ENN 新奧

新奥能源控股有限公司
ENN Energy Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2688)

Annual Results Announcement
For The Year Ended 31 December 2016

Highlights of the Annual Results:

- Natural gas sales volume increased by 27.0% compared to the corresponding period in 2015 to 14,329 million cubic metres;

- Excluding sales volume of energy trading business, natural gas sales volume to residential households, C/I customers and vehicles increased by 12.3% compared to the corresponding period in 2015 to 11,292 million cubic metres;

- 1,820,837 natural gas residential households were added while 12,574,005 cubic metres installed designed daily capacity for natural gas C/I customers were added;

- Total revenue and profit of the Group, together with its joint ventures and associates, were RMB50,298 million and RMB4,165 million respectively;

- Revenue of the Group increased by 6.4% compared to the corresponding period in 2015 to RMB34,103 million; Gross profit increased by 7.0% compared to the corresponding period in 2015 to RMB7,350 million;

- Profit attributable to shareholders of the Group increased by 5.6% compared to the corresponding period in 2015 to RMB2,151 million; Stripping out the impact of RMB1,061 million from the items in other gains and losses and amortisation of share option expenses, profit increased by 17.3% compared to the corresponding period in 2015 to RMB3,212 million;

- Basic earnings per share increased by 5.9% compared to the corresponding period in 2015 to RMB1.99; and

- The Board of Directors recommends a final dividend of HK$0.83 per share.

The Board of Directors (the "**Board**") of ENN Energy Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2016 together with the comparative audited figures for the corresponding period in 2015. The audited consolidated financial statements have been reviewed by the Company's Audit Committee.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 *RMB million*	2015 *RMB million*
Revenue	3	34,103	32,063
Cost of sales		(26,753)	(25,197)
Gross profit		7,350	6,866
Other income		650	391
Other gains and losses	4	(1,010)	(700)
Distribution and selling expenses		(534)	(500)
Administrative expenses		(2,223)	(2,183)
Share of results of associates		73	116
Share of results of joint ventures		498	579
Finance costs		(609)	(542)
Profit before tax		4,195	4,027
Income tax expense	5	(1,307)	(1,306)
Profit for the year		2,888	2,721
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of properties arising from the transfer to investment properties		14	-
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating foreign operations		69	58
Fair value gain on available-for-sale (“AFS”) financial assets		2	-
		71	58
Other comprehensive income for the year		85	58
Total comprehensive income for the year		2,973	2,779
Profit for the year attributable to:			
Owners of the Company		2,151	2,036
Non-controlling interests		737	685
		2,888	2,721
Total comprehensive income for the year attributable to:			
Owners of the Company		2,233	2,094
Non-controlling interests		740	685
		2,973	2,779
		RMB	*RMB*
Earnings per share	7		
Basic		1.99	1.88
Diluted		1.82	1.88

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016

	Notes	**2016** *RMB million*	**2015** *RMB million*
Non-current assets			
Property, plant and equipment		22,297	21,121
Prepaid lease payments		1,221	1,190
Investment properties		208	114
Goodwill		188	752
Intangible assets		1,487	1,454
Interests in associates		1,350	1,024
Interests in joint ventures		3,704	3,810
AFS financial assets		4,882	4,169
Financial assets at fair value through profit and loss (“FVTPL”)		154	-
Other receivables		32	27
Amounts due from associates		89	74
Amounts due from joint ventures		407	190
Deferred tax assets		745	582
Deposits paid for investments		61	26
Deposits paid for acquisition of property, plant and equipment, land use rights and operation rights		227	123
Restricted bank deposits		489	506
		37,541	35,162
Current assets			
Inventories		515	404
Trade and other receivables	8	4,423	3,051
Prepaid lease payments		30	28
Financial assets at FVTPL		16	-
Amounts due from customers for contract work		303	197
Amounts due from associates		185	156
Amounts due from joint ventures		790	455
Amounts due from related companies		63	46
Restricted bank deposits		352	99
Cash and cash equivalents		7,163	7,355
		13,840	11,791
Assets classified as held for sale		-	66
		13,840	11,857
Current liabilities			
Trade and other payables	9	8,323	7,133
Amounts due to customers for contract work		2,149	2,248
Amounts due to associates		218	66
Amounts due to joint ventures		1,645	1,988
Amounts due to related companies		416	400
Taxation payables		732	706
Bank and other loans – due within one year		3,944	2,600
Corporate bonds		-	498
Medium-term notes		700	-
Convertible bonds at FVTPL		-	3,556
Financial guarantee liability		22	29
Deferred income		192	150
		18,341	19,374
Liabilities associated with assets classified as held for sale		-	34
		18,341	19,408
Net current liabilities		(4,501)	(7,551)
Total assets less current liabilities		33,040	27,611

Capital and reserves		
Share capital	112	113
Reserves	14,854	13,355
Equity attributable to owners of the Company	14,966	13,468
Non-controlling interests	2,888	2,627
Total equity	17,854	16,095
Non-current liabilities		
Bank and other loans – due after one year	197	836
Corporate bonds	5,482	2,489
Senior notes	2,507	4,584
Medium-term notes	-	700
Convertible bonds at FVTPL	3,515	-
Unsecured bonds	446	417
Deferred tax liabilities	397	393
Deferred income	2,642	2,097
	15,186	11,516
	33,040	27,611

Notes:

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company (the "**Directors**") have given careful consideration of the Group in light of its net current liabilities of approximately RMB4,501 million as at 31 December 2016. At the date of approval of the consolidated financial statements, the Group has unutilised credit facilities of approximately RMB7,277 million, which are subject to renewal within twelve months from the end of the reporting period. So the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the consolidated financial statements for the year ended 31 December 2016 have been prepared on a going concern basis.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants:

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

Except for the effect of Amendments to HKAS 1 on the disclosure of consolidated financial statements, the application of the above amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. SEGMENT INFORMATION

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

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

Inter-segment sales are charged at prevailing market rates.

Operating Segment

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

2016

	Gas Connection	Sales of piped gas	Vehicle gas refuelling stations	Wholesale of gas	Sales of other energy	Sales of gas appliances	Sales of material	Consolidation
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Segment revenue	6,663	23,133	3,181	10,081	153	616	2,059	45,886
Inter segment sales	(1,052)	(5,233)	(12)	(3,928)	-	(378)	(1,180)	(11,783)
Revenue from external customers	5,611	17,900	3,169	6,153	153	238	879	34,103
Segment profit before depreciation and amortisation	3,769	3,805	398	99	31	102	26	8,230
Depreciation and amortisation	(176)	(562)	(124)	(2)	(14)	(2)	-	(880)
Segment profit	3,593	3,243	274	97	17	100	26	7,350

2015

	Gas Connection	Sales of piped gas	Vehicle gas refuelling stations	Wholesale of gas	Sales of other energy	Sales of gas appliances	Sales of material	Consolidation
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Segment revenue	6,473	24,243	3,939	6,653	83	444	1,268	43,103
Inter segment sales	(965)	(5,563)	(8)	(3,224)	-	(306)	(974)	(11,040)
Revenue from external customers	5,508	18,680	3,931	3,429	83	138	294	32,063
Segment profit before depreciation and amortisation	3,622	3,444	503	40	26	57	34	7,726
Depreciation and amortisation	(160)	(581)	(103)	(4)	(10)	(2)	-	(860)
Segment profit	3,462	2,863	400	36	16	55	34	6,866

4. OTHER GAINS AND LOSSES

	2016	2015
	RMB million	*RMB million*
Impairment loss on trade and other receivables, net	(35)	(25)
(Loss) gain on disposal of:		
- Property, plant and equipment	(37)	11
- Prepaid lease payments	2	6
Gain on disposal/derecognition of subsidiaries/a business	46	8
Increase in fair value of investment properties	4	26
Loss on repurchase of unsecured bonds	-	(61)
Loss on repurchase of senior notes	(308)	-
Fair value gain (loss) of convertible bonds at FVTPL	41	(200)
Fair value gain on financial assets at FVTPL	170	-
Impairment loss on goodwill	(601)	-
Loss on foreign exchange, net (note)	(292)	(465)
	(1,010)	(700)

Note: Included in the amount for the year ended 31 December 2016 was an amount of approximately RMB327 million (2015: RMB373 million) which was the exchange loss arising from the translation of senior notes and unsecured bonds denominated in USD to RMB.

5. INCOME TAX EXPENSE

	2016	2015
	RMB million	*RMB million*
PRC Enterprise Income Tax:		
Current tax	1,370	1,295
Underprovision in prior years	19	7
Withholding tax	90	169
	1,479	1,471
Deferred tax:		
Current year	(172)	(165)
	1,307	1,306

The charge represents People's Republic of China ("**PRC**") Enterprise Income Tax for both years.

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

Certain subsidiaries of the Company are qualified as "High and New Tech Enterprise", which are subject to PRC Enterprise Income Tax at the preferential rate of 15% of the estimated assessable profit as determined in accordance with relevant tax rules and regulations in the PRC. This preferential rate could be applied for three years and subsidiaries are eligible to apply the tax concession again upon expiry of the three-year period.No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit arising in Hong Kong for both financial years.

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

	2016 *RMB million*	**2015** *RMB million*
Profit before tax	4,195	4,027
Tax at the PRC Enterprise Income Tax rate of 25% (2015: 25%)	1,049	1,007
Tax effects of share of results of associates	(18)	(29)
Tax effects of share of results of joint ventures	(124)	(145)
Tax effects of income not taxable for tax purpose	(191)	(140)
Tax effects of expenses not deductible for tax purpose	577	454
Tax effects of tax losses not recognised	64	103
Utilisation of tax losses previously not recognised	(140)	(93)
Tax effects of deductible temporary differences not recognised	11	11
Tax concession and exemption granted to certain PRC subsidiaries	(37)	(42)
Underprovision in respect of prior years	19	7
Withholding tax on undistributed profit of PRC entities	97	173
Income tax charge for the year	1,307	1,306

6. DIVIDEND

	2016 *RMB million*	**2015** *RMB million*
Final dividend paid in respect of previous financial year	705	709

Notes:

a. 2015 final dividend of HK$0.76 (equivalent to approximately RMB0.64) per ordinary share or approximately RMB705 million in aggregate was paid during the year ended 31 December 2016.

b. The final dividend in respect of 2016 of HK$0.83 (equivalent to approximately RMB0.74) per ordinary share with total amount of HK$898 million (2015: HK$823 million) has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

7. 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:

(a) Basic earnings per share

Basic earnings per share for the years ended 31 December 2016 and 2015 are calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2016	**2015**
Profit attributable to the owners of the Company (RMB million)	2,151	2,036
Weighted average number of ordinary shares	1,082,384,883	1,082,704,602
Basic earnings per share (RMB)	1.99	1.88

(b) Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2016 is calculated without assuming all the conversion of the share options granted in 2015 since the exercise price of these share options was higher than the average market price of the Company's shares.

Diluted earnings per share for the year ended 31 December 2015 was calculated without assuming all the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share.

	2016 *RMB million*	**2015** *RMB million*
Earnings		
Earnings for the purpose of basic earnings per share	2,151	2,036
Effect of dilutive potential ordinary shares:		
- fair value gain of convertible bonds	(41)	-
Earnings for the purpose of diluted earnings per share	2,110	2,036

	2016	**2015**
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,082,384,883	1,082,704,602
Effect of dilutive potential ordinary shares:		
- share options granted in 2010	188,083	257,911
- convertible bonds	79,778,897	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,162,351,863	1,082,962,513
Diluted earnings per share (RMB)	1.82	1.88

8. TRADE AND OTHER RECEIVABLES

Included in the trade and other receivables are trade receivables amounting to RMB1,510 million (2015: RMB1,096 million). The following is an aged analysis of trade receivables, net of impairment, presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	2016 *RMB million*	**2015** *RMB million*
Within three months	1,388	925
4 to 6 months	57	79
7 to 9 months	56	69
10 to 12 months	9	23
	1,510	1,096

9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of RMB2,237 million (2015: RMB1,651 million). The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2016 *RMB million*	**2015** *RMB million*
Within three months	1,822	1,260
4 to 6 months	161	189
7 to 9 months	82	56
10 to 12 months	26	37
More than one year	146	109
	2,237	1,651

BUSINESS REVIEW

The major results and operational data of the Group for the year together with the comparative figures for last year are as follows:

	For the year ended 31 December 2016	2015	Increased/ (Decreased) by
Results			
Revenue *(RMB million)*	34,103	32,063	**6.4%**
Gross profit *(RMB million)*	7,350	6,866	**7.0%**
Profit attributable to owners of the Company *(RMB million)*	2,151	2,036	**5.6%**
Earnings per share – Basic *(RMB)*	1.99	1.88	**5.9%**
Operational data#			
Connectable urban population *(thousand)*	77,420	71,536	**8.2%**
Connectable residential households *(thousand)*	25,807	23,845	**8.2%**
New natural gas connections made during the year:			
– residential households	1,820,837	1,707,020	**6.7%**
– commercial/industrial ("**C/I**") customers *(sites)*	11,821	9,054	**2,767**
– installed designed daily capacity for C/I customers *(m^3)*	12,574,005	8,160,660	**54.1%**
Accumulated number of connected piped gas (including natural gas) customers:			
– residential households	14,146,873	12,326,036	**14.8%**
– C/I customers *(sites)*	68,679	56,858	**11,821**
– installed designed daily capacity for C/I customers *(m^3)*	71,182,166	58,608,161	**21.5%**
Piped gas (including natural gas) penetration rate	54.8%	51.7%	**3.1%**
Unit of natural gas sold to residential households *(thousand m^3)*	1,815,544	1,487,268	**22.1%**
Unit of natural gas sold to C/I customers *(thousand m^3)*	7,963,138	7,000,658	**13.7%**
Unit of natural gas sold to vehicles *(thousand m^3)*	1,513,709	1,566,453	**(3.4%)**
Unit of energy trading sold *(thousand m^3)*	3,036,778	1,231,521	**146.6%**
Number of CNG refuelling stations	320	306	**14**
Number of LNG refuelling stations	277	270	**7**
Number of natural gas processing stations	166	157	**9**
Combined daily capacity of natural gas processing stations *(thousand m^3)*	84,910	80,198	**5.9%**
Total length of existing intermediate and main pipelines *(km)*	32,921	29,936	**10.0%**

The Group's operational data disclosed in the announcement included the data of the subsidiaries, joint ventures and associates.

Review of the Year

In 2016, a volatile world economy began to show signs of a slow recovery. The Chinese economy entered a new normal, as it recorded GDP growth of 6.7% year-on-year. With the supply-side structural reform progressing at a steady pace, further improvements were made to the economic structure. The growth of the tertiary and high-tech industry accelerated, which provided fresh momentum for a sustained and healthy future growth of the economy. Natural gas became a more economical choice compared with the alternative energy, thanks to the gas price cut in November 2015 and the rebound in global oil prices. On top of that, the Chinese government enacted more stringent environmental measures and stepped up its drive to promote coal-to-gas and oil-to-gas conversion with a view to improving air quality, which led to sustained improvements in the downstream gas demand. According to the National Development and Reform Commission ("**NDRC**"), China's apparent natural gas consumption amounted to 205.8 billion cubic metres in 2016, representing a year-on-year growth of 7%.

In the face of an ever-changing operating environment, the Group stood by its customer-oriented philosophy. Supported by its excellent operation campaign and driven by reforms and innovation, the Group went all out to tap the potential of its traditional businesses. It fully leveraged the internet and technological means to vigorously develop new businesses. Thanks to the concerted effort of its employees, the Group achieved all the business goals made at the beginning of the year. The Group's gas sales volume in 2016 reached 14,386 million cubic metres, representing an increase of 27.2% year-on-year. Natural gas sales volume in 2016 grew by 27.0% to 14,329 million cubic metres as compared with last year. During the year, the Group completed piped natural gas connection for 1,820,837 new residential households and 11,821 C/I customers (with total installed designed daily capacity of 12,574,005 cubic metres for new C/I customers). As of the end of 2016, the Group operated a total of 320 CNG refuelling stations and 277 LNG refuelling stations respectively. The Group was determined to expand the scope of its operations by acquiring 8 new projects and 12 new concessions nearby existing projects during the year. As of the end of 2016, projects of the Group in China covered a connectable population of 77.42 million.

The Group also expanded into new synergistic and value-added businesses. During the year, the sales volume of the Group's energy trading business reached 3,037 million cubic metres, representing a significant growth of 146.6% year-on-year. Revenue of sales of other energy, such as cooling, heating, steam and electricity, amounted to RMB153 million, representing a significant growth of 84.3% year-on-year. The Group utilised its existing customer base for the sales of gas appliances and generated revenue of RMB238 million, representing a significant increase of 72.5% year-on-year.

The Group also entered into long-term LNG Sale and Purchase Agreements with Total, Chevron Corporation and Origin Energy Limited, pursuant to which it will import a total of 1.43 million tonnes of LNG per year starting from 2018 or 2019. The Group strategically secured certain LNG supplies to provide long-term and stable support to the Group's core downstream business development.

For the year ended 31 December 2016, total revenue and profit of the Group together with its joint ventures and associates were RMB50,298 million and RMB4,165 million respectively.

For the year ended 31 December 2016, the Group's turnover was RMB34,103 million, representing an increase of 6.4% year-on-year. Gross profit margin and net profit margin of the Group were 21.6% and 8.5% respectively, up 0.2 percentage point and remain unchanged respectively over last year. The increase of gross profit margin was mainly due to higher gross profit margin of sales of piped gas caused by smaller base of sales price after natural gas price cut.

Profit attributable to shareholders increased by 5.6% compared to the corresponding period in 2015 to RMB2,151 million. Basic earnings per share increased by 5.9% compared to the corresponding period in 2015 to RMB1.99. Stripping out the impact of RMB1,061 million from the items in other gains and losses and amortisation of share option expenses, profit increased by 17.3% compared to the corresponding period in 2015 to RMB3,212 million.

In recognition of the shareholders' support to the Company, the Board recommends a final dividend of HK$0.83 (equivalent to approximately RMB0.74) per share, payable to shareholders registered in the register of shareholders on 6 June 2017. The total amount of dividend would be approximately RMB799 million.

Gas Industry Reform

In 2016, the Chinese government launched various policies to speed up the gas market reform, boost the development of the gas market and set out clear targets. In terms of price management, it published the "Notice on Stricter Price Control for Local Natural Gas Distribution and Reduction of Gas Consumption

Costs of Enterprises". The Notice proposed a comprehensive price review of all sectors in the natural gas industry, a reduction of the excessive cost for provincial pipeline transmission and distribution, a decrease in the number of intermediaries and a standardisation of the collection of charges. On the other hand, the "Interim Administrative Measures for the Pricing of Natural Gas Pipeline Transmission" and "Interim Supervising Measures for the Cost Pricing of Natural Gas Pipeline Transmission" stipulated that the pipeline transmission price shall be determined by the government with a price cap, namely the sum of the cost of the pipeline transmission service and a permitted return based on a rate of 8% on top of the cost price and taxation. The measures propose that the cap be applied to the pipeline transmission fee for a regulatory term of maximum three years. In terms of market-oriented pricing, the "Notice on Clarifying Issues Related to Pricing Policy of Gas Storage Facilities" and "Notice on Taking Forward Market-Oriented Reform of Gas Pricing in the Chemical Fertiliser Sector" expressly provide for the full liberalisation of pricing of gas storage service and natural gas consumption in the chemical fertiliser sector. The "Notice on Issues Related to Natural Gas City-Gate Pricing in Fujian" proposes the trial market-oriented price reform at Fujian natural gas city-gate, where the price of West-to-East transmission is subject to negotiation between the suppliers and purchasers. The "Notice on Information Disclosure of Oil and Gas Pipeline Network Facilities" requires oil and gas companies to disclose information on oil and gas pipeline network facilities and terminals, thereby providing further policy support to speed up the third party access of mid-stream facilities. The recently published "Opinions on Accelerating the Promotion of Natural Gas Utilisation (for solicitation of opinions)" and "The 13th Five-year Plan on Natural Gas Development" served as the guiding framework for the orderly and steady development of the gas industry during the period of the 13th Five-year Plan, in which the government reiterates its target for the share of natural gas in primary energy consumption to reach 8 to 10% by 2020 and proposes a variety of measures to boost downstream demand and intensify industry reform.

In addition, as the Shanghai Petroleum and Natural Gas Exchange commenced operation on 26 November 2016 and the Chongqing Petroleum and Natural Gas Exchange was officially incorporated on 12 January 2017, the NDRC has taken an important step forward to boost natural gas trading and implement in-depth pricing reform. Such move has not only helped accelerate the setting of a fair market price for natural gas and the creation of suitable conditions for its liberalisation, but also strengthened the global influence of the domestic natural gas market, as its practice was in line with that of the international market. The Group is expected to secure diversified gas sources for its business development and at the same time obtain market information and enhance its influence in the industry through gas trading on the exchanges.

The acceleration of gas industry reform will be conducive to downstream market demand and cost reduction of gas source. It will also bring new business opportunities that create synergy with existing core businesses. The Group will continue to make strategic plans in advance based on the progress of the industry and market reform and steadily pursue business development by capitalising on the competitive price of natural gas and opportunities ushered in by policy support.

Establishing Customer-oriented and Platform-based Organisation

In order to support the sustained growth of the business in a market environment that is changing all the time, and to enhance the operational efficiency, the Group in 2016 hastened the pace of organisation reform and built a customer-oriented and platform-based organisation and operation system. Centred around "self-organisation, self-management, self-innovation and self-motivation", the Group advanced the set up of a customer-oriented and self-motivating platform-based organisation. The self-motivating mechanism that "sets customers at the centre of business and business at the centre of resources allocation" was established preliminarily with the aim of allocating resources based on customers' needs, and thus increased customer satisfaction. The operability of the smart enterprise was forged with advanced internet technologies – such as a sales operation platform, a construction visualisation platform, an integrated operation platform and a cloud data platform. That way, resources were allocated more efficiently, and costs were better controlled with multi-channel interaction with customers. In 2016, together with the growth of business, the growth of distribution, selling and administrative expenses was only 2.8%, a significant drop of 8.2 percentage points as compared with 2015.

Environmental, Social and Governance ("ESG")

For many years, the Group has considered harmonious development as its core values. It formulated a plan for sustainable corporate growth and adopted practical and effective measures. It never let up in its efforts in such areas as business development, safe operations, environmental protection and charity. In doing so, it achieved the goal of a "harmonious coexistence of energy development and the environment". The Group fully understands that the sustainable development of ESG aspects is crucial to its long term growth. For this reason, it attaches great importance to the social and environmental impact of its operations and at the same time established and optimised the operation system based on "health, safety and environment"; Production safety and staff health awareness is emphasised at every phase in the production and operation. Inspired by the needs of the customer, the Group never stops improving service awareness – and thus customer satisfaction, and it also gives back to society through charity and voluntary activities. Adhering to its mission of "innovating clean energy, improving living environment, enhancing the quality of life, the Group has built a modern energy system that is clean, low carbon, safe and efficient. Its ecological thinking centres around conducting business in a green way and conducting operations in a low-carbon way, so as to minimise the impact of its activities on the environment and natural resources. In future, the Group will carry on listening to the stakeholders and continue to enhance its ESG management with a view to maximising the long-term interests of itself and its shareholders, customers, employers and society.

Business Review

CITY-GAS BUSINESS

Residential Customers

During the year, the Group's natural gas sales volume to residential customers was 1,816 million cubic metres, up 22.1% over last year. Such rapid growth was mainly due to the gas consumption ramp up of newly connected residential customers. As living standards in China keep improving, more residents in the southern region such as Jiangsu, Hunan and Zhejiang, in addition to the northern region, installed gas space heaters during winter. As at the end of the year, the Group had 470,000 residential households using gas space heaters, an increase of 27.0% compared with the same period last year. In the "Opinion on Accelerating the Promotion of Natural Gas Utilisation (for solicitation of opinions)", the National Energy Administration proposed that the development of urban centralised heating, gas-fired air conditioning and gas space heaters should be encouraged if gas supply is secured, and support should be given to the use of natural gas for heating in localities where necessary local conditions are satisfied in the southern region. The large amount of gas used by households adopting gas space heaters during winter will effectively increase gas sales volume of the Group's residential customers. In addition, the Group took the initiative to establish a residential tier-pricing mechanism for its city-gas projects. As at the end of 2016, 111 projects of the Group had already set up a tier pricing mechanism, representing 92% of the total residential gas sales volume, while other projects were in preparation. As more projects have already set up a tier-pricing mechanism, coupled with the continued promotion of gas space heaters, the dollar margin of residential gas sales is expected to become more reasonable.

C/I Customers

During the year, the Group's natural gas sales volume to C/I customers was 7,963 million cubic metres, a year-on-year increase of 13.7%, of which commercial customers and industrial customers were 6,396 million cubic metres and 1,567 million cubic metres respectively, representing a growth of 12.4% and 19.6% over last year. The accelerated growth in the gas sales volume to C/I customers was mainly due to the contribution by the newly connected C/I customers. Moreover, the Group stepped up the implementation of the coal-to-gas conversion policy and helped customers reduce the overall energy consumption costs by providing energy-saving solutions, thus attracting customers to use gas and expanding the scale of gas consumption. By applying distributed energy technology, the Group has expanded its customer base to some non-conventional gas users such as hospitals, airports, data centers and urban complexes to increase gas consumption. In addition, along with the economic structural transformation, the tertiary industry has become a new growth driver for China's economic development. The Group continued to develop commercial customers with stronger price affordability and stable gas consumption to further optimise its customer structure.

New Customers Development

During the year, the Group's connection fee revenue was RMB5,611 million, up 1.9% over last year.

The Group completed piped natural gas connection for 1,820,837 residential households during the year. The average one-off connection fee charged by the Group from its residential households was RMB2,876 per household. As at the end of 2016, the aggregate number of residential households connected to piped gas reached 14,146,873.

The connectable population coverage of the Group's city-gas projects operated in China reached 77.42 million. The average gas penetration rate increased to 54.8% from 51.7% in 2015. The target of urbanisation rate is 60% under the 13th Five-year Plan. Considering the current low level of domestic urbanisation, the new urbanisation progress will boost the continuous growth in the demand for efficient clean natural gas. During the year, the newly started gross floor area of residential buildings increased year-on-year, which would benefit the Group in providing connections to new buildings in 2017. The Group will seize the opportunity arising from the urbanisation and the recovery of the real estate industry by both stepping up new connections to new households and focusing on the development of the old housing market for thoroughly developing its market potential.

During the year, the Group connected 11,821 new C/I customers (gas appliances with total installed designed daily capacity of 12,574,005 cubic metres for new C/I customers), with an average connection fee of RMB123 per cubic metre. As at the end of 2016, the aggregate number of C/I customers of the Group connected to piped gas reached 68,679 (gas appliances with total installed designed daily capacity of 71,182,166 cubic metres).

