THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in ENN Energy Holdings Limited ("**Company**"), you should at once hand this circular, together with the enclosed form of proxy, to the purchasers or transferees or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchasers or transferees.

ENN 新奥

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)

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY AND ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE
AND
(2) APPLICATION OF WHITEWASH WAIVER

Financial Adviser to the Company ***Independent Financial Adviser***

CICC 中金公司 PLATINUM Securities

The letter from the Board is set out on pages 7 to 27 of this circular and the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 28 to 29 of this circular. The letter from the Independent Financial Adviser containing its recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 30 to 64 of this circular.

A notice convening the EGM of the Company to be held at 11:00 a.m. on Wednesday, August 8, 2018 at Tianshan and Lushan Rooms, Level 5, Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Central, Hong Kong is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.ennenergy.com). Whether or not you are able to attend the EGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof to the office of the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the EGM or any adjournment thereof should they so wish, and in such event, the instrument appointing a proxy shall be deemed to be revoked.

July 16, 2018

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Acquisition"	the acquisition of the Sale Shares by the Company from the Vendor pursuant to the SPA
"acting in concert"	has the meaning ascribed to it under the Takeovers Code
"Announcement"	the announcement of the Company dated June 25, 2018 in relation to the Transactions
"associate"	has the meaning ascribed to it in the Listing Rules
"Board"	the board of Directors
"Business Day"	a day other than a Saturday, Sunday or public holiday in the Cayman Islands, the BVI or Hong Kong
"BVI"	British Virgin Islands
"Company"	ENN Energy Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 2688)
"Completion"	completion of the Acquisition
"connected person"	has the meaning ascribed to it in the Listing Rules
"Consideration"	the aggregate consideration payable by the Company for the Sale Shares under the SPA
"Consideration Shares"	39,926,534 Shares to be allotted and issued, credited as fully paid, by the Company to the Vendor upon Completion
"controlling shareholder"	has the meaning ascribed to it in the Listing Rules
"Director(s)"	the director(s) of the Company
"EGII"	ENN Group International Investment Limited, a company incorporated in the BVI with limited liability, which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao, and the directors of which are Mr. Wang, Mr. Wang Zizheng, Mr. Yang Yu, Mr. Jin Yongsheng and Mr. Yu Jianchao

"EGM"	an extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the Transactions
"ENN Green Energy"	ENN Green Energy Technology (Langfang) Co., Ltd.* (新奧綠能科技(廊坊)有限公司), a limited liability company incorporated in the PRC and controlled by Mr. Wang
"ENN Ubiquitous Energy Network"	ENN Ubiquitous Energy Network Technology Co., Ltd.* (新奧泛能網絡科技有限公司), a limited liability company incorporated in the PRC
"ENN Ubiquitous Energy Network Affiliates"	Shenzhen Qianhai ENN Huijin Smart Energy Co., Ltd.* (深圳市前海新奧匯金智能能源有限公司), in which ENN Ubiquitous Energy Network holds 40% of the issued share capital; Langfang ENN Ubiquitous Energy Equity Investment Fund LLP* (廊坊新奧泛能股權投資基金中心(有限合夥)), in which ENN Ubiquitous Energy Network holds 23% of the interest in the fund; Yunnan Yuntou Energy Sales Co., Ltd.* (雲南雲投新奧售電有限公司), in which ENN Ubiquitous Energy Network holds 15% of the issued share capital
"ENN Ubiquitous Energy Network Subsidiaries"	Comprise: (i) Langfang ENN Ubiquitous Energy Network Technical Service Co., Ltd.* (廊坊新奧泛能網絡科技服務有限公司), ENN Energy Service (Shanghai) Co., Ltd.* (新奧能源服務(上海)有限公司), Langfang ENN Ubiquitous Energy Equipment Sales Co., Ltd.* (廊坊新奧泛能設備銷售有限公司), Jiangxi ENN Electricity Sales Co., Ltd.* (江西新奧售電有限公司), ENN (Anhui) Energy Sales Co., Ltd.* (新奧(安徽)能源銷售有限公司), ENN (Beijing) Energy Sales Co., Ltd.* (新奧(北京)能源銷售有限公司), and ENN (Shanghai) Energy Sales Co., Ltd.* (新奧(上海)能源銷售有限公司), all of which are PRC companies and are wholly owned by ENN Ubiquitous Energy Network; and (ii) Xinzhi Energy System Control Co., Ltd.* (新智能源系統控制有限責任公司), a PRC company in which ENN Ubiquitous Energy Network holds 60% of the issued share capital

"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director, as defined in the Takeovers Code
"Financial Adviser"	China International Capital Corporation Hong Kong Securities Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities under the SFO, the financial adviser to the Company in connection with the Acquisition
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HK SPV One"	ENN Premier Investment Limited (新奧卓誠投資有限公司), a company incorporated in Hong Kong on February 5, 2018 with limited liability, which is wholly owned by the Target Company
"HK SPV Two"	ENN Excellence Investment Limited (新奧卓信投資有限公司), a company incorporated in Hong Kong on February 20, 2018 with limited liability, which is wholly owned by the Target Company
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board (which comprises all the independent non-executive Directors) established to advise the Independent Shareholders with regard to the Transactions
"Independent Financial Adviser"	Platinum Securities Company Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser appointed by the Board for the purpose of advising the Independent Board Committee and the Independent Shareholders as to the Transactions

"Independent Shareholders"	Shareholders other than (i) Mr. Wang Concert Group; and (ii) those who are involved in or interested in the Transactions, and their respective concert parties and associates
"Issuance of Consideration Shares"	the allotment and issue of the Consideration Shares by the Company to the Vendor under the Specific Mandate
"Last Trading Day"	June 22, 2018, being the last full trading day immediately prior to the date of the SPA
"Latest Practicable Date"	July 13, 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Wang"	Mr. Wang Yusuo, an executive Director and Chairman of the Board
"Mr. Wang Concert Group"	comprising Mr. Wang, Ms. Zhao, EGII, the Vendor and Mr. Wang Zizheng, the son of Mr. Wang, and their respective concert parties
"Ms. Zhao"	Ms. Zhao Baoju, the spouse of Mr. Wang
"PRC"	the People's Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Relevant Period"	the period commencing from December 25, 2017, being six months prior to June 25, 2018 and up to and including the Latest Practicable Date
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	10,000 shares of the Target Company, representing 100% of the issued share capital of the Target Company as at the Latest Practicable Date and at Completion
"SFO"	Securities and Futures Ordinance, Chapter 571 of Laws of Hong Kong

"Share(s)"	ordinary shares of HK$0.10 each in the share capital of the Company
"Share Option Schemes"	the share option scheme adopted by the Shareholders on May 21, 2002 and on June 26, 2012 respectively
"Shareholder(s)"	holder(s) of the Shares
"SPA"	the agreement dated June 25, 2018 entered into between the Company and the Vendor in relation to the Acquisition
"Specific Mandate"	the specific mandate to be sought from the Independent Shareholders at the EGM to grant the authority to the Board for the allotment and issue of the Consideration Shares to the Vendor
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Code on Takeovers and Mergers of Hong Kong (as amended and supplemented from time to time)
"Target Company"	Excellence Award Holding Company Limited (嘉品控股有限公司), a company incorporated in the BVI on February 28, 2018 with limited liability, which is wholly owned by the Vendor
"Target Group"	Target Company, its subsidiaries and ENN Ubiquitous Energy Network Affiliates
"Target Operating Group"	the Target Group excluding the Target Company and two of its wholly-owned investment holding companies, HK SPV One and HK SPV Two
"Transactions"	the entering into of the SPA, the Acquisition, the grant of the Specific Mandate, the Issuance of Consideration Shares and the Whitewash Waiver
"Vendor"	Essential Investment Holding Company Limited (精選投資控股有限公司), a company incorporated in the BVI with limited liability, which is wholly owned by EGII and the directors of which are Mr. Wang and Mr. Wang Zizheng

"Whitewash Waiver"	waiver as may be granted by the Executive under Note 1 to the Notes on dispensation from Rule 26 of the Takeovers Code in favour of the Vendor in respect of their obligations to make a general offer to acquire the issued Shares (excluding the issued Shares which are owned or agreed to be acquired by Mr. Wang Concert Group) in accordance with the Takeovers Code as a result of the allotment and issue of the Consideration Shares to the Vendor under the Acquisition
"%"	per cent.

In this circular, for the purpose of illustration only, amounts quoted in RMB have been converted into HK$ at the rate of HK$1 to RMB0.81606. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

* *For identification purpose only.*

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)

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

Independent non-executive Directors:
Mr. Ma Zhixiang
Mr. Yuen Po Kwong
Mr. Law Yee Kwan, Quinn

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

Principal place of business in Hong Kong:
Rooms 3101–04, 31st Floor
Tower 1, Lippo Centre
No. 89 Queensway
Hong Kong

Head office in the PRC:
Building A, ENN Industrial Park
Xinyuan DongDao Road
Economic and Technological
Development Zone
Langfang City
Hebei Province
The PRC

July 16, 2018

To the Shareholders

Dear Sir or Madam,

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY AND ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE
AND
(2) APPLICATION OF WHITEWASH WAIVER

INTRODUCTION

Reference is made to the Announcement in which the Company announced that after trading hours on June 25, 2018, the Company and the Vendor entered into the SPA pursuant to which the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to purchase the Sale Shares. The Sale Shares represent the entire issued share capital of the Target Company as at the Latest Practicable Date. The Consideration for the Acquisition shall be fully settled by the allotment and issue, credited as fully paid, of the Consideration Shares to the Vendor at Completion. The EGM will be convened for the purpose of, among other matters, considering, and if thought fit, approving the Transactions.

The purpose of this circular is to give you, among other matters, (i) details of the SPA and the Acquisition, the grant of the Specific Mandate, the Issuance of Consideration Shares and other information as required to be disclosed under the Listing Rules and the Takeovers Code; (ii) details of the application for the Whitewash Waiver; (iii) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Transactions; (iv) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (v) a notice of the EGM.

THE SPA

On June 25, 2018, the Company entered into the SPA with the Vendor in relation to the Acquisition, the Consideration of which will be settled by the allotment and issue, credited as fