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

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 3633)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2017

FINANCIAL AND OPERATIONAL HIGHLIGHTS

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

CHAIRMAN'S STATEMENTS

Dear shareholders,

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

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

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

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

PROSPECTS

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

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

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

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

APPRECIATION

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

Wang Wenliang
Chairman
Hong Kong

21st March, 2018

CEO MESSAGE

To our valued shareholders,

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

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

RESULTS

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

BUSINESS REVIEW

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

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

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

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

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

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

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

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

PROSPECTS

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

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

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

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

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

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

APPRECIATION

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

Lui Siu Keung, Daniel
Chief Executive Officer
Hong Kong

21st March, 2018

The Board of the Company is pleased to announce the audited consolidated results of the Group for the year ended 31st December, 2017, together with the comparative figures for the corresponding period in 2016, which are set out below. The Group is principally engaged in (i) the investment, operation and management of city gas pipeline infrastructure, and the distribution of piped gas to residential, industrial and commercial users; and (ii) the construction and operation of CNG/LNG vehicle filling stations in the PRC.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st December, 2017

		2017	2016
	NOTES	***HK$'000***	*HK$'000*
Turnover	*3*	**5,048,100**	3,722,507
Cost of sales		**(3,758,998)**	(2,714,498)
Gross profit		**1,289,102**	1,008,009
Other gains and losses	*5*	**130,647**	(158,104)
Other income	*6*	**69,422**	42,389
Selling and distribution costs		**(111,355)**	(88,955)
Administrative expenses		**(311,860)**	(275,220)
Finance costs	*7*	**(241,292)**	(252,495)
Share of results of associates		**24,750**	19,295
Profit before tax		**849,414**	294,919
Income tax expenses	*8*	**(257,818)**	(191,318)
Profit for the year	*9*	**591,596**	103,601
Profit for the year attributable to:			
Owners of the Company		**557,959**	206,150
Non-controlling interests		**33,637**	(102,549)
		591,596	103,601

	NOTES	**2017**	2016
		HK$'000	*HK$'000*
Profit for the year		**591,596**	103,601
Other comprehensive income (expense)			
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation to presentation currency		**192,613**	(165,543)
Fair value gain on revaluation of pipelines included in property, plant and equipment		**386,738**	837,535
Deferred tax arising from revaluation of pipelines included in property, plant and equipment		**(96,685)**	(209,384)
Surplus on revaluation upon transfer of property, plant and equipment to investment property at fair value		**–**	6,693
Deferred tax arising from transfer of property, plant and equipment to investment property at fair value		**–**	(1,673)
Total comprehensive income for the year		**1,074,262**	571,229
Profit for the year attributable to:			
Owners of the Company		**557,959**	206,150
Non-controlling interests		**33,637**	(102,549)
		591,596	103,601
Total comprehensive income attributable to:			
Owners of the Company		**996,210**	580,396
Non-controlling interests		**78,052**	(9,167)
		1,074,262	571,229
Proposed final dividend of HK5 cents (2016: nil) per ordinary share	*10*	**126,250**	–
Earnings per share	*11*		
Basic		**HK22.10 cents**	HK8.16 cents
Diluted		**HK22.08 cents**	HK8.16 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st December, 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current assets			
Investment properties		**44,516**	43,748
Property, plant and equipment		**7,124,176**	5,625,852
Goodwill		**225,878**	208,886
Other intangible assets		**1,072,322**	1,038,810
Long-term deposits, prepayments and other receivables		**418,568**	408,000
Prepaid lease payments		**522,635**	474,532
Interests in associates		**364,484**	164,034
Interest in a joint venture		**10,767**	–
Available-for-sale investments		**6,309**	6,074
		9,789,655	7,969,936
Current assets			
Inventories		**209,554**	105,863
Trade and bills receivables	*12*	**672,022**	411,101
Deposits, prepayments and other receivables	*12*	**484,944**	237,791
Entrusted loan receivable		**23,926**	22,359
Amount due from an associate		**59,816**	56,087
Amounts due from related parties		**8,972**	24,901
Prepaid lease payments		**15,157**	13,579
Amounts due from customers for contract work		**56,821**	1,774
Tax recoverable		**15,517**	757
Pledged bank deposits		**–**	11,574
Bank balances and cash		**464,347**	767,941
		2,011,076	1,653,727
Current liabilities			
Deferred income and advance received	*13*	**670,050**	521,308
Trade and bills payables	*13*	**727,274**	576,497
Other payables and accrued charges	*13*	**331,269**	230,830
Amount due to an associate		**1,236**	1,155
Amounts due to customers for contract work		**35,484**	41,458
Borrowings		**1,581,936**	571,616
Obligations under finance lease due within one year		**188,373**	100,306
Obligation arising from forward contract with non-controlling interests		**–**	575,791
Tax payables		**141,047**	90,142
		3,676,669	2,709,103
Net current liabilities		**(1,665,593)**	(1,055,376)
Total assets less current liabilities		**8,124,062**	6,914,560

	NOTES	2017 HK$'000	2016 HK$'000
Capital and reserves			
Share capital		**25,250**	25,250
Reserves		**3,148,702**	2,527,956
Equity attributable to owners of the Company		**3,173,952**	2,553,206
Non-controlling interests		**549,265**	252,725
Total equity		**3,723,217**	2,805,931
Non-current liabilities			
Deferred income and advance received	*13*	**6,048**	5,652
Borrowings		**3,676,849**	3,537,814
Obligations under finance lease due after one year		**258,583**	214,789
Deferred taxation		**459,365**	350,374
		4,400,845	4,108,629
		8,124,062	6,914,560

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

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

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014 – 2016 cycle

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

Amendments to HKAS 7 Disclosure initiative

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

3. TURNOVER

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

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

4. SEGMENT INFORMATION

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

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

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

(a) sales of gas;

(b) connection revenue from gas pipeline construction;

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

(d) sales of stoves and related equipment;

(e) sales of liquefied petroleum gas; and

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

Segment revenue and results

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

For the year ended 31st December, 2017

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

For the year ended 31st December, 2016

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2. Except for segment profit of Harmony Gas and its subsidiaries which is presented as a separate segment, segment profit (loss) of other reportable segments represents the financial result of each segment without allocation of central administration costs, directors' salaries, interest income, change in fair value of investment properties, net foreign exchange gain or loss, certain sundry income, finance costs and income tax expenses. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

Segment assets and liabilities

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

Other segment information

2017

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

2016

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

Geographical information

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

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

5. OTHER GAINS AND LOSSES

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

6. OTHER INCOME

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

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

7. FINANCE COSTS

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

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

8. INCOME TAX EXPENSES

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

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

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

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

9. PROFIT FOR THE YEAR

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

10. DIVIDENDS

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

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

11. EARNINGS PER SHARE

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

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

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

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

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

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

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

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

Ageing of trade receivables which are past due but not impaired

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

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

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

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

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

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

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

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

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

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

LIQUIDITY, FINANCIAL RESOURCES AND WORKING CAPITAL

Liquidity

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

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

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

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

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

Financial resources

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

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

Working capital

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

EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

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

EMPLOYEE INFORMATION

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

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

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

Share option scheme

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

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

On 11th April, 2011, share options to subscribe for an aggregate of 159,000,000 ordinary shares at par value HK$0.01 each of the Company were granted to the eligible participants by the Company pursuant to the Old Share Option Scheme. The exercise price of such share options granted under the Old Share Option Scheme was HK$0.49 per share. The share options granted shall be valid for a period of ten years from the date of grant. No share options granted under the Old Share Option Scheme were exercised during the year.

The following table discloses movements of the Company's share options granted under the Old Share Option Scheme and movements in such holdings during the year ended 31st December, 2017:

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

The closing price of the Company's shares on 8th April, 2011 was HK$0.48, which was the business day immediately before the date on which the share options under the Old Share Option Scheme were granted on 11th April, 2011.

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

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

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

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

CHARGE ON THE GROUP'S ASSETS

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

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

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

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

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

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

CAPITAL AND OTHER COMMITMENTS

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

CONTINGENT LIABILITIES

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

BUSINESS REVIEW

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

Downstream Piped Gas Distribution

Harmony Gas Project

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

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

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

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

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

New Downstream Piped Gas Distribution Projects

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

New CNG/LNG Vehicle Filling Stations Expansion

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

Major Operational Data

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

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

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

	2017	2016	Increase/ (Decrease)
Penetration rate of residential pipeline connection *(Note c)*	**63.6%**	60.6%	3.0%
Unit of piped natural gas sold ('000 m^3)	**1,203,007**	886,809	35.7%
– Residential households	**250,086**	212,753	17.5%
– Industrial customers	**825,725**	551,619	49.7%
– Commercial customers	**115,418**	99,167	16.4%
– Wholesale customers	**11,778**	23,270	(49.4)%
Unit of LNG sold ('000 m^3)			
– Wholesale customers	**28,251**	–	100%
Number of CNG/LNG vehicle filling stations			
– Accumulated	**63**	60	3
– Under construction	**11**	19	(8)
Unit of natural gas sold to vehicles ('000 m^3)	**96,222**	99,125	(2.9)%
Total length of existing intermediate and main pipelines (km)	**12,342**	10,538	17.1%
Average selling price of natural gas (pre-tax) (RMB per m^3)			
– Residential households	**2.13**	2.17	(1.8)%
– Industrial customers	**2.38**	2.35	1.3%
– Commercial customers	**2.81**	2.68	4.9%
– Wholesale customers	**1.89**	1.67	13.2%
– CNG/LNG vehicle filling stations	**2.97**	2.92	1.7%
Average cost of natural gas (RMB per m^3)	**2.11**	1.99	6.0%
Average connection fee for residential households (RMB)			
– "Coal-to-gas" projects	**2,656**	2,905	(8.6)%
– Non "Coal-to-gas" projects	**2,558**	2,508	2.0%

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

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

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

FINANCIAL REVIEW

Overall

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

Turnover

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

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

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

Sales of Gas

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

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

Sales of gas by customers:

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

Industrial customers

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

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

Residential households

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

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

Commercial customers

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

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

Gas Pipeline Construction

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

Connection revenue from gas pipeline construction by customers

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

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

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

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

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

Operation of CNG/LNG Vehicle Filling Stations

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

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

Gross profit margin

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

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

Other gains and losses

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

Other income

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

Selling and distribution costs and administrative expenses

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

Finance costs

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

Income tax expenses

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

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

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

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

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

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

Profit attributable to owners of the Company

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

Net profit margin

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

Earnings per share

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

Net assets value per share

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

The net assets value represents total assets minus total liabilities.

PROPOSED FINAL DIVIDEND

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

DISCLOSURE OF INTERESTS

(a) Interests of Directors

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

Long positions in the shares of the Company

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

Notes:

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

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

3. The shares are directly held by the Director.

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

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

(b) Interests of substantial shareholders of the Company

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

Long positions in the shares of the Company

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

Notes:

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

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

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

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

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

COMPETING INTEREST

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

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

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules. During the period under review, the Company has complied with all the applicable code provisions under the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted and complied with the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, they have all confirmed their compliance with the required standard of dealings and the Model Code regarding securities transactions by Directors adopted by the Company during the year ended 31st December, 2017.

AUDIT COMMITTEE

The Company's Audit Committee, comprising Mr. Li Chunyan, Dr. Luo Yongtai and Ms. Liu Yu Jie, as the independent non-executive Directors, has reviewed with the Company's management the accounting principles and practices adopted by the Group and financial reporting matters including a review of the annual results of the Group for the year ended 31st December, 2017. There were no disagreements within the Audit Committee in relation to the accounting treatment adopted by the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year ended 31st December, 2017.

PUBLICATION OF INFORMATION ON THE WEBSITES OF HONG KONG EXCHANGES AND CLEARING LIMITED AND THE COMPANY

This announcement is required to be published on the website of The Hong Kong Exchanges and Clearing Limited ("HKEX") at www.hkex.com.hk under "Latest Listed Company Information" and the Company at www.zhongyugas.com under "Announcement" respectively. The annual report of the Company for the year ended 31st December, 2017 will be despatched to the shareholders in April 2018 and will be published on the websites of the HKEX and the Company accordingly.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31st December, 2017 as set out in this announcement (the "Preliminary Announcement") have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the Preliminary Announcement.

CLOSURE OF REGISTER OF MEMBERS

Shareholders whose names appear on the Company's register of members on 29th May, 2018 will be eligible to attend and vote at the forthcoming annual general meeting of the Company. The Company's transfer books and register of members will be closed from 24th May, 2018 to 29th May, 2018 (both days inclusive) during which period no transfer of shares will be registered. In order to attend and vote at the forthcoming annual general meeting of the Company, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on 23rd May, 2018.

Shareholders whose names appear on the Company's register of members on 15th June, 2018, will qualify for the proposed final dividend. The Company's transfer books and register of members will be closed from 14th June, 2018 to 15th June, 2018 (both days inclusive) for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on 13th June, 2018. The proposed final dividend (the payment of which is subject to the shareholders' approval at the forthcoming annual general meeting) is to be payable on or about 10th July, 2018 to shareholders whose names appear on the register of members of the Company on 15th June, 2018.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises of Mr. Wang Wenliang (Chairman), Mr. Lui Siu Keung (Chief Executive Officer) and Mr. Lu Zhaoheng, as the executive Directors, Mr. Xu Yongxuan (Vice-Chairman), as the non-executive Director and Mr. Li Chunyan, Dr. Luo Yongtai and Ms. Liu Yu Jie, as the independent non-executive Directors.

By Order of the Board
ZHONGYU GAS HOLDINGS LIMITED
Wang Wenliang
Chairman

Hong Kong, 21st March, 2018