134**	43,748
Other comprehensive income	**–**	—	**–**	—	**–**	—	**–**	—
Total comprehensive income/(loss)	**13,984**	45,011	**3,941**	(1,443)	**26,528**	18,233	**46,134**	43,748
Total comprehensive income allocated to non-controlling interests	**1,818**	5,851	**1,576**	(577)	**2,653**	1,823	**6,920**	6,562
Dividends paid to non-controlling interests	**27,793**	—	**–**	—	**1,459**	1,547	**10,484**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

11(a) INVESTMENTS IN SUBSIDIARIES *(continued)*

(a) Material non-controlling interests *(continued)*

Summarised statements of cash flows

	Jilin Zhongji		Chaozhou Huamao		Tianlun Pipeline		Suzhou Tianlun	
	Seven months ended 31 July	Year ended 31 December	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Cash flows from operating activities								
Cash generated from/(used in) operations	**101,840**	94,069	**16,443**	(17,416)	**(104,218)**	191,138	**62,945**	69,046
Interest paid	**–**	(1,662)	**(4,757)**	(2,878)	**(15,619)**	(10,342)	**(4,551)**	(4,046)
Income tax paid	**(17,491)**	(16,117)	**–**	—	**(8,731)**	(2,831)	**(15,258)**	(14,610)
Net cash generated from/(used in) operating activities	**84,349**	76,290	**11,686**	(20,294)	**(128,568)**	177,965	**43,136**	50,390
Net cash (used in)/generated from investing activities	**(55,774)**	(87,146)	**(14,392)**	28,686	**(53,877)**	(57,487)	**(7,074)**	6,913
Net cash (used in)/generated from financing activities	**(27,460)**	254	**39**	22	**192,640**	(121,480)	**(34,808)**	(40,858)
Net increase/(decrease) in cash and cash equivalents	**1,115**	(10,602)	**(2,667)**	8,414	**10,195**	(1,002)	**1,254**	16,445
Cash and cash equivalents at beginning of year	**1,205**	11,807	**13,781**	5,367	**455**	1,457	**27,233**	10,788
Cash and cash equivalents at end of period/year	**2,320**	1,205	**11,114**	13,781	**10,650**	455	**28,487**	27,233

The information above is the amount before inter-company eliminations.

11(b) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the consolidated balance sheet are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Investments in associates	**521,270**	501,775
Investments in a joint venture	**335,565**	—
	856,835	501,775

The amounts recognised in profit and loss are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Share of post-tax profit of associates	**19,495**	23,371
Share of post-tax loss of a joint venture	**(64,435)**	—
	(44,940)	23,371

(All amounts in RMB thousands unless otherwise stated)

11(b) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

Set out below are the associates and a joint venture of the Group as at 31 December 2018. The associates and a joint venture as listed below have share capital consisting solely of ordinary shares, which are held by the Group directly; the country of incorporation is also the principal place of business.

Nature of investment in associates and a joint venture as at 31 December 2018:

Name of entity	Place of business/country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
Inner Mongolia Petroleum and Gas Investment Corporation Limited ("Inner Mongolia Petroleum and Gas") (內蒙古油氣投資股份有限公司)	Inner Mongolia, the PRC	33.33	Associate (Note 1)	Equity
Suzhou Ping Zhuang Industrial Gas Co., Ltd("Suzhou Ping Zhuang") (蘇州平莊工業天然氣有限公司)	Jiangsu, the PRC	20.00	Associate (Note 2)	Equity
Henan Jiuding Financial Leasing Company Limited ("Henan Jiuding") (河南九鼎金融租賃股份有限公司)	Henan, the PRC	20.00	Associate (Note 3)	Equity
Chengdu Huaizhou Xincheng Gas Company Limited ("Huaizhou Gas") (成都淮州新城燃氣有限責任公司)	Sichuan, the PRC	11.00	Associate (Note 4)	Equity
Henan Yuzi Tianlun New Energy Investment Fund Centre (Limited Partnership) ("Henan Yuzi Tianlun Fund") (河南豫資天倫新能源投資基金中心(有限合夥))	Henan, the PRC	40.00	Joint venture (Note 5)	Equity

11(b) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

Note 1: Inner Mongolia Petroleum and Gas was incorporated on 11 December 2014 and mainly engages in the construction of long-distance petroleum and gas pipelines, and investment in the petroleum and gas industry. Inner Mongolia Petroleum and Gas is a strategic partner for the Group, providing access to new customers and markets of the upstream gas industry and creating synergies with the subsidiaries of the Group.

Note 2: Suzhou Ping Zhuang mainly engages in the sales of bottled gas. Suzhou Ping Zhuang provides access to new customers and markets.

Note 3: Henan Jiuding was incorporated on 23 March 2016 and mainly engages in financial leasing, financial leasing assets trading, fixed income securities investment, inter-bank borrowing investment and other financial business. Henan Jiuding is a strategic partner for the Group, and can finance potential industrial customers substituting its energy supply from coal and electricity to pipelined natural gas and create synergies with the subsidiaries of the Group.

Note 4: Huaizhou Gas mainly engages in the sales of natural gas, construction and connection of gas pipelines, and construction and operation of gas stations etc. Huaizhou Gas provides access to new customers and markets, and create synergies with the subsidiaries of the Group.

Note 5: Henan Yuzi Tianlun Fund was incorporated on 27 June 2018 mainly engaged in investment in coal-to-gas conversion projects in the townships in Henan Province and the upstream and downstream natural gas industrial chain, to capture the opportunities brought by the rapid development of the natural gas industry in the PRC and explore the huge potential of the natural gas market in the townships in Henan Province through making full use of the strengths of the Group.

Inner Mongolia Petroleum and Gas, Suzhou Ping Zhuang, Henan Jiuding ,Huaizhou Gas and Henan Yuzi Tianlun Fund are unlisted companies and there are no quoted market prices available for the equities. There are no contingent liabilities relating to the Group's interests in the associates and a joint venture.

Summarised financial information for the associates and a joint venture

The tables below provide summarised financial information for those associates and a joint venture that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and a joint venture and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

11(b) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

Summarised financial information for the associates and a joint venture *(continued)*

Summarised balance sheets

	Inner Mongolia Petroleum and Gas As at 31 December		Henan Jiuding As at 31 December		Henan Yuzi Tianlun Fund As at 31 December
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**
Current					
Cash and cash equivalents	**18,312**	15,785	**467,248**	244,319	**1,213,206**
Other current assets	**145,122**	145,427	**15,975,577**	10,918,188	**5,332**
Total current assets	**163,434**	161,212	**16,442,825**	11,162,507	**1,218,538**
Other current liabilities (including trade payables)	**(2,171)**	(2,320)	**(13,385,331)**	(8,557,706)	**(1,144,209)**
Total current liabilities	**(2,171)**	(2,320)	**(13,385,331)**	(8,557,706)	**(1,144,209)**
Non-current					
Other non-current assets	**664**	361	**60,403**	20,174	**922,005**
Total non-current assets	**664**	361	**60,403**	20,174	**922,005**
Other non-current liabilities	**(2,800)**	(2,653)	**(813,092)**	(413,679)	**–**
Total equity	**159,127**	156,600	**2,304,805**	2,211,296	**996,334**

11(b) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

Summarised financial information for the associates and a joint venture *(continued)*

Summarised statements of comprehensive income

	Inner Mongolia Petroleum and Gas Year ended 31 December		Henan Jiuding Year ended 31 December		Henan Yuzi Tianlun Fund Six months ended 31 December
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**
Revenue	**10,373**	—	**357,916**	290,458	**678**
Profit before income tax	**3,358**	3,177	**125,479**	151,259	**(2,673)**
Profit for the year/period	**2,526**	2,378	**93,509**	112,892	**(2,669)**
Total comprehensive income	**2,526**	2,378	**93,509**	112,892	**(2,669)**

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interests in associates and a joint venture:

Summarised financial information

	Inner Mongolia Petroleum and Gas Year ended 31 December		Henan Jiuding Year ended 31 December		Henan Yuzi Tianlun Fund Six months ended 31 December
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**
Opening net assets	**156,600**	154,222	**2,211,296**	1,098,404	**–**
Capital contribution	**–**	—	**–**	1,000,000	**999,003**
Profit for the year/period	**2,526**	2,378	**93,509**	112,892	**(2,669)**
Closing net assets	**159,126**	156,600	**2,304,805**	2,211,296	**996,334**
Interest in associates and a joint venture (33.33%; 20%; 40%)	**53,037**	52,195	**460,961**	442,259	**398,534**
Carrying value	**53,037**	52,195	**460,961**	442,259	**398,534**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

11(b) INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(continued)*

Summarised financial information for the associates and a joint venture *(continued)*

Individually immaterial associates

In addition to the interests in associates disclosed above, the Group also has interests in two of individually immaterial associates that are accounted for using the equity method.

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Aggregate carrying amount of individually immaterial associates	**7,272**	7,321
Aggregate amounts of the Group's share of:		
Profit from continuing operations	**(49)**	—
Post-tax profit or loss from discontinued operations	**—**	—
Other comprehensive income	**—**	—
Total comprehensive income	**(49)**	—

12. INCOME TAX EXPENSE

(a) The Company and Upsky Holdings are not subject to profits tax in their respective countries of incorporation.

(b) Hong Kong profits tax

For the years ended 31 December 2018 and 2017, there are no Hong Kong profits tax applicable (tax rate 16.5%) to any Group entities.

12. INCOME TAX EXPENSE

(c) PRC corporate income tax (the "PRC CIT")

All the Company's subsidiaries incorporated in the PRC are subject to the PRC CIT, which has been provided based on the statutory income tax rate of the assessable income of each of such companies during the years ended 31 December 2018 and 2017, as determined in accordance with the relevant PRC income tax rules and regulations. The CIT rate of all the relevant subsidiaries operating in the PRC is 25% (2017: 25%), except for Gansu Baiyin, Liquan Hongyuan, Qianxian Hongyuan, Baiyin Wantong, Gulang Tianlun, Sichuan Mingsheng, Jintang Gas, Mizhi Changxing and Wubu Changxing as they were approved to entitle to the CIT Preferential Policies for the Development of the Western Regions and the CIT rate of 2018 is 15% (2017: 15%).

The amount of income tax expense charged to profit or loss represents:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Current tax on profits for the year	**261,800**	165,474
Deferred income tax (Note 30)	**2,644**	(18,792)
	264,444	146,682

The difference between the actual income tax charge in profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	**864,804**	575,839
Tax calculated at statutory tax rate applicable to each Group entity	**249,170**	154,146
Income not subject to tax	**(7,695)**	(9,079)
Expenses not deductible for tax purposes	**1,437**	2,887
Tax losses with no deferred tax assets recognised (i)	**7,888**	530
Utilisation of previously unrecognised tax losses	**–**	(5,683)
Withholding tax in relation to dividend distributed and interests earned from a PRC subsidiary	**13,644**	3,881
	264,444	146,682

The weighted average effective tax rate for the year ended 31 December 2018 is 31% (2017: 25%).

(i) See Note 30(c) on the tax losses with no deferred tax assets recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

12. INCOME TAX EXPENSE *(continued)*

(c) PRC corporate income tax (the "PRC CIT") *(continued)*

The tax credit relating to components of other comprehensive income is as follows:

	Year ended 31 December					
	2018			2017		
	Before tax RMB'000	**Tax credit RMB'000**	**After tax RMB'000**	Before tax RMB'000	Tax credit RMB'000	After tax RMB'000
Fair value gains on financial assets at fair value through other comprehensive income/ available-for-sale financial assets	**17,420**	**(4,355)**	**13,065**	21,250	(5,313)	15,937
Other comprehensive income	**17,420**	**(4,355)**	**13,065**	21,250	(5,313)	15,937
Deferred income tax (Note 30)	**–**	**4,355**	**–**	—	5,313	—

13. EARNINGS PER SHARE

(a) Basic

Basic earnings per share ("EPS") is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2018	2017
Profit attributable to owners of the Company (RMB'000)	**569,142**	404,250
Weighted average number of shares in issue (thousands)	**989,615**	989,615
Basic earnings per share (RMB per share)	**0.58**	0.41

13. EARNINGS PER SHARE *(continued)*

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

	Year ended 31 December	
	2018	2017
Profit attributable to owners of the Company (RMB'000)	**569,142**	404,250
Weighted average number of shares in issue (thousands)	**989,615**	989,615
Adjustments for:		
— Share options (thousands)	**3,724**	802
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**993,339**	990,417
Diluted earnings per share (RMB per share)	**0.57**	0.41

14. LEASE PREPAYMENTS

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC, the net book values of which are analysed as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Opening net book value	**223,872**	233,842
Acquisition of subsidiaries (Note 36)	**2,730**	8,910
Additions	**2,905**	6,508
Disposals (Note 32)	**—**	(20,624)
Amortisation charge	**(6,107)**	(4,764)
Closing net book value	**223,400**	223,872

(a) All the amortisation of the Group's land use rights was charged to administrative expenses.

(b) As at 31 December 2018, the Group was in the process of obtaining the legal title of land use rights with carrying amount of approximately RMB11,066,000 (2017: RMB36,072,000).

(c) As at 31 December 2018 and 2017, no land use right was secured for bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

(All amounts in RMB thousands unless otherwise stated)

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Equipment and machinery RMB'000	Gas pipelines RMB'000	Office equipment and motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2017						
Cost	329,088	265,211	1,393,152	56,859	405,903	2,450,213
Accumulated depreciation	(40,012)	(77,724)	(176,192)	(32,145)	—	(326,073)
Net book amount	289,076	187,487	1,216,960	24,714	405,903	2,124,140
Year ended 31 December 2017						
Opening net book amount	289,076	187,487	1,216,960	24,714	405,903	2,124,140
Acquisition of subsidiaries	8,232	2,501	39,184	530	—	50,447
Additions	34	7,009	1,143	3,738	284,894	296,818
Transfer from CIP	67,435	63,598	200,131	138	(331,302)	—
Transfer to investment properties	(1,269)	—	—	—	—	(1,269)
Disposals (Note 32)	(1,269)	(4,177)	(1,055)	(122)	(515)	(7,138)
Depreciation charge (Note 8)	(14,835)	(29,958)	(60,607)	(3,803)	—	(109,203)
Closing net book amount	347,404	226,460	1,395,756	25,195	358,980	2,353,795
At 31 December 2017						
Cost	402,041	331,924	1,631,814	57,144	358,980	2,781,903
Accumulated depreciation	(54,637)	(105,464)	(236,058)	(31,949)	—	(428,108)
Net book amount	347,404	226,460	1,395,756	25,195	358,980	2,353,795
Year ended 31 December 2018						
Opening net book amount	**347,404**	**226,460**	**1,395,756**	**25,195**	**358,980**	**2,353,795**
Acquisition of subsidiaries (Note 36)	**6,144**	**3,703**	**48,400**	**2,405**	**–**	**60,652**
Additions	**4,183**	**9,127**	**3,458**	**4,968**	**398,332**	**420,068**
Transfer from CIP	**50,194**	**4,331**	**213,445**	**163**	**(268,133)**	**–**
Transfer to investment properties	**(22,985)**	**–**	**–**	**–**	**–**	**(22,985)**
Disposals (Note 32)	**(557)**	**(1,104)**	**–**	**(330)**	**–**	**(1,991)**
Disposal of a subsidiary (Note 37)	**–**	**–**	**–**	**(5,929)**	**–**	**(5,929)**
Depreciation charge (Note 8)	**(17,548)**	**(33,088)**	**(68,306)**	**(5,571)**	**–**	**(124,513)**
Closing net book amount	**366,835**	**209,429**	**1,592,753**	**20,901**	**489,179**	**2,679,097**
At 31 December 2018						
Cost	**434,142**	**346,884**	**1,897,117**	**55,354**	**489,179**	**3,222,676**
Accumulated depreciation	**(67,307)**	**(137,455)**	**(304,364)**	**(34,453)**	**–**	**(543,579)**
Net book amount	**366,835**	**209,429**	**1,592,753**	**20,901**	**489,179**	**2,679,097**

15. PROPERTY, PLANT AND EQUIPMENT

(a) Depreciation expense of approximately RMB112,761,000 (2017: RMB97,796,000) has been charged in cost of sales, RMB376,000 (2017: RMB351,000) in distribution expenses and RMB11,376,000 (2017: RMB11,056,000) in administrative expenses.

(b) As at 31 December 2018 and 2017, no buildings of the Group was secured for bank borrowings.

(c) As at 31 December 2018, the Group was in the process of obtaining the legal title of buildings with carrying amount of approximately RMB160,403,000 (2017: RMB103,410,000).

(d) As at 31 December 2018 and 2017, the CIP mainly comprises the gas pipelines, LNG plant, LNG and CNG storage stations being constructed in the PRC.

(e) During the year ended 31 December 2018, the Group has capitalised borrowing costs amounting to RMB30,962,000 (2017: RMB29,487,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings at 6.32% (2017: 6.26%).

16. INVESTMENT PROPERTIES

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
At beginning of the year		
Cost	**40,547**	26,587
Accumulated depreciation	**(9,720)**	(8,377)
Net book amount	**30,827**	18,210
For the year		
Opening net book amount	**30,827**	18,210
Acquisition of subsidiaries	**—**	12,660
Transfer from property, plant and equipment	**22,985**	1,269
Depreciation charge	**(2,175)**	(1,312)
Closing net book amount	**51,637**	30,827
At end of the year		
Cost	**68,268**	40,547
Accumulated depreciation	**(16,631)**	(9,720)
Net book amount	**51,637**	30,827
Fair value at end of the year (b)	**111,366**	55,241

16. INVESTMENT PROPERTIES *(continued)*

(a) The following amounts have been recognised in profit or loss:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Rental income	**3,409**	2,818
Direct operating expenses from properties that generated rental income	**(2,175)**	(1,312)
	1,234	1,506

As at 31 December 2018 and 2017, the Group had no unprovided contractual obligations for future repairs and maintenance.

(b) The Group's investment properties are analysed as follows:

As at 31 December 2018 and 2017, the fair value of investment property is measured using significant unobservable inputs (Level 3).

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no transfers among levels 1, 2 and 3 during the years of 2018 and 2017.

Valuation techniques

The valuation of investment properties is determined using the direct comparison approach. Sales prices of comparable properties in close proximity are adjusted for property's size and the ageing degree.

The significant unobservable inputs adopted include:

Recent market price — Based on the actual market selling price of the properties;
Property's size — Based on the size of the properties;
The ageing degree — Based on the years of the properties used.

Description — Office building	**Fair value** RMB'000	**Valuation technique**	**Unobservable inputs**
At 31 December 2018	111,366	Direct comparison approach	RMB6,202- RMB10,912per square meter
At 31 December 2017	55,241	Direct comparison approach	RMB2,700 — RMB9,300 per square meter

16. INVESTMENT PROPERTIES *(continued)*

(c) Depreciation expense of approximately RMB2,175,000 (2017: RMB1,312,000) has been charged in cost of sales.

(d) Leasing arrangements

Certain investment properties are leased to tenants under long-term operating leases with rental payable at regular intervals during the year based on the payment terms. Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the consolidated financial statements are receivable as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within 1 year	**2,813**	2,298
Later than 1 year but no later than 3 years	**3,840**	2,952
More than 3 years	**3,236**	—
	9,889	5,250

(e) As at 31 December 2018 and 2017, no investment properties were secured for bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

17. INTANGIBLE ASSETS

	Goodwill RMB'000	Operating rights RMB'000	Computer software RMB'000	Network RMB'000	Contractual customer relationships RMB'000	Total RMB'000
At 1 January 2017						
Cost	1,525,532	922,607	2,125	319,789	401,910	3,171,963
Accumulated amortisation	—	(111,896)	(1,167)	(30,353)	(29,463)	(172,879)
Net book amount	1,525,532	810,711	958	289,436	372,447	2,999,084
Year ended 31 December 2017						
Opening net book amount	1,525,532	810,711	958	289,436	372,447	2,999,084
Acquisition of subsidiaries	246,422	232,205	27	—	—	478,654
Additions	—	2,830	145	—	—	2,975
Amortisation charge	—	(45,009)	(570)	(10,660)	(16,836)	(73,075)
Closing net book amount	1,771,954	1,000,737	560	278,776	355,611	3,407,638
At 31 December 2017						
Cost	1,771,954	1,157,642	2,297	319,789	401,910	3,653,592
Accumulated amortisation	—	(156,905)	(1,737)	(41,013)	(46,299)	(245,954)
Net book amount	1,771,954	1,000,737	560	278,776	355,611	3,407,638
Year ended 31 December 2018						
Opening net book amount	**1,771,954**	**1,000,737**	**560**	**278,776**	**355,611**	**3,407,638**
Acquisition of subsidiaries (Note 36)	**227,496**	**68,549**	**4**	**161,528**	**–**	**457,577**
Additions	**–**	**2,085**	**333**	**–**	**–**	**2,418**
Amortisation charge	**–**	**(52,675)**	**(471)**	**(11,147)**	**(16,836)**	**(81,129)**
Closing net book amount	**1,999,450**	**1,018,696**	**426**	**429,157**	**338,775**	**3,786,504**
At 31 December 2018						
Cost	**1,999,450**	**1,228,276**	**2,634**	**481,317**	**401,910**	**4,113,587**
Accumulated amortisation	**–**	**(209,580)**	**(2,208)**	**(52,160)**	**(63,135)**	**(327,083)**
Net book amount	**1,999,450**	**1,018,696**	**426**	**429,157**	**338,775**	**3,786,504**

17. INTANGIBLE ASSETS *(continued)*

(a) During the year ended 31 December 2018, amortisation of approximately RMB78,084,000 (2017: RMB70,047,000) was included in cost of sales, and RMB3,045,000 (2017: RMB3,028,000) was included in administration expenses.

(b) Impairment for goodwill

Management reviews the business performance based on subsidiaries and type of business. It has identified Jilin Zhongji, Puyang Tianlun, Henan Luyuan, Henan Songxian, Dongkou Senbo, Kaifeng Xi'Na, Caoxian Zhongtian, Shanxian Zhongtian, Gansu Baiyin, Yunnan Datong, Heze Guanghe, Dongming Wanji, Chaozhou Huamao, Shantou Chenghai, Tianlun Pipeline, Suzhou Tianlun, Sanming Huiji, Lechang Anshunda, Hunan Zhongyou, Jilin Qian'an, Liquan Hongyuan, Qianxian Hongyuan, Sichuan Mingsheng, Xichuan Longcheng, Jintang Gas, Mizhi Changxing, Wubu Changxing and Shijiazhuang Jinming as the subsidiaries which are subject to the annual impairment testing on goodwill.

The above subsidiaries all engaged in distribution and sale of natural gas, and connection of gas pipelines in the PRC. Goodwill is monitored by management at the operating segment level. The following is a summary of goodwill allocation for each CGU:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

(All amounts in RMB thousands unless otherwise stated)

17. INTANGIBLE ASSETS *(continued)*

(b) Impairment for goodwill *(continued)*

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Jilin location		
Jilin Zhongji	**89,045**	89,045
Jilin Qian'an	**3,089**	3,089
Gansu location		
Gansu Baiyin	**86,715**	86,715
Henan location		
Puyang Tianlun	**6,167**	6,167
Henan Luyuan	**7,663**	7,663
Henan Songxian	**8,115**	8,115
Kaifeng Xi'Na	**10,079**	10,079
Xichuan Longcheng	**33,533**	33,533
Hunan location		
Dongkou Senbo	**7,572**	7,572
Hunan Zhongyou	**20,353**	20,353
Yunnan location		
Yunnan Datong	**16,778**	16,778
Shandong location		
Caoxian Zhongtian	**11,401**	11,401
Shanxian Zhongtian	**14,222**	14,222
Heze Guanghe	**61,656**	61,656
Dongming Wanji	**14,967**	14,967
Guangdong location		
Chaozhou Huamao	**166,070**	166,070
Shantou Chenghai	**65,937**	65,937
Beijing Tian Lun Investment Group		
Tianlun Pipeline	**265,503**	265,503
Suzhou Tianlun	**188,697**	188,697
Sanming Huiji	**22,518**	22,518
Lechang Anshunda	**28,063**	28,063
Shaanxi location		
Liquan Hongyuan	**90,106**	90,106
Qianxian Hongyuan	**57,978**	57,978
Mizhi Changxing	**52,215**	—
Wubu Changxing	**29,497**	—
Sichuan location		
Sichuan Mingsheng	**249,305**	249,305
Jintang Gas	**246,422**	246,422
Hebei location		
Shijiazhuang Jinming	**145,784**	—
	1,999,450	1,771,954

17. INTANGIBLE ASSETS *(continued)*

(b) Impairment for goodwill *(continued)*

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period, while in some circumstances, an eight-year period is taken into consideration. Cash flows beyond the five-year or eight-year period are extrapolated using the estimated growth rates stated below until the expiry of the relevant operation periods or operating rights. The growth rate does not exceed the long-term average growth rate for the gas business in which the CGU operates. In the opinion of the Company's directors, the recoverable amounts of the CGUs will not be lower than the carrying amount even if taking into account a reasonably possible change in a key assumption on the calculations of recoverable amounts of the CGUs.

Except for the CGUs belongs to Beijing Tian Lun Investment Group, the other CGUs in the same geography share approximately the same compound annual volume growth rate, long term growth rate and pre-tax discount rate. The CGUs belongs to Beijing Tian Lun Investment Group share approximately the same compound annual volume growth rate, long term growth rate and pre-tax discount rate, as their business models are similar to each other. The CGUs belongs to Beijing Tian Lun Investment Group and the other CGUs in the same geography had been grouped together for presentation only, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

17. INTANGIBLE ASSETS *(continued)*

(b) Impairment for goodwill *(continued)*

The key assumptions used for value-in-use calculations in 2018 are as follows:

	Jilin Location	Gansu Location	Henan Location	Hunan Location	Yunnan Location	Shandong Location	Guangdong Location	Beijing Tian Lun Investment Group	Shaanxi Location	Sichuan Location	Hebei Location
Sales volume (% annual growth rate)	**14%**	**13%**	**16%**	**22%**	**59%**	**19%**	**37%**	**23%**	**17%**	**15%**	**32%**
Sales price (% annual growth rate)	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**
Other operating costs (RMB' 000)	**23,008**	**12,208**	**18,711**	**10,392**	**8,736**	**12,880**	**13,560**	**20,541**	**21,860**	**26,398**	**8,739**
Annual capital expenditure (RMB' 000)	**9,281**	**3,727**	**10,274**	**3,780**	**2,154**	**1,181**	**9,277**	**12,478**	**26,423**	**8,920**	**4,800**
Gross margin (% of revenue)	**33%**	**28%**	**30%**	**33%**	**46%**	**34%**	**23%**	**15%**	**40%**	**40%**	**32%**
Long term growth rate	**3%**	**3%**	**3%**	**3%**	**3%**	**3%**	**3%**	**3%**	**3%**	**3%**	**3%**
Pre-tax discount rate	**20%**	**18%**	**19%**	**18%**	**18%**	**19%**	**19%**	**17%**	**18%**	**16%**	**19%**

The key assumptions used for value-in-use calculations in 2017 are as follows:

	Jilin Location	Gansu Location	Henan Location	Hunan Location	Yunnan Location	Shandong Location	Guangdong Location	Beijing Tian Lun Investment Group	Shaanxi Location	Sichuan Location
Sales volume (% annual growth rate)	24%	14%	14%	28%	64%	21%	43%	29%	18%	25%
Sales price (% annual growth rate)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other operating costs (RMB' 000)	19,425	9,542	6,047	4,608	4,520	9,348	14,485	17,862	7,240	8,246
Annual capital expenditure (RMB' 000)	6,094	3,622	7,310	1,849	2,806	3,802	7,710	17,439	4,339	3,708
Gross margin (% of revenue)	28%	29%	34%	28%	44%	30%	26%	14%	31%	33%
Long term growth rate	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Pre-tax discount rate	20%	18%	19%	18%	18%	19%	19%	17%	18%	16%

17. INTANGIBLE ASSETS *(continued)*

(b) Impairment for goodwill *(continued)*

These assumptions have been used for the analysis of each CGU within the operating segment.

Sales volume is the average compound annual growth rate which is based on past performance and management's expectations of market development over the five-year or eight-year forecast period.

Sales price is the average annual growth rate over the five-year or eight-year forecast period, it is estimated to be stable during the forecast period.

Other operating costs are the fixed costs of the CGUs, which do not vary significantly with sales volumes or prices. Management forecasts these costs based on the current structure of the business, adjusting for inflationary increases and these do not reflect any future restructurings or cost saving measures. The amounts disclosed above are the average operating costs for the five-year or eight-year forecast period.

Annual capital expenditure is the expected cash costs in the subsidiaries of each group. This is based on the historical experience and the long-term assets investment plan of the management.

Gross margin is the average margin as a percentage of revenue over the five-year or eight-year forecast period. It is based on the current sales margin levels.

The long term growth rates are based on management's best estimates with consideration of both internal and external factors relating to the CGUs.

The discount rates used are pre-tax and reflect specific risks relating to the relevant locations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

(All amounts in RMB thousands unless otherwise stated)

18. FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

		As at 31 December	
Financial assets	Notes	**2018**	2017
		RMB'000	RMB'000
Financial assets at amortised cost			
Trade and other receivables (exclude prepayments, value-added-tax to be offset, prepaid income tax and other non-financial assets)	20	**1,077,788**	483,528
Cash and cash equivalents	24	**1,075,907**	678,237
Restricted cash	24	**278,171**	22,739
Financial assets at fair value through other comprehensive income	19	**78,815**	—
Available-for-sale financial assets	19	**—**	61,395
Financial assets at fair value through profit or loss	23	**305,000**	300,000
		2,815,681	1,545,899
Financial liabilities			
Liabilities at amortised cost			
Trade and other payables (exclude accrued payroll and welfare payables and other taxes payables)	28	**1,295,446**	637,797
Borrowings	29	**5,418,048**	3,867,132
Financial liabilities at fair value through profit or loss	23	**—**	22,898
		6,713,494	4,527,827

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(a) Financial assets at fair value through other comprehensive income include the following:

	As at 31 December	
	2018	2017*
	RMB'000	RMB'000
Non- current assets		
Unlisted securities		
— Gas industry equity interest (i)	**78,815**	—

* These investments were classified as available-for-sale financial assets in 2017, see (e) below. All of these investments were also held in the previous period.