It was proposed in "The 13th Five-year Plan on Natural Gas Development" that the Beijing-Tianjin-Hebei Region, Yangtze River Delta, Pearl River Delta and northeast region should become the key regions to push forward the coal-to-gas conversion projects in key cities and expand the scope of the zone where the use of high-polluting fuel is prohibited. The National Energy Administration also stated that it would expand the scope of prohibited coal-burning areas, requiring prefecture-level cities connected to natural gas across the country to establish prohibited coal-burning areas by 2020. Environmental protection measures will be developed and an assessment and accountability mechanism will also be implemented to incorporate residential and industrial coal-to-gas conversion into the assessment. Local governments are expected to enact more stringent regulations for pollution emissions in the future. To vigorously improve air pollution, local governments in Hebei, Guangdong, Zhejiang and other places introduced their own subsidy policies to help promote the elimination of coal-fired boilers and the use of cleaner natural gas. During the year, the Group seized the opportunity arising from the coal-to-gas conversion by proactively carrying out research on the coal-fired boiler market, adopting a flexible pricing strategy and assisting the governments in formulating and implementing their work plans, the Group emphasised on the coal-to-gas conversion of boilers with a capacity of below 10 steam tons/hour and gradually completed the work. The Group also tailor-made boiler modification and upgrade plans for customers to help improve the combustion efficiency and reduce overall energy consumption. During the year, new connections to coal-to-gas customers was 5.03 million cubic metres/day, accounting for 40% of newly connected C/I customers.

Currently, China's economy is in the process of carrying out structural reform. The tertiary industry – which mainly consists of modern service sectors including growing sectors such as food and beverage, tourism and Internet-based e-commerce sectors – has become a new growth driver of economic development. In 2016, GDP in the tertiary sector grew 7.8% year-on-year and exceeded the overall GDP growth rate of 6.7%. In addition, the tertiary sector already accounted for 51.6% of the total GDP. Therefore, the Group proactively reached out such commercial customers to optimise its customer structure. In 2016, new connections to commercial customers amounted to 4.02 million cubic metres/day. The proportion of newly connected commercial customers accounted for 32% of the total new C/I connections, an increase of 4 percentage points, indicating that the Group's customer structure was further optimised.

New Projects

The Group managed to acquire 8 new projects and 12 new concessions nearby its existing projects during the year with additional connectable urban population of 980,000. This was achieved on the back of its solid track record, ability to secure gas supply and distributed energy technology, thus further expanding its operational coverage. As at 31 December 2016, the Group had 160 projects in China, operating area covering a connectable population of 77.42 million and 68,679 C/I customers connected to piped gas. The Group will continue to develop the cities, counties, densely-populated new towns and industrial parks around the existing city-gas projects. It will expand the scope of business with economies of scale and synergies, and keep track of M&A projects to lay a solid foundation for the development of the city-gas business.

Projects	The Group's shareholding	Major industry
1. Dingzhou, Hebei	51%	Energy, automobiles and components, coal chemicals and food
2. Changle County, Shandong	70%	Chemicals, construction materials, paper making, machinery and plastics
3. Rizhao Haiyou Economic Development Zone	60%	Petrochemicals, new materials, warehousing and logistics, machinery and construction materials
4. Gongyi Private Technology and Innovation Park	100%	Manufacturing of metallic products and precision medical instruments, machinery
5. Shenzhen Bao'an (Longchuan) Industrial Transfer Park	70%	Electronic and electrical appliances, air energy and wire rope structures
6. Liaoning Yingkou Industrial Park	24%	Equipment manufacturing, shipbuilding, metallurgy, petrochemical, electronic information
7. Wuchuan City, Guangdong	65%	Agricultural by-products processing, leather and feather products, plastics, electrical machinery
8. Yanling County, Hunan	93%	Rare metal refinery, high-end ceramics, machinery

The 12 new concessions nearby existing projects include:

Provinces	Operational areas
Anhui Province	Sanbing Town and Ba Town in Chaonan District, Chaohu; Yaopu Town, Zhulong Town, Shiji Town, Daliu Town, Zhangguang Town and Huangnigang Town in Nanqiao District, Chuzhou City
Hebei Province	Mengjin Luobei Modern Service Industrial Zone and Langfang Airport New District
Henan Province	Luoyang Tianzhuang Industrial Zone
Shandong Province	Dongchangfu District of Liaocheng City

VEHICLE REFUELLING AND BUNKERING BUSINESS

PRC Vehicle Gas Refuelling Business

To improve the operational efficiency and profitability of the refuelling business, the Group vigorously revamped the evaluation and incentive mechanism of its vehicle gas refuelling stations. An accountability system was implemented for each of the 101 stations, under which the head of the stations are accountable to the gas sales volume, profit, safe operation and other indicators of the stations, and bonus incentives are offered if the target is exceeded to enhance the profitability of each station. Moreover, the gas sales volume was boosted via the "Smart Card" alliance by optimising the station network, capturing more customer resources as well as organising and implementing cross-regional joint marketing. With topped-up membership cards, customers could have their vehicles refuelled at the refuelling stations and alliance stations, which offered solutions to refuelling along the transportation route, while sharing resources and enhancing customer loyalty, which in turn raised the overall business competitiveness within the region. In addition, value-added businesses under the "E vehicle E station" brand including supermarket were provided at refuelling stations at the beginning of the year in order to enhance customer loyalty and broaden revenue streams. Currently, supermarkets have been rolled out at 10 refuelling stations in Langfang, Dongguan, Zhucheng, Xingtai, Quanzhou and other cities, which were popular with customers. The Group plans to extend the value-added services under the “E vehicle E station” brand to more refuelling stations.

During the year, the Group’s natural gas sales volume of vehicle gas refuelling stations in China decreased by 3.4% to 1,514 million cubic metres, of which the gas sales volume of CNG refuelling stations decreased by 12.3% to 863 million cubic metres and the gas sales volume of LNG refuelling stations increased by 11.7% to 651 million cubic metres. The Group focused on enhancing the operational efficiency of the gas refuelling stations and optimising the network of these stations by adjusting the speed of constructing new stations in line with the progress in market and customer development. During the year, 14 CNG refuelling stations and 7 LNG refuelling stations were constructed and commenced operation, bringing the total number of CNG and LNG refuelling stations in operation to 320 and 277 respectively.

The overall decline in CNG gas sales during the year was primarily due to (i) the continuing low oil price despite mild recovery, and the fact that the economic advantage of natural gas prices in some areas compared to gasoline had not yet been restored to the previous level; (ii) a decrease in the conventional taxi business volume as a result of the popularity of mobile car hailing services in mainland China; and (iii) initiatives by individual local governments to promote electric vehicles affected the utilisation rate of CNG refuelling stations. The business of CNG refuelling stations is currently facing some challenges, but the Group has proactively adjusted the market development strategy by promoting the purchase of petro-gas hybrid vehicles on the one hand, and by expanding the oil-to-gas conversion customer base on the other hand –by way of cooperation with car-hailing service companies, increased efforts to expand new customer types for light duty trucks, urban public services and private cars. Moreover, the Group rolled out other promotional measures, such as rechargeable and cash return services, the offering of gifts using bonus points and improvement of the network of gas refuelling stations through strengthening alliances and cooperation, to attract more new customers and enhance the loyalty of existing customers.