(i) As at 31 December 2018, the Group's total percentage shareholding in the investee was 19%.

This investment is classified as financial assets at fair value through other comprehensive income, rather than as an investment in an associate, because the Group does not have the power to exercise significant influence over the investee. Although one representative has been assigned to the investee as its director of the board, the Group's determination that it does not exercise a "significant influence" over the investee has been based on the following factors:

- The Group does not have a significant influence in respect of the voting power in the policy-making decisions of the investee due to the minority shareholding position;
- There are no interchange of management personnel or sharing of technical information between the Group and the investee;
- There are no potential voting rights that are currently exercisable or currently convertible;
- The access to the financial and operating information of the investee was very restrictive for the Group;
- In addition, the Group made a few proposals to the board of the investee in prior years, such as the dividends distribution plan and senior management assignment to the investee etc., and all of these proposals were vetoed.

Financial assets at fair value through other comprehensive income measured at fair value in the consolidated balance sheet are categorised by level according to the significance of the inputs used in making the measurements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(continued)*

(a) *(continued)*

(i) *(continued)*

Recurring measurements	**Fair values**	**Quoted prices in Active markets for identical instruments (Level I)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Financial assets at fair value through other comprehensive income				
Unlisted equity investment	78,815	—	—	78,815
— As at 31 December 2018	78,815	—	—	78,815

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers in or out of Level 3 fair value measurements for financial assets at fair value through other comprehensive income during the year.

As at 31 December 2018, the fair values of unlisted equity investment are valued by independent professionally qualified valuation firm Asset Appraisal Limited and calculated by using the market approach to determine the fair value of the assets by reference to the transaction prices, or "valuation multiples" implicit in the transaction prices, of identical or similar assets on the market, which results in these measurements being classified as Level 3 in the fair value hierarchy.

In applying the market approach, a few valuation multiples are to be determined by dividing a financial parameter by the transaction price paid for similar business enterprises, such as historical or prospective turnover or profit at a given level. Valuation multiples are applied to the corresponding financial parameter of the subject asset in order to value it. Adjustments are required to the transaction prices or valuation multiples to reflect the differentiating characteristics of the business enterprises and the comparable business enterprises for which the transaction prices or valuation multiples are known. The multiples adopted in the valuation are among price/earnings and price/EBITDA, and the value of unlisted equity investment was determined by the average of the results calculated using the different multiples.

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(continued)*

(a) *(continued)*

(i) *(continued)*

Information about fair value measurements using significant unobservable inputs (Level 3)

Description	**Fair value** (RMB'000)	**Valuation technique**	**Unobservable inputs**	**Unobservable inputs (probability – Weighted average)**	**Relationship of unobservable inputs to fair value**
Unlisted equity investment					
— As at 31 December 2018	78,815	Market approach	Price/earnings Price/EBITDA	13.03 9.32	The higher the ratios, the higher the fair value
— As at 31 December 2017	61,395	Market approach	Price/earnings Price/EBITDA	14.90 10.17	The higher the ratios, the higher the fair value

(b) Amounts recognised in profit or loss and other comprehensive income

During the year, the following gains were recognised in profit or loss and other comprehensive income.

	Year ended 31 December	
	2018 **RMB'000**	2017 RMB'000
Gains recognised in other comprehensive income (see Note 27); 2017 relating to available-for-sale financial assets, see (e) below	**17,420**	21,250
Dividends from equity investments held at fair value through other comprehensive income recognised in profit or loss in other income (see Note 6); 2017 relating to available-for-sale financial assets, see (e) below	**–**	12,945

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(continued)*

(c) Financial assets at fair value through other comprehensive income are denominated in RMB.

(d) None of these financial assets is impaired.

(e) Financial assets previously classified as available-for-sale financial assets (2017)

Available-for-sale financial assets included the following classes of financial assets:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Non-current assets		
Unlisted securities		
Gas industry equity interest	**–**	61,395

Investments were designated as available-for-sale financial assets if they did not have fixed maturities and fixed or determinable payments, and management intended to hold them for the medium to long-term. Financial assets that were not classified into any of the other categories (at fair value through profit or loss , loans and receivables or held-to-maturity investments) were also included in available-for-sale financial assets category. For the Group's other accounting polices for financial assets, see Note 2.13.

20. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade receivables — gross (a)	**463,367**	351,551
Less: provision for impairment	**(9,446)**	(2,404)
Bills receivables	**50,949**	32,839
Prepayments	**319,461**	120,237
Receivables due from related parties (a) (Note 38)	**463,573**	28,468
Other receivables	**202,751**	169,955
Less: provision for impairment	**(280)**	—
Value-added-tax to be offset and prepaid income tax	**31,344**	35,564
	1,521,719	736,210
Less: long-term prepayments	**(59,454)**	(69,661)
Current portion	**1,462,265**	666,549

20. TRADE AND OTHER RECEIVABLES *(continued)*

(a) The credit period generally granted to customers in relation to sales of pipelined gases is up to two months. As for the customers in relation to connection of gas pipelines, the Group generally requests advance payments, and in circumstances of credit sales, management closely monitors the credit quality of the customers, and credit period was granted case by case with maximum of 2 years. As for the customer in relation to engineering design and construction, the Group requests advance payment and credit period was grant up to 6 months. The following is an ageing analysis of trade receivables and receivables due from related parties in trade nature amounting to RMB437,559,000 (2017: RMB14,850,000), presented based on invoice date at the end of the reporting period:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Less than 30 days	**780,231**	277,405
31 days to 90 days	**39,765**	9,476
91 days to 1 year	**43,832**	44,862
Over 1 year	**13,233**	22,261
Over 2 years	**23,865**	12,397
	900,926	366,401

(b) The carrying amounts of trade and other receivables approximate their fair values.

(c) See Note 3.1 for the movement on the provision for impairment of trade receivables and other receivables. And the other classes within trade and other receivables do not contain impaired assets.

(d) The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

(e) The carrying amounts of trade and other receivables were denominated in RMB.

(f) As at 31 December 2018, the trade receivables with carrying value of approximately RMB24,933,000 were pledged for the Group's borrowings (Note 29).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

21. PREPAYMENTS RELATED TO OTHER NON-CURRENT ASSETS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Prepayments related to share purchase agreements (i)	**70,108**	56,817
Prepayments related to long-term assets construction	**62,705**	24,888
	132,813	81,705

(i) As at 31 December 2018, prepayments amounting to RMB70,108,000 (2017: RMB56,817,000) were related to the prepayments made for purchasing the equity of other private companies in gas industry.

22. INVENTORIES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Materials for gas pipelines	**198,154**	39,511
Consumables	**1,899**	842
Work in progress	**—**	6,272
	200,053	46,625

The costs of individual items of inventory are determined using weighted average costs.

As at 31 December 2018 and 2017, no inventories write-down was provided.

The cost of inventories recognised as the Group's expense and included in cost of sales amounted to approximately RMB3,001,819,000 (2017: RMB2,003,027,000).

23. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Financial assets at fair value through profit or loss

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Current assets		
Investment in a trust (i)	**300,000**	300,000
Bank financial products (ii)	**5,000**	—
	305,000	300,000

(b) Financial liabilities at fair value through profit or loss

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Cross currency swap (iii)	**—**	(22,898)

(i) On 21 March 2017, the investment in trust with Zhongyuan Trust Company Limited ("Zhongyuan Trust"), which is ultimately owned by the People's Government of Henan Province, was matured and the respective principal and dividends were collected by the Group. On 7 April 2017, Henan Tian Lun Gas and Zhongyuan Trust, entered into a new trust investment agreement amounting to RMB300,000,000 in relation to the investment in a portfolio of trust financial products managed and maintained by Zhongyuan Trust for a term of two years. The investment in trust fund can be redeemed by the Group at its will, and therefore is classified as a current asset.

The fair value of the investment in trust is measured by the discounted cash flow model with key assumptions including expected return rate, counter-parties' credit risk and market interest rate.

(ii) Bank financial products are non-derivative financial products purchase from major listed banks in the PRC with comparatively lower risk. The fair values of bank financial products are based on the cash flows discounted using a rate based on the market interest rate and the risk premium specific to the investments. The fair values are within level 3 of the fair value hierarchy (see Note 3.3).

(iii) Most of the Group's foreign currency exposure is arising from the Group's borrowings which are denominated in USD. In order to deconcentrate the Group's foreign exchange risk between USD and its functional currency RMB, the Group entered into two cross currency swap contracts to buy Euro for USD in 2016. In 2017, no additional cross currency contracts were entered into by the Group, and one cross currency contract with a notional amount of USD40,000,000 was matured and settled. At the end of 2017, the Group has one remaining outstanding cross currency swap contract with a notional amount of USD50,000,000 which was reclassified as "Financial liabilities at fair value through profit or loss". In 2018, the remaining cross currency swap contract was matured and settled. The cross currency swap contracts are measured at fair value at the end of the reporting period which is determined by reference to the prices as quoted by the counterparty financial institution.

23. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

(c) Amounts recognised in profit or loss

During the year, the following gains/(losses) were recognised in profit or loss:

	For the year ended	
	2018	2017
	RMB'000	RMB'000
Investment gains/(losses) on cross currency swap	**8,055**	(64,434)
Investment gains on investment in a trust	**30,509**	26,235
Interest income from bank financial products	**4,819**	1,983

(d) None of these financial assets is impaired.

24. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Cash in hand	**151**	444
Cash at banks	**1,075,756**	677,793
	1,075,907	678,237

Cash in hand and at banks are denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	**1,053,652**	650,863
USD	**20,786**	26,443
HKD	**1,469**	931
Cash and cash equivalents	**1,075,907**	678,237

The conversion of the RMB denominated balances into foreign currencies and the remittance of these funds out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

24. CASH AND CASH EQUIVALENTS *(continued)*

(b) Restricted cash

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	**233,710**	4,690
USD	**16,007**	10,508
HKD	**28,454**	7,091
EUR	**—**	450
Restricted cash	**278,171**	22,739

As at 31 December 2018, USD2,332,000 (approximately RMB16,007,000) and HKD32,473,000 (approximately RMB28,454,000) are restricted deposits held at bank as reserve for serving of debt for loans provided by the bank (2017:USD1,608,000, approximately RMB10,508,000, HKD8,454,000, approximately RMB7,091,000 and EUR57,000 approximately RMB450,000); RMB3,710,000 is restricted deposits held at bank for purchasing natural gas from the suppliers (2017: RMB4,690,000); and RMB230,000,000 is held as the deposits of notes payable.

25. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares (thousands)	**Ordinary shares** RMB'000	**Share premium** RMB'000	**Total** RMB'000
Issued and fully paid:				
At 1 January 2017	989,615	8,340	1,264,114	1,272,454
At 31 December 2017	989,615	8,340	1,264,114	1,272,454
Dividends relating to 2018 dividend (Note 31)	—	—	(75,963)	(75,963)
At 31 December 2018	989,615	8,340	1,188,151	1,196,491

The total authorised number of ordinary shares is 2,000,000,000 shares (2017: 2,000,000,000 shares) with a par value of HKD0.01 per share (2017: HKD0.01 per share).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

26. SHARE-BASED PAYMENTS

In 2014, share options were granted to directors and selected employees. The exercise price of the granted options represents the highest of the closing price on the date of grant, the average closing price for the five trading days immediately preceding the date of the grant, and the nominal value of the share. 50% of the share options may be exercised within the period from 27 January 2016 to 26 January 2017 ("tranche 1") and the remaining 50% of the share options may be exercised within the period from 27 January 2017 to 26 January 2018("tranche 2"). The share options are conditional on the employee remaining in the entity's employ for a specified period of time. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

In 2017, share options were granted to three directors of the Company. The exercise price of the granted options represents the highest of the closing price on the date of grant, the average closing price for the five trading days immediately preceding the date of the grant, and the nominal value of the share. One third of the share options may be exercised within the period from 18 July 2018 to 17 July 2019("tranche 1"); another one third of the share options may be exercised within the period from 18 July 2019 to 17 July 2020("tranche 2"); and the remaining one third of the share options may be exercised within the period from 18 July 2020 to 17 July 2021("tranche 3"). The share options are conditional on the directors' remaining in the entity's employ for a specified period of time. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

	2018	
	Average exercise price in HKD per share option	**Number of share options (thousands)**
At 1 January	**5.698**	**22,570**
Forfeited	**7.142**	**(7,570)**
At 31 December	**4.970**	**15,000**

	2017	
	Average exercise price in HKD per share option	Number of share options (thousands)
At 1 January	7.142	15,140
Forfeited	7.142	(7,570)
Granted	4.970	15,000
At 31 December	5.698	22,570

As at 31 December 2018, out of the 15,000,000 outstanding options (2017: 22,570,000), 5,000,000 options (2017: 7,570,000) were exercisable. None of the share options were exercised in 2018 (2017: none).

26. SHARE-BASED PAYMENTS *(continued)*

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price in HKD per share option	Number of share options (thousands)	
		2018	2017
27 January 2018	7.142	**–**	7,570
17 July 2019	4.970	**5,000**	5,000
17 July 2020	4.970	**5,000**	5,000
17 July 2021	4.970	**5,000**	5,000
		15,000	22,570

The fair value of options granted on 27 January 2014 to the directors and selected employees was determined by using the binomial valuation model. For the tranche 1, the fair value of options granted to the directors and selected employees was HKD1.84 per option; for the tranche 2, the fair value of options granted to the directors and selected employees was HKD2.18 per option. The significant inputs into the model were spot share price of HKD7.01 at the grant date, exercise price shown above, volatilities of 39.33% and 39.58% for tranche 1 and tranche 2 respectively, dividend yield of 0%, exercise multiples of 2.8 and 2.2 for directors and selected employees respectively, forfeiture rate of 20.00% and 15.71% for directors and selected employees respectively, and an annual risk-free interest rates of 0.65% and 1.03% for tranche 1 and tranche 2 respectively. The volatilities were based on the daily historical volatility of the Company.

The fair value of options granted on 18 July 2017 to three directors was determined by using the binomial valuation model. For the tranche 1, the fair value of options granted to the directors was HKD0.93 per option; for the tranche 2, the fair value of options granted to the directors was HKD1.11 per option; for the tranche 3, the fair value of options granted to the directors was HKD1.20 per option. The significant inputs into the model were spot share price of HKD4.97 at the grant date, exercise price shown above, volatilities of 36.21%, 35.67% and 34.17% for tranche 1, tranche 2 and tranche 3, respectively, dividend yield of 1.67%, exercise multiples of 2.8, forfeiture rate of 5.14%, and an annual risk-free interest rates of 0.78%, 0.90% and 1.03% for tranche 1, tranche 2 and tranche 3, respectively. The volatilities were based on the daily historical volatility of the Company.

See Note 9 for the total expenses recognised in profit or loss for share options granted to directors and employees.

27. RESERVES AND RETAINED EARNINGS

(a) Reserves

	Capital reserves RMB'000	Statutory reserves RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
At 1 January 2017	(60,670)	140,605	—	(1,519)	78,416
Revaluation-gross (Note 19)	—	—	—	21,250	21,250
Revaluation-tax (Note 30)	—	—	—	(5,313)	(5,313)
Appropriation (i)	—	54,580	—	—	54,580
Employee share option scheme:					
— Value of employee services	4,593	—	—	—	4,593
At 31 December 2017	(56,077)	195,185	—	14,418	153,526
Reclassification on adoption of HKFRS9	—	—	14,418	(14,418)	—
At 1 January 2018	**(56,077)**	**195,185**	**14,418**	**–**	**153,526**
Revaluation-gross (Note 19)	**–**	**–**	**17,420**	**–**	**17,420**
Revaluation-tax (Note 30)	**–**	**–**	**(4,355)**	**–**	**(4,355)**
Appropriation (i)	**–**	**150,070**	**–**	**–**	**150,070**
Acquisition of additional interests of subsidiaries (Note 35)	**(39,563)**	**–**	**–**	**–**	**(39,563)**
Employee share option scheme:					
— Value of employee services	**4,834**	**–**	**–**	**–**	**4,834**
At 31 December 2018	**(90,806)**	**345,255**	**27,483**	**–**	**281,932**

27. RESERVES AND RETAINED EARNINGS *(continued)*

(a) Reserves *(continued)*

(i) Statutory reserves

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC now comprising the Group (the "PRC Subsidiaries"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserves fund before distributing the net profit. When the balance of the statutory surplus reserves fund reaches 50% of the registered capital of the PRC Subsidiaries, any further appropriation is at the discretion of shareholders.

The statutory surplus reserves fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding, provided that the remaining balance of the statutory surplus reserves fund after such issue is not less than 25% of registered capital.

For the year ended 31 December 2018, approximately RMB150,070,000 (2017: RMB54,580,000) were appropriated to the statutory surplus reserves funds from net profits of certain PRC subsidiaries.

(b) Retained earnings

	RMB'000
At 1 January 2017	1,080,332
Profit attributable to owners of the Company	404,250
Appropriation	(54,580)
Interim dividends paid (Note 31)	(77,629)
At 31 December 2017	1,352,373
At 1 January 2018	**1,352,373**
Profit attributable to owners of the Company	**569,142**
Appropriation	**(150,070)**
At 31 December 2018	**1,771,445**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

27. RESERVES AND RETAINED EARNINGS *(continued)*

(c) Other comprehensive income, net of tax

	Other reserves	Total other comprehensive income
	RMB'000	RMB'000
Year ended 31 December 2018		
Change in value of financial assets at fair value through other comprehensive income , net of tax	**13,065**	**13,065**
Total other comprehensive income	**13,065**	**13,065**
Year ended 31 December 2017		
Change in value of available-for-sale financial assets, net of tax	15,937	15,937
Total other comprehensive income	15,937	15,937

28. TRADE AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade payables (a and b)	**241,930**	180,754
Notes payables	**430,000**	—
Amounts due to related parties (a) (Note 38)	**41,175**	30,687
Accrued payroll and welfare	**2,197**	4,254
Interest payables	**16,708**	8,631
Other taxes payables	**83,725**	22,266
Contingent consideration payables	**339,680**	294,021
Other payables (a)	**225,953**	123,704
	1,381,368	664,317
Less: non-current portion of other payables and accruals (d)	**(136,598)**	(136,598)
Current portion	**1,244,770**	527,719

28. TRADE AND OTHER PAYABLES *(continued)*

(a) As at 31 December 2018 and 2017, all such trade payables and the current portion of other payables of the Group were non-interest bearing and their fair values approximated to their carrying amounts due to their short maturities.

(b) At 31 December 2018 and 2017, the ageing analysis of the trade payables, based on invoice date was as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Less than 30 days	**159,811**	100,353
31 days to 90 days	**37,300**	35,332
91 days to 1 year	**12,825**	22,303
1 year to 2 years	**6,737**	13,387
2 years to 3 years	**7,687**	2,699
Over 3 years	**17,570**	6,680
	241,930	180,754

(c) The carrying amount of the Group's trade and other payables were denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	**1,361,975**	649,811
USD	**12,944**	11,360
HKD	**6,449**	3,146
	1,381,368	664,317

(d) At 31 December 2018, the non-current portion of other payables and accruals included contingent consideration payables amounted to RMB124,406,000 (2017: RMB124,406,000) which were at fair value and long-term loan due to a non-controlling interest of a subsidiary amounted to RMB12,192,000 (2017: RMB12,192,000) with an interest rate of 10% per annum, of which the fair value approximated to the carrying amounts. The fair values of the contingent consideration payables and amount due to the non-controlling interest were measured by the discounted cash flow method and included in level 3 of the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

29. BORROWINGS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Non-current		
Bank borrowings		
— pledged (a)	**546,500**	634,100
— guaranteed (b)	**2,050,258**	1,232,812
— pledged and guaranteed (c)	**933,270**	634,200
Borrowings from a shareholder (d)	**274,528**	392,052
Other borrowings (e)	**5,269**	5,221
Total non-current borrowings	**3,809,825**	2,898,385
Current		
Bank borrowings		
— pledged (a)	**87,600**	86,125
— guaranteed (b)	**718,036**	524,723
— pledged and guaranteed (c)	**469,930**	161,309
— unsecured	**195,179**	195,729
Borrowings from a shareholder (d)	**137,264**	—
Other borrowings (e)	**214**	861
Total current borrowings	**1,608,223**	968,747
Total borrowings	**5,418,048**	3,867,132

(a) As at 31 December 2018 and 2017, the current and non-current bank borrowings were secured by the gas charging rights of Xuchang Tianlun, Shangjie Tianlun and Henan Tian Lun Gas.