During the year, thanks to the aggressive efforts of local governments to promote the oil-to-gas conversion for buses, coach buses and government’s vehicle fleet, together with the Group’s efforts to keep improving the network distribution of gas refuelling stations to open up large-scale transport corridors for logistics customers, there continued to be rapid growth in gas volume at LNG refuelling stations and the utilisation rate of these stations continued to improve with a steady rise in gross profit.

The National Energy Administration proposed that the utilisation of natural gas in vehicles and vessels should amount to 50-60 billion cubic metres by 2020, together with the construction of 12,000 gas refuelling stations for vehicles. It also calls for stepping up subsidies for the vehicle purchase, fuel consumption as well as other subsidy policies of natural gas vehicles by referring to the new energy vehicle support policy. In view of the government’s aggressive efforts to promote energy conservation and emission reduction to control environmental pollution, the oil-to-gas conversion for transportation is an inevitable trend. For this reason, the Group believes that the refuelling business will usher in a new round of development and will continue to make a good profit contribution.

North America Gas Refuelling Business

In 2016, the total fuel sales volume of refuelling stations in North America amounted to 9.92 million diesel gallon equivalent (“**DGE**”), generating revenue of USD21.80 million and posting a net loss of USD5.25 million. In a business environment with relatively small price differences between oil and gas, the Group shared the tax rebate of USD0.85/DGE from the sales of LNG with some of its customers in North America, while implementing measures such as strengthening cost control and selling diesel at some stations, thus enabling the Group to narrow the net loss recorded in the region’s gas refuelling business. The Group will continue to adopt flexible measures to cope with market changes in the future.

LNG Bunkering Business

During the year, the Group continued to set up more strategic alliances at major ports. It completed the conversion of the first LNG-powered roll-on roll-off ship – Beibu Bay 9 and provided pre-cooling and gas test services for NE212, the world's largest dual-fuel vehicle carrier made by NACKS. Moreover, the Group's LNG project used in water transportation in the Hangzhou-Jiaxing-Huzhou area of the Yangtze River Delta system and the Yangtze River Dongting Lake Waterway were on the list of a second batch of pilot projects for the national water transport industry. An slew of policies such as the "13th Five-year Plan for the Development of Natural Gas" and the "Opinion on Accelerating the Promotion of Natural Gas Utilisation" were introduced to explicitly encourage the development of transport ships using LNG as fuel in inland rivers, lakes and coastal areas, and to offer special subsidies for the conversion of LNG-powered vessels and the building of new LNG vessels. The Group will continue to cooperate with various governmental departments to establish favorable industry policies and standards, while fostering alliances and cooperation with shipping companies, port and shipping authorities and various provincial and municipal transportation departments in optimising the distribution of refuelling stations at strategic locations, facilitating the development of the market for newly built vessels and modified vessels, and exploring integrated clean energy solutions for vessels.

DEVELOPMENT OF NEW BUSINESSES

Energy Trading Business

During the year, gas sales volume of the energy trading business reached 3,037 million cubic metres, representing a significant increase of 146.6% year-on-year. In 2016, the sufficient supply of LNG kept the downstream sales prices low, while the demand from small gas companies, refuelling stations and C/I customers not covered by pipeline networks remained strong. This offered the Group favorable distribution conditions to develop customers actively. The energy trading business is an asset-light business with a lower business risk, which allows the Group to allocate gas sources to the demand side through the efficient use of the Group's advanced dispatch system, logistics fleet and upstream resources. The Group will fully assess the gas demand, credibility of customers while drawing up trade contracts to ensure the timely collection of receivables. By equity investment in various gas trading platforms in China, the Group continues to expand the scale of energy trading, build a strong distribution network, enhance its influence in the industry and expand its revenue sources while making strategic arrangements for the full liberalisation of natural gas prices.

Development of Distributed Energy Projects

China has become one of the fastest growing markets for distributed energy in the world, boosted by a rising energy demand, increased pressure on energy conservation and emission reduction and national policies. In the "Opinions on Accelerating the Promotion of Natural Gas Utilisation, the National Energy Administration particularly points out that during the period of the "13th Five-Year Plan", the development needs to be accelerated of natural gas distributed energy in large commercial areas and new industrial areas of large- and medium-sized cities. Also, the construction needs to be promoted of natural gas distributed energy projects in the development zones, industrial cluster zones, industrial parks, commercial centers, Class 1 and Class 2 airports across the country, transportation hubs, data storage centers and hospitals with cooling, heating and electricity demand.

Riding on favorable policies and taking the reform of the national electricity industry as an opportunity and leveraging the Group's customer base in the city-gas projects, the Group is actively developing the distributed energy business especially for industrial customers and customers in industrial parks. The Group tailor-made energy systems according to different energy needs of customers to boost natural gas sales volume and create additional revenue stream through the sales of integrated energy. During the year, the Group signed up 10 distributed energy projects including Qingdao Haier Industrial Park, Shengda Industrial Park in Xiaoshan and Huzhou Central Hospital. As at the end of the year, 12 projects have started to provide multiple energy, including Changsha Huanghua International Airport, Yancheng Tinghu Hospital, Zhuzhou Vocational Education City, Zhuzhou Shennong City, Zhaoqing New District, Qingdao Sino-German

Ecological Park, Shijiazhuang Junlebao, Shijiazhuang Railway Station, Chuzhou Anxing Color Polyester, Qingdao Wanda Yacht Industrial Park, Jingbin Industrial Park and Langfang Cloud Storage.

During the year, the country's electricity reform process accelerated with the introduction of the "Measures Governing the Access and Exit by Power Sales Companies" which assures a policy for cultivating power sales market players, and the "Measures Governing the Orderly Deregulation of the Power Distribution Network Business" which provides guidance for the construction of power distribution networks with private capital. As of today, the integrated pilot reform of the power system has been launched in 21 provinces; the pilot reform of the electricity transmission and distribution prices covers all the provincial power grids and the North China regional power grids, except Tibet; and 30 power exchange centers have been established. The growing scale of domestic electricity sales market sped up the market liberalisation. Beneficial results continue to be produced as boosted by the reform. On 8 January 2016, the Group announced that it would explore the electricity sales business through the application of distributed energy in Kunming High Tech Zone in Yunnan and Zhaoqing New Zone in Guangdong as pilot projects. The joint venture company in Yunnan has already obtained the electricity sale license and carried out the sales business in the second half of the year – recording electricity sales of 20.50 million kilowatt-hours for the year. As the specific policies and details about the Chinese government's liberalisation of the electricity market remain uncertain, the Group will first trial in these two pilot projects, further enhance its competitive edge in distributed energy and provide customers with supply and sales of integrated energy of higher quality.

Sale of Gas Appliances

During the year, the Group made full use of its existing 14.15 million residential households by making vigorous efforts to promote "GRATLE" branded appliances such as cooking stoves, water boilers, range hoods, space heaters and sterilisers, which generated a revenue of RMB238 million and a profit of RMB100 million. The Group stepped up its marketing strategy to expand the nationwide market so as to increase the market share. In future, the Group will make use of kitchenware as a starting point by fully expanding its brand, service and information advantages to include products into the integrated smart home solutions.

Other Major Investments

Equity Investment in initial public offering ("IPO") for Shanghai Dazhong Public Utilities in Hong Kong

During the year, the Group subscribed for 4.45% of the total issued share capital of Shanghai Dazhong Public Utilities (Group) Co., Ltd. (1635.HK) with an investment of USD60 million (approximately RMB411 million) and becomes one of its cornerstone investors through its IPO in Hong Kong. Shanghai Dazhong Public Utilities is one of the largest city-gas operators in Shanghai and also engaged in taxi operation as well as passenger and logistics vehicle business. Shanghai is one of the cities in China which highly promotes the development of distributed energy projects. Both parties will collaborate in the aspects of gas procurement and supply, customer development for gas refuelling stations and distributed energy projects. The Group believes that its equity investment in the company will enhance its bargaining power for gas source procurement and that it will have a synergistic effect on promoting business development in Shanghai.

Equity Investment in Chongqing Petroleum and Natural Gas Exchange

The Chongqing Petroleum and Natural Gas Exchange was officially incorporated on 12 January 2017, with capital contributions by 13 shareholders, including PetroChina, Sinopec, various city-gas enterprises and financial institutions. The registered capital of the exchange amounted to RMB1 billion. The Group entered into an agreement to acquire 7% equity interests of the exchange with a consideration of RMB70 million. The exchange will build an oil and gas spot trading market leveraging the diversified gas sources and well-developed pipeline network facilities in Sichuan and Chongqing, and focusing on piped gas and natural gas chemical products as major products. The exchange is the second national bulk energy commodity trading platform following the establishment of Shanghai Petroleum and Natural Gas Exchange. Both exchanges will complement each other to achieve the efficient allocation of natural gas resources in China. This will be conducive to further deepening the reform of the industry by establishing a price benchmark with an international impact. The equity investments in the two major national natural gas trading platforms will help the Group quickly obtain market information, expand the brand impact in the industry, secure diversified gas sources for the Group's city-gas business and facilitate the development of the energy trading business.

Human Resources

As at 31 December 2016, the Group employed a total of 28,735 employees. The workforce was expanded to support the Group's new projects and business development. The employees were remunerated at the market level with benefits such as bonus, retirement benefit, professional training and share option scheme.

Awards

The Group received the following honours in 2016:

- "2016 National May 1st Labour Certificate" awarded by All-China Federation of Trade Unions;
- "Best CFO" (ranked no.2 in power sector) and "Best Analyst Day" (ranked no.3 in power sector) in 2016 All-Asia Executive Team Ranking by Institutional Investor, an renowned international financial magazine;
- "China Top 500 in 2016" by Fortune Magazine; and
- "2015 Top 100 Listed Company in Hong Kong" organised by QQ.com and Finet.

The Group will spare no efforts to ensure that investors, employees and members of society can enjoy the fruits of its steady business development and enhancement of corporate governance.

FINANCIAL RESOURCES REVIEW

Key Financial Data

During the year, the Group's total revenue amounted to RMB34,103 million, representing an increase of 6.4% over last year. Gross profit margin and net profit margin of the Group were 21.6% and 8.5% respectively, up 0.2 percentage point and remain unchanged respectively over last year. Profit attributable to shareholders was RMB2,151 million, representing an increase of 5.6% year-on-year. Stripping out the impact of RMB1,061 million from the items in other gains and losses and amortisation of share option expenses, profit increased by 17.3% compared to the corresponding period in 2015 to RMB3,212 million, demonstrating improving profitability of the Group.

Liquidity and Financial Resources

Currently, the Group's operating and capital expenditures are funded by operating cash flows, current assets, bank loans and issued bonds. The Group has sufficient sources of funds and unutilised banking facilities of approximately RMB7,277 million to meet its future capital expenditure and working capital requirements.

Borrowings Structure

As at 31 December 2016, the Group's total debts amounted to RMB16,791 million (2015: RMB15,680 million) and bank balances and cash for the purpose of computing net gearing ratio amounted to RMB7,163 million (2015: RMB7,355 million). The Group's net gearing ratio, i.e., the ratio of net debt to total equity (including non-controlling interests), was 53.9% (2015: 51.7%).

The Group's major bonds include follows:

Major bonds	Currency	Maturity date	As at 31 December 2016	As at 31 December 2015
Seven-year 6.45% Fixed Rate Bonds	RMB	16 February 2018	500 million	500 million
Five-year Zero-Coupon Convertible Bonds	USD	26 February 2018	500 million	500 million
Five-year 3.25% Fixed Rate Bonds	USD	23 October 2019	65 million	65 million
Three-year 3.55% Fixed Rate Bonds (note a)	RMB	2 December 2019	2,500 million	-
Maximum Five-year 3.68% Fixed Rate Bonds	RMB	17 December 2020	2,500 million	2,500 million
Ten-year 6% Fixed Rate Bonds (note b)	USD	13 May 2021	366 million	715 million

Notes:

a. On 30 November 2016, the Group issued three-year bonds with a total principal amount of RMB2.5 billion to refinance part of the Ten-year 6% Fixed Rate Bonds. The bonds carry a coupon rate of 3.55%.

b. On 12 December 2016, the Group repurchased USD349 million in principal amount of the bonds. The repurchased bonds were settled and cancelled on 16 December 2016. The total remaining outstanding principal amount of the bonds as at 31 December 2016 was USD366 million.

Except for bank loans of USD184 million (equivalent to RMB1,276 million) and HK$388 million (equivalent to RMB347 million), the remaining bank and other loans are denominated in Renminbi and bear interests at interest rates announced by the People's Bank of China. Except for the loan amount equivalent to RMB612 million that are secured by assets with a carrying value equivalent to RMB336 million, all of other loans are unsecured. Short-term loans amounted to RMB3,944 million while the remaining loans were long-term loans with a term of one year or more.

The Group continued to maintain a sound financial position during the year. The credit rating agency Moody's has maintained a Baa3 investment-grade rating and a "positive" outlook on the Group. Meanwhile, Standard & Poor's and Fitch both maintained their BBB investment-grade ratings and "stable" outlook.

Foreign currency Risk

As at 31 December 2016, the principal amount of the Group's foreign currency debt amounted to USD1,115 million (2015: USD1,393 million) and HK$388 million (2015: nil). In response to the risk of RMB depreciation, the Group early repaid a bank loan of USD114 million (equivalent to approximately RMB739 million). Furthermore, the Group also repurchased USD349 million in principal amount of the USD715 million 6% senior notes due 2021 in December 2016 and refinanced by RMB2.5 billion 3.55% bonds with a tenure of three years. In addition, the Company entered into structured foreign currency forward contracts with certain financial institutions to manage its foreign currency risk, based on current estimation, the foreign exchange exposure substantially reduced from RMB9,293 million to RMB3,258 million.

Financial Guarantee Liability

As at 31 December 2016, the Group had issued guarantees to banks to secure loan facilities granted to associate and joint ventures to the extent of approximately RMB230 million (2015: RMB320 million). The amounts have been utilised on the balance date.

Commitments

(a) Capital commitments

	2016 RMB million	2015 RMB million
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	251	281
Capital commitment in respect of		
- investments in joint ventures	177	48
- investments in associates	17	17
- other equity investments	68	112

(b) Other commitments

As at 31 December 2016, the Group has commitments to acquire liquefied natural gas ("LNG") from certain suppliers. The delivery of LNG under such arrangements will start from 2018 or 2019 and last for 5 to 10 years. The Group will be obliged to make "take-or-pay" payment to suppliers for the quantity contracted but not delivered.

In the opinion of the Directors, these LNG will be utilised to satisfy the demand of domestic natural gas consumption from both the Group's piped gas customers and wholesale customers. The Directors determined that such LNG purchase arrangements are entered into and continued to be held for the purpose of the receipt of a non-financial item in accordance with the Group's expected purchase, sale and usage. Accordingly, the LNG purchase arrangements are not considered as derivatives financial instruments within the scope of HKAS 39.

The relevant purchase prices of these arrangements will be determined by reference to certain variables, such as petroleum price indexes prevailing at the market, and are denominated in USD. The Directors assessed the economic characteristics and risks of the embedded derivatives and concluded that they are closely related to the economic risks and characteristics of the relevant host contracts. Accordingly, the embedded derivatives are not separated from the LNG purchase arrangements as derivative financial instruments recognised in the consolidated financial statements.

PROSPECTS

Looking ahead, China will continue to step up its supply-side structural reform in 2017 while promoting the crafting of an ecological civilisation and a green, low-carbon energy strategy. As a result, the city-gas business, vehicle/ship refuelling business and distributed energy business all have room for growth. The Group will carry on developing its residential user base and exploring the potential of C/I customers in order to strengthen its city-gas business. It will improve its network and adopt innovative measures to enhance profitability of its vehicle/ship refuelling business. It will continue to expand its energy trading business and diversify its sources of gas supply on the back of its resources procurement capabilities and various trading platforms – such as the Company owned "Greatgas.cn" and equity investment in the Shanghai Petroleum and Natural Gas Exchange and the Chongqing Petroleum and Natural Gas Exchange. Seizing opportunities in the reform of the electricity market and leveraging the Group's customer base in the city-gas projects, the Group will push forward its distributed energy business and integrated energy sales business so as to realise its transition and upgrade from a gas distributor to an integrated energy supplier. The Group is confident that it can become a reputable integrated energy supplier through innovations of its business model and through upgrades to its pursuit of excellent operational. It will not cease to enhance its corporate value in order to create better returns for its shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the Company repurchased a total of 1,032,000 shares on the Stock Exchange at an aggregate consideration of HK$32,744,800. Details of the repurchase are as follows:

Date	Total number of shares repurchased	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration HK$
11 January 2016	200,000	34.00	33.50	6,761,300
21 January 2016	32,000	33.00	32.45	1,054,200
22 December 2016	400,000	31.00	30.60	12,317,600
23 December 2016	400,000	31.90	30.95	12,611,700
Total	1,032,000			32,744,800

232,000 and 800,000 ordinary shares repurchased during the year were cancelled on 28 April 2016 and 14 March 2017 respectively.

The purpose of share repurchase is to increase net asset value per share and earnings per share. The share repurchase complied with the general mandate to the Board to repurchase the Company’s shares that passed in the Company’s 2016 annual general meeting. Save as above, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any of the Company’s listed securities.

AUDIT COMMITTEE

The Company established an Audit Committee on 28 March 2001. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, risk management and internal control systems (including financial control, operational control, compliance control, risk management function and the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, as well as their training programmes and budget) and financial reporting matters. During the year, members of the Audit Committee are Ms. Yien Yu Yu, Catherine, Mr. Ma Zhixiang, Mr. Yuen Po Kwong and Mr. Law Yee Kwan, Quinn, who are all Independent Non-executive Directors. On 31 May 2016, Ms. Yien Yu Yu, Catherine retired from the Board of Directors and no longer acted as an Audit Committee member of the Company. Three Audit Committee meetings were held during the financial year, and the Audit Committee has reviewed the audited annual accounts for 2015 and the unaudited interim accounts for 2016. In addition, the Audit Committee has reviewed the annual results and the audited annual accounts for 2016 at the Audit Committee meeting held on 20 March 2017.

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 31 December 2016 as set out in the preliminary announcement have been agreed by the Company’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.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). Specific enquiries have been made with all Directors who have confirmed that they complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions.

THE CORPORATE GOVERNANCE CODE

To the knowledge of the Board, the Company has complied with the Code Provisions set out in the Code on the Corporate Governance Code as contained in Appendix 14 to the Listing Rules throughout the year.

DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Directors now recommend a final dividend of HK$0.83 (2015: HK$0.76 (equivalent to approximately RMB0.74 (2015: RMB0.64)) per share payable to shareholders of the Company whose names are on the register of members on Tuesday, 6 June 2017. The final dividend is subject to approval by the shareholders in the forthcoming annual general meeting and will be paid to shareholders of the Company on or before Friday, 28 July 2017. For the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting, the register of members will be closed from Monday, 22 May 2017 to Friday, 26 May 2017, both days inclusive, during which period no share transfer will be effected. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30p.m. on Friday, 19 May 2017.

For the purpose of determining the qualification for the proposed final dividend, the register of members will be closed from Monday, 5 June 2017 to Tuesday, 6 June 2017, both days inclusive, during which period no share transfer will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30p.m. on Friday, 2 June 2017.

PROPOSED AMENDMENT TO THE ARTICLES OF ASSOCIATION

The Board proposes to make certain amendments to the existing Articles of Association of the Company (the "**Articles**") and to adopt an amended and restated Articles for housekeeping purposes and for the purpose of conforming with certain amendments to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and to align with the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) and the Companies Law (2013 Revision) of the Cayman Islands, which have become effective since the last amendment of the Articles (the "**Proposed Amendment**").

The Proposed Amendment and the adoption of the amended and restated Articles are subject to the approval of the shareholders of the Company by way of special resolution at the forthcoming Annual General Meeting. A circular containing, among other things, further details of the Proposed Amendment will be despatched to the shareholders as soon as practicable.

By order of the Board
ENN ENERGY HOLDINGS LIMITED
WANG YUSUO
Chairman

Hong Kong, 21 March 2017

As at the date of this announcement, the Board comprises the following directors:

Executive Directors:

Mr. Wang Yusuo (Chairman)
Mr. Cheung Yip Sang (Vice Chairman)
Mr. Sean S J Wang (Chief Executive Officer)
Mr. Han Jishen (President)
Mr. Wang Dongzhi

Non-executive Directors:

Mr. Wang Zizheng

Independent Non-executive Directors:

Mr. Ma Zhixiang
Mr. Yuen Po Kwong
Mr. Law Yee Kwan, Quinn

The 2016 Annual Report will be dispatched to the shareholders and published on the websites of the Company and the Stock Exchange as soon as practicable.