(b) As at 31 December 2018 and 2017, the current and non-current bank borrowings were guaranteed by Mr. Zhang Yingcen (one of the shareholders of the Company).

29. BORROWINGS *(continued)*

(c) As at 31 December 2018, the current and non-current bank borrowings were secured by the gas charging rights of Zhenlai County Dadi, Tongyu County Dadi, Da'an Dadi, Panshi Dadi, Jiutai Dadi, Baicheng Dadi, Dunhua Dadi, Tianlun Pipeline, Sanming Huiji, Suzhou Tianlun, Xuchang Tianlun and Sichuan Mingsheng, trade receivables with carrying value of approximately RMB24,933,000 of Tianlun Pipeline and Jintang Gas, equity shares of Jintang Gas, and guaranteed by the related parties of the Group, which were Henan Tian Lun Real Estate Limited, Mr. Zhang Yingcen and Ms. Sun Yanxi (a family member of Mr. Zhang Yingcen), the former shareholders of Henan Huiji, Mr. Li Zifeng and Ms. Gao Hui.

As at 31 December 2017, the current and non-current bank borrowings were secured by the gas charging rights of Zhenlai County Dadi, Tongyu County Dadi, Da'an Dadi, Panshi Dadi, Jiutai Dadi, Baicheng Dadi, Dunhua Dadi, Tianlun Pipeline, Sanming Huiji, Suzhou Tianlun, Xuchang Tianlun and Sichuan Mingsheng, and guaranteed by the related parties of the Group, which were Henan Tian Lun Real Estate Limited, Mr. Zhang Yingcen and Ms. Sun Yanxi (a family member of Mr. Zhang Yingcen), the former shareholders of Tianlun Pipeline, Mr. Li Zifeng and Ms. Gao Hui.

(d) As at 31 December 2018 and 2017, borrowings of USD60,000,000, equivalent to approximately RMB411,792,000 (2017: RMB392,052,000) were from IFC, one of the Company's shareholders, which was guaranteed by Mr. Zhang Yingcen and two of his family members.

(e) As at 31 December 2018, such borrowings represented borrowings of RMB5,483,000 (2017: RMB5,417,000) from local government assumed by the Group to acquire the exclusive operating rights for city pipeline network in Xuchang City of Henan Province in 2003. As at 31 December 2017, borrowings due to certain employees of the Group of RMB665,000, which were unsecured, bore interests at rate 12% per annum.

(f) The maturities of the Group's borrowings at respective end of reporting period are set out as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
— Within 1 year	**1,608,223**	968,747
— Between 1 and 2 years	**1,454,354**	693,564
— Between 2 and 5 years	**2,026,150**	1,837,388
— Over 5 years	**329,321**	367,433
	5,418,048	3,867,132

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

29. BORROWINGS *(continued)*

(g) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	**2,681,479**	1,812,127
USD	**923,711**	1,720,645
HKD	**1,812,858**	334,360
	5,418,048	3,867,132

(h) The carrying amounts and fair value of the non-current borrowings are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Carrying amounts	**3,809,825**	2,898,385
Fair value	**3,825,064**	2,909,979

The carrying amounts of current borrowings approximated their fair value due to short maturities, as the impact of discounting was not significant.

The fair value of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics, which was 5.86% as at 31 December 2018 (2017: 5.50%) and is within level 3 of the fair value hierarchy.

(i) The effective interest rates of the Group's borrowings denominated in RMB, USD and HKD at the end of each reporting date are set out as follows:

	As at 31 December	
	2018	2017
RMB	**4.35%~6.00%**	4.35%~12.00%
USD	**6.00%~6.32%**	4.39%~5.17%
HKD	**4.51%~5.31%**	4.51%

30. DEFERRED INCOME TAX

(a) The analysis of deferred income tax assets and liabilities is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Deferred tax assets		
— Deferred tax assets to be recovered after more than 12 months	**27,739**	8,028
— Deferred tax assets to be recovered within 12 months	**5,953**	19,403
	33,692	27,431
Deferred tax liabilities		
— Deferred tax liability to be recovered after more than 12 months	**(461,702)**	(402,019)
— Deferred tax liability to be recovered within 12 months	**(13,309)**	(17,862)
	(475,011)	(419,881)
Deferred tax liabilities (net)	**(441,319)**	(392,450)

The gross movements on the deferred income tax account are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
At 1 January	**(392,450)**	(344,143)
Acquisition of subsidiaries (Note 36)	**(41,705)**	(61,786)
Disposal of a subsidiary (Note 37)	**(165)**	—
Tax charge relating to other comprehensive income (Note 12)	**(4,355)**	(5,313)
(Charged)/credited to profit or loss (Note 12)	**(2,644)**	18,792
At 31 December	**(441,319)**	(392,450)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

(All amounts in RMB thousands unless otherwise stated)

30. DEFERRED INCOME TAX *(continued)*

(b) The movements in deferred income tax assets and liabilities during the year are as follows:

Deferred tax assets

	Provision for impairment of assets RMB'000	Accrued expenses RMB'000	Tax losses RMB'000	Depreciation RMB'000	Share option RMB'000	Offsetting RMB'000	Total RMB'000
As at 1 January 2017	147	820	23,516	1,029	759	—	26,271
Acquisition of subsidiaries	230	—	—	—	—	—	230
Credited to profit or loss	601	126	203	—	—	—	930
As at 31 December 2017	978	946	23,719	1,029	759	—	27,431
Acquisition of subsidiaries (Note 36)	—	—	14,696	—	—	—	14,696
Disposal of a subsidiary (Note 37)	—	—	(165)	—	—	—	(165)
Credited/(charged) to profit or loss	1,445	109	(8,176)	—	408	(2,056)	(8,270)
As at 31 December 2018	2,423	1,055	30,074	1,029	1,167	(2,056)	33,692

Deferred tax liabilities

	Revaluation of financial assets at fair value through profit or loss RMB'000	Fair value adjustments related to business combinations RMB'000	Revaluation of financial assets at fair value through other comprehensive imcome/ Available-for-sale financial assets RMB'000	Withholding tax relating to dividends to be distributed/ interests earned from the PRC subsidiaries RMB'000	Depreciation RMB'000	Offsetting RMB'000	Total RMB'000
As at 1January 2017	221	367,025	(506)	3,674	—	—	370,414
Acquisition of subsidiaries	—	62,016	—	—	—	—	62,016
Charged to other comprehensive income	—	—	5,313	—	—	—	5,313
(Credited)/charged to profit or loss	(221)	(17,848)	—	207	—	—	(17,862)
As at 31 December 2017	—	411,193	4,807	3,881	—	—	419,881
Acquisition of subsidiaries (Note 36)	—	56,401	—	—	—	—	56,401
Charged to other comprehensive income	—	—	4,355	—	—	—	4,355
(Credited)/charged to profit or loss	—	(19,699)	—	5,953	10,176	(2,056)	(5,626)
As at 31 December 2018	—	447,895	9,162	9,834	10,176	(2,056)	475,011

30. DEFERRED INCOME TAX *(continued)*

(b) *(continued)*

As at 31 December 2018, deferred income tax liabilities of approximately RMB112,646,000 (2017: RMB102,404,000) had not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled approximately RMB2,252,915,000 as at 31 December 2018 (2017: RMB2,048,086,000). The Group does not intend to remit these unremitted earnings from the relevant subsidiaries to the Hong Kong holding entity in the foreseeable future.

(c) The Group did not recognise deferred income tax assets of approximately RMB16,056,000 (2017: RMB8,168,000) in respect of losses amounting to approximately RMB508,725,000 (2017: RMB249,606,000) that can be carried forward against future taxable income. The unrecognised tax losses will expire in the following years:

	2018 **RMB'000**	2017 RMB'000
2022	**2,121**	2,121
2023	**3,005**	—
No expiry date	**503,599**	247,485
	508,725	249,606

31. DIVIDENDS

The dividend paid in 2018 was RMB75,963,000 (2017: RMB77,629,000).

	2018 **RMB'000**	2017 RMB'000
Final dividend for the year ended 31 December 2017 of RMB2.30 cents per share(2016: Nil) paid to ordinary shares	**22,885**	—
Interim dividend for the year ended 31 December 2018 of RMB5.36 cents per share(2017: RMB7.88 cents per share) paid to ordinary shares	**53,078**	77,629
	75,963	77,629

Pursuant to the resolution of the Board of Directors dated 29 March 2019, the directors of the Company proposed to distribute total final dividend of RMB99,000,000 (RMB10.00 cents per share) for the year ended 31 December 2018 (2017: RMB22,885,000)(RMB2.30 cents per share), which was not recognised as a liability at year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

32. CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to cash generated from operations

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	**864,804**	575,839
Adjustments for:		
— Depreciation of property, plant and equipment and investment properties (Notes 15,16)	**126,688**	110,515
— Amortisation of intangible assets and lease prepayments (Notes 14,17)	**87,236**	77,839
— Finance income	**(80,410)**	(47,280)
— Finance costs	**401,491**	130,183
— Dividend from available-for-sale financial assets	**—**	(12,945)
— Share of post-tax losses/(gains) of associates and a joint venture	**44,940**	(23,371)
— Reversal of liabilities	**—**	(3,615)
— (Gains)/losses on disposal of property, plant and equipment and lease prepayments (b)	**(47)**	2,347
— Net gains on disposal of a subsidiary (Note 37)	**(2,984)**	—
	1,441,718	809,512
Changes in working capital:		
— Inventories	**(150,449)**	2,330
— Restricted cash	**(29,020)**	—
— Trade and other receivables	**(993,965)**	(25,737)
— Trade and other payables	**546,283**	(44,568)
— Contract liabilities/advance from customers	**78,785**	68,380
	(548,366)	405
Cash generated from operations	**893,352**	809,917

(b) Proceeds from disposal of property, plant and equipment and lease prepayments

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment and lease prepayments comprise:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Net book amount (Notes 14,15)	**1,991**	27,762
Gains/(losses)on disposal of property, plant and equipment and lease prepayments (Note 7)	**47**	(2,347)
Proceeds from disposal of property, plant and equipment and lease prepayments	**2,038**	25,415

32. CASH GENERATED FROM OPERATIONS *(continued)*

(c) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

Net debt	**Year ended 31 December 2018 RMB'000**	2017 RMB'000
Cash and cash equivalents	**1,075,907**	678,237
Liquid investments (i)	**305,000**	300,000
Borrowings — repayable within one year	**(1,608,223)**	(968,747)
Borrowings — repayable after one year	**(3,809,825)**	(2,898,385)
Net debt	**(4,037,141)**	(2,888,895)
Cash and liquid investment	**1,380,907**	978,237
Gross debt — fixed interest rates	**(500,663)**	(276,811)
Gross debt — variable interest rates	**(4,917,385)**	(3,590,321)
Net debt	**(4,037,141)**	(2,888,895)

	Other assets		**Liabilities from financing activities**		
	Cash and cash equivalents RMB'000	**Liquid investments (i) RMB'000**	**Borrowings due within 1 year RMB'000**	**Borrowings due after 1 year RMB'000**	**Total RMB'000**
Net debt as at 1 January 2017	755,390	318,882	(848,494)	(2,739,953)	(2,514,175)
Cash flows	(61,838)	(18,882)	(169,589)	(243,038)	(493,347)
Foreign exchange adjustments	(15,315)	—	49,336	84,606	118,627
Net debt as at 31 December 2017	678,237	300,000	(968,747)	(2,898,385)	(2,888,895)
Cash flows	420,068	5,000	(626,210)	(804,584)	(1,005,726)
Foreign exchange adjustments	(22,398)	—	(13,266)	(106,856)	(142,520)
Net debt as at 31 December 2018	1,075,907	305,000	(1,608,223)	(3,809,825)	(4,037,141)

(i) Liquid investments are the investment in trust and bank financial products that are classified as "financial assets at fair value through profit or loss", which can be redeemed by the Group when necessary.

33. CONTINGENCIES

As at 31 December 2018 and 2017, the Group did not have any material contingent liabilities.

34. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of each reporting period, but not yet incurred is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Share purchase consideration commitment	**123,680**	162,000
Capital investment to associate	**100,000**	100,000
Capital investment to a joint venture	**3,600,000**	—
Property, plant and equipment	**16,170**	31,684
	3,839,850	293,684

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Not later than one year	**2,261**	1,645
Later than one year and no later than five years	**4,455**	3,237
More than five years	**805**	1,467
	7,521	6,349

(c) Licensing fee commitments

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Not later than one year	**1,100**	1,100
Later than one year and no later than five years	**4,400**	4,400
Later than five years	**9,900**	11,000
	15,400	16,500

35. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Acquisition of additional interests in subsidiaries

On 31 July 2018, the Group acquired an additional 13% of the equity interests of Jilin Zhongji from its related party Henan Tian Lun Gas Engineering Investment Limited for a consideration of RMB71,510,000. The Group recognised a decrease in non-controlling interests of RMB32,686,000 and a decrease in equity attributable to owners of the Company of RMB38,824,000.

On 30 September 2018, the Group acquired an additional 30% of the equity interests of Tangyin Yuneng for a consideration of RMB3,000,000. The Group recognised a decrease in non-controlling interests of RMB2,261,000 and a decrease in equity attributable to owners of the Company of RMB739,000.

The effect of changes in the ownership interest of Jilin Zhongji and Tangyin Yuneng on the equity attributable to owners of the Company during the year is summarised as follows:

	Jilin Zhongji As at 31 July 2018	**Tangyin Yuneng As at 30 September 2018**	**Total**
	RMB'000	RMB'000	RMB'000
Carrying amount of non-controlling interests acquired	32,686	2,261	34,947
Consideration paid to non-controlling interests	(71,510)	(3,000)	(74,510)
Excess of consideration paid recognised within equity	(38,824)	(739)	(39,563)

36. BUSINESS COMBINATION

On 31 January 2018, the Group acquired 100% of the equity interests of Mizhi Changxing, an independent third party established in the PRC with limited liability, which is principally engaged in natural gas pipeline investment and construction, distribution and sales of natural gas in Mizhi, Yulin, Shaanxi Province. The total consideration was approximately RMB122,000,000.

On 31 January 2018, the Group acquired 100% of the equity interests of Wubu Changxing, an independent third party established in the PRC with limited liability, which is principally engaged in natural gas pipeline investment and construction, distribution and sales of natural gas in Wubu, Yulin, Shaanxi Province. The total consideration was approximately RMB55,000,000.

On 30 November 2018, the Group acquired 100% of the equity interests of Shijiazhuang Jinming, an independent third party established in the PRC with limited liability, which is principally engaged in natural gas pipeline investment and construction, distribution and sales of natural gas in Shijiazhuang, Hebei Province. The total consideration was approximately RMB265,000,000.

As a result of the abovementioned acquisition, the Group is expected to increase its presence in these markets. The goodwill of approximately RMB227,496,000 arising from the acquisition is attributable to the pre-existing and well positioned business operating in competitive markets, operating synergies with other existed operations of the Group, the expansion to and the strategic advantages of the upper stream of the industry, and economies of scale expected to be derived from combining the operations. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid and contingent consideration for the acquisition, the fair value of assets acquired, liabilities assumed and the non-controlling interests at the respective acquisition date.

	Mizhi Changxing as at 31 Jan 2018 RMB'000	**Wubu Changxing as at 31 Jan 2018** RMB'000	**Shijiazhuang Jinming as at 30 Nov 2018** RMB'000	**Total** RMB'000
Consideration				
— Cash paid	108,843	49,495	108,000	266,338
— Contingent consideration	13,157	5,505	157,000	175,662
Total consideration	122,000	55,000	265,000	442,000

36. BUSINESS COMBINATION *(continued)*

	Mizhi Changxing as at 31 Jan 2018 RMB'000	**Wubu Changxing as at 31 Jan 2018** RMB'000	**Shijiazhuang Jinming as at 30 Nov 2018** RMB'000	**Total** RMB'000
Recognised amounts of identifiable assets acquired and liabilities assumed:				
Cash and cash equivalents	23,866	806	3,662	28,334
Property, plant and equipment	19,695	20,255	20,702	60,652
Intangibles:				
— Exclusive operating rights	44,386	24,163	—	68,549
— Network	—	—	161,528	161,528
— Other	—	4	—	4
Lease prepayments	—	2,730	—	2,730
Inventories	1,188	628	1,163	2,979
Deferred tax assets	—	—	14,696	14,696
Trade and other receivables	2,732	746	19,859	23,337
Trade and other payables	(3,490)	(17,155)	(28,811)	(49,456)
Contract liabilities	(11,400)	(2,953)	(28,095)	(42,448)
Deferred tax liabilities	(7,192)	(3,721)	(45,488)	(56,401)
Total identifiable net assets acquired	69,785	25,503	119,216	214,504
Goodwill	52,215	29,497	145,784	227,496
	122,000	55,000	265,000	442,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

(All amounts in RMB thousands unless otherwise stated)

36. BUSINESS COMBINATION *(continued)*

	Mizhi Changxing as at 31 Jan 2018 RMB'000	Wubu Changxing as at 31 Jan 2018 RMB'000	Shijiazhuang Jinming as at 30 Nov 2018 RMB'000	Prior years acquisitions* RMB'000	Total RMB'000
Outflows of cash to acquire businesses, net of cash acquired					
— cash paid	108,843	49,495	108,000	130,003	396,341
— cash and cash equivalents in subsidiaries acquired	(23,866)	(806)	(3,662)	—	(28,334)
Less: cash prepaid in 2017	(10,000)	(5,000)	—	—	(15,000)
Cash outflows on acquisition	74,977	43,689	104,338	130,003	353,007

*For the year ended 31 December 2018, such cash consideration paid out included the amount of approximately RMB232,000 and RMB129,771,000 for the acquisitions of Xichuan Longcheng, and Sichuan Mingsheng, respectively in prior years.

(a) Acquisition-related costs of approximately RMB52,000 have been charged to administrative expenses in the profit or loss for the year ended 31 December 2018.

(b) Contingent consideration

The contingent consideration arrangement requires the Group to pay in cash RMB157,000,000, RMB13,157,000 and RMB5,505,000 respectively, to the former owners of Shijiazhuang Jinming, Mizhi Changing and Wubu Changxing under the condition that within one year of the equity transfer of them, no dispute on the legal right of the equity and assets, no undisclosed obiligations or unrecorded liabilities to be discovered by the Group and the revalued results of the assets and liabilities.

(c) Acquired receivables

The fair values of trade and other receivables approximate their carrying amounts totalling RMB23,337,000.

36. BUSINESS COMBINATION *(continued)*

(d) Revenue and profit contribution

The acquired business Mizhi Changxing contributed aggregated revenues of approximately RMB38,851,000 and aggregated net profit of approximately RMB15,208,000 to the Group for the period from the acquisition date to 31 December 2018.

Had the respective acquisition been consolidated from 1 January 2018, the consolidated statement of comprehensive income would show pro-forma revenue of RMB48,254,000 and net profit of RMB17,740,000, respectively.

The acquired business Wubu Changxing contributed aggregated revenues of approximately RMB13,603,000 and aggregated net profit of approximately RMB2,751,000 to the Group for the period from the acquisition date to 31 December 2018.

Had the respective acquisition been consolidated from 1 January 2018, the consolidated statement of comprehensive income would show pro-forma revenue of RMB16,352,000 and net profit of RMB3,042,000, respectively.

The acquired business Shijiazhuang Jinming contributed aggregated revenues of approximately RMB18,179,000 and aggregated net loss of approximately RMB1,908,000 to the Group for the period from the acquisition date to 31 December 2018.

Had the respective acquisition been consolidated from 1 January 2018, the consolidated statement of comprehensive income would show pro-forma revenue of RMB96,671,000 and net profit of RMB467,000, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

(All amounts in RMB thousands unless otherwise stated)

37. DISPOSAL OF A SUBSIDIARY

In October 2018, the Group disposed 100% equity interests of Baicheng Zhongji Gas Distribution Limited ("Baicheng Zhongji") to a third party at a consideration of approximately RMB5,000,000. Net gains on disposal of the equity interest of approximately RMB2,984,000 was recognised in profit or loss.

Details of net assets disposed of and gain on disposal of Baicheng Zhongji are as follows:

	Baicheng Zhongji As at 31 Oct 2018 RMB'000
Disposal proceeds:	
Cash consideration	**5,000**
Less: Net assets disposed	**(2,016)**
Net gains on disposal of a subsidiary (Note 7)	**2,984**

	Baicheng Zhongji As at 31 Oct 2018 RMB'000
Property, plant and equipment	**5,929**
Deferred income tax assets	**165**
Trade and other receivables	**1,361**
Cash and cash equivalents	**1,837**
Trade and other payables	**(7,185)**
Employee benefit obligations	**(91)**
Net assets	**2,016**
Less: equity interest retained	**—**
Net assets disposed	**2,016**
Cash received	**—**
Less: Cash and cash equivalents of subsidiary disposed	**(1,837)**
Net cash outflow on disposal of equity interests in subsidiaries	**(1,837)**

38. RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The Group is controlled by Tian Lun Group Limited, a company incorporated in the British Virgin Islands ("BVI"), a direct wholly-owned subsidiary of Gold Shine Development Limited (incorporated in the BVI), and is ultimately controlled by Mr. Zhang Yingcen and his wife ("Controlling Shareholders").

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2018 and 2017, and balances arising from related party transactions as at 31 December 2018 and 2017.

(a) Name and relationship with related parties

Name of related party	Relationship
IFC	Shareholder of the Company
Henan Tian Lun Gas Engineering Investment Limited ("Henan Tian Lun investment")	Controlled by the Controlling Shareholders
Henan Guangwushan Urban and Rural Construction Limited ("Guangwushan Construction")	Controlled by the Controlling Shareholders
Suzhou Ping Zhuang	Associate of the Group
Changchun Tian Lun Gas Engineering Investment Limited ("Changchun Tian Lun")	Controlled by the Controlling Shareholders
Luoyang Tianlun Transport Energy Technology Limited ("Tianlun Transport Energy")	Controlled by the Controlling Shareholders
Henan Yuzi Tianlun Fund	A joint venture of the Group
Henan Yutian New Energy Limited	Controlled by a joint venture of Henan Yuzi Tianlun Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

38. RELATED PARTY TRANSACTIONS *(continued)*

(b) Significant related party transactions

The Group had the following significant transactions with related parties.

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Sales of Gas		
Suzhou Ping Zhuang	**22,954**	27,415

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Interest charged by		
IFC	**23,241**	19,656

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Acquisition of subsidiary's equity interests		
Henan Tian Lun investment	**71,510**	—

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Engineering design and construction Service		
Henan Yutian New Energy Limited	**1,043,429**	—

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Purchase of Gas		
Tianlun Transport Energy	**3,909**	—

These transactions are carried out on terms agreed with the counter party in the ordinary course of business.

38. RELATED PARTY TRANSACTIONS *(continued)*

(c) Balances with related parties

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade and other receivables		
— Henan Yutian New Energy Limited	**442,977**	—
— Henan Tian Lun investment	**13,643**	13,618
— Changchun Tian Lun	**6,400**	—
— Suzhou Ping Zhuang	**553**	115
— Guangwushan Construction	**—**	14,735
	463,573	28,468

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade and other payables		
— Henan Yutian New Energy Limited	**28,650**	—
— IFC	**11,966**	9,260
— Henan Tian Lun investment	**227**	21,227
— Suzhou Ping Zhuang	**200**	200
— Tianlun Transport Energy	**132**	—
	41,175	30,687

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Loan due to		
— IFC	**411,792**	392,052

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

(All amounts in RMB thousands unless otherwise stated)

38. RELATED PARTY TRANSACTIONS *(continued)*

(d) Key management compensation

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Basic salaries and allowances	**15,633**	12,651
Discretionary bonuses	**–**	1,894
Retirement benefit contributions	**1,688**	1,538
	17,321	16,083

39. EVENT AFTER THE BALANCE SHEET DATE

On 19 December 2018, the Group entered into an acquisition agreement with a third party to purchase 100% equity interest of Xiping Kaida Gas Co., Ltd with a consideration of RMB152,000,000. The acquirees engages in sales of pipeline natural gas, provision of urban gas installation (with qualification certificate), natural gas technology consulting service and sales of gas stoves in Xiping City, Henan Province, the PRC. The acquisition had not been completed as at 31 December 2018, and the acquiree is under valuation by a third-party valuer, and the valuation results have not been obtained up to date.

40. BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY

Balance sheet of the Company

	Note	**As at 31 December**	
		2018	2017
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Other receivables		**35,832**	42,261
Investments in subsidiaries	11(a)	**121,967**	117,133
		157,799	159,394
Current assets			
Other receivables		**2,757,913**	2,382,829
Restricted cash		**44,461**	18,049
Cash and cash equivalents		**21,502**	26,970
		2,823,876	2,427,848
Total assets		**2,981,675**	2,587,242
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**8,340**	8,340
Share premium	(Note (a))	**1,188,151**	1,264,114
Reserves	(Note (a))	**25,965**	21,131
Accumulated losses	(Note (a))	**(595,811)**	(388,039)
Total equity		**626,645**	905,546
LIABILITIES			
Non-current liabilities			
Borrowings		**1,953,258**	1,232,813
Current liabilities			
Borrowings		**366,036**	424,723
Financial liabilities at fair value through profit or loss		**–**	22,898
Other payables		**35,736**	1,262
		401,772	448,883
Total liabilities		**2,355,030**	1,681,696
Total equity and liabilities		**2,981,675**	2,587,242

The balance sheet of Company was approved by the Board of Directors on 29 March 2019 and was signed on its behalf.

Mr. Zhang Yingcen
Director

Mr. Xian Zhenyuan
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2018
(All amounts in RMB thousands unless otherwise stated)

40. BALANCE SHEET AND RESERVE MOVEMENTS OF THE COMPANY *(continued)*

Note (a) Share premium, reserves and accumulated losses movements of the Company

	Share premium RMB'000	**Accumulated losses** RMB'000	**Reserves** RMB'000
At 1 January 2017	1,264,114	(181,464)	16,538
Repurchase of shares			
Loss for the year	—	(128,946)	—
Interim dividends paid	—	(77,629)	—
Value of employee services	—	—	4,593
At 31 December 2017	1,264,114	(388,039)	21,131
At 1 January 2018	**1,264,114**	**(388,039)**	**21,131**
Repurchase of shares	**—**	**—**	**—**
Loss for the year	**—**	**(207,772)**	**—**
Interim and final dividends paid	**(75,963)**	**—**	**—**
Value of employee services	**—**	**—**	**4,834**
At 31 December 2018	**1,188,151**	**(595,811)**	**25,965**

41 BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES)

(a) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 December 2018:

Name	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Allowances and benefits in kind RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking RMB'000	Total RMB'000
Mr. Zhang Yingcen	–	780	–	4	57	–	841
Mr. Zhang Suwei*	–	450	–	4	17	–	471
Mr. Feng Yi	–	360	–	4	16	–	380
Ms. Li Tao	–	360	–	4	16	–	380
Mr. Sun Heng*	–	150	–	–	–	–	150
Mr. Wang Jiansheng (ii)	132	–	–	–	–	–	132
Mr. Li Liuqing(i)	60	–	–	–	–	–	60
Ms. Zhao Jun(i)	60	–	–	–	–	–	60
Mr. Yeung Yui Yuen(i)	133	–	–	–	–	–	133
Mr. Liu jin(i)*	77	–	–	–	–	–	77
Chief executive:							
Mr. Xian Zhenyuan	–	600	–	4	57	–	661
	462	2,700	–	20	163	–	3,345

* Mr. Zhang Suwei: appointed with effect on 26 March 2018.
Mr. Liu Jin: appointed with effect on 28 May 2018.
Mr. Sun Heng: resigned with effect on 26 March 2018.

41. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(continued)*

(a) Directors' and chief executive's emoluments *(continued)*

For the year ended 31 December 2017:

Name	Fees RMB'000	Salaries RMB'000	Discretionary bonuses RMB'000	Allowances and benefits in kind RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking RMB'000	Total RMB'000
Mr. Zhang Yingcen	—	505	—	3	32	—	540
Mr. Sun Heng	—	360	—	3	11	—	374
Mr. Feng Yi	—	360	—	3	11	—	374
Ms. Li Tao	—	360	—	3	11	—	374
Mr. Cao Zhibin (i)*	54	—	—	—	—	—	54
Mr. Li Liuqing(i)	60	—	—	—	—	—	60
Mr. Wang Jiansheng (ii)	132	—	—	3	11	—	146
Ms. Zhao Jun(i)	60	—	—	—	—	—	60
Mr. Yeung Yui Yuen(i)	131	—	—	—	—	—	131
Chief executive:							
Mr. Xian Zhenyuan	—	480	—	3	32	—	515
	437	2,065	—	18	108	—	2,628

* Mr. Cao Zhibin: resigned with effect on 27 November 2017.

(i) Independent non-executive directors

(ii) Non-executive director

41. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(continued)*

(b) Directors' retirement benefits

During the year, no retirement benefits were paid to or receivable by the directors in respect of their services as directors of the Company and its subsidiaries or other services in connection with the management of the affairs of the company or its subsidiary undertaking (2017: Nil).

(c) Directors' termination benefits

During the year, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2017: Nil).

(d) Consideration provided to third parties for making available directors' services

During the year, no consideration was provided to or receivable by third parties for making available directors' services (2017: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year, there are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2017: Nil).

(f) Directors' material interests in transactions, arrangements or contracts

During the year, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: Nil).

FIVE YEAR FINANCIAL SUMMARY

	Year ended 31 December				
RESULTS	**2018**	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**5,113,254**	3,109,014	2,693,094	2,251,970	1,343,936
Gross profit	**1,428,216**	767,944	692,349	608,770	461,496
Profit before income tax	**864,804**	575,839	444,708	429,471	344,309
Income tax expense	**(264,444)**	(146,682)	(110,299)	(111,489)	(93,370)
Profit for the year	**600,360**	429,157	334,409	317,982	250,393

	As at 31 December				
ASSETS, LIABILITIES AND EQUITY	**2018**	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**11,434,093**	8,472,249	7,633,412	6,678,409	3,730,677
Total liabilities	**7,890,324**	5,354,446	4,881,703	3,896,031	2,253,709
Total equity	**3,543,769**	3,117,803	2,751,709	2,782,378	1,476,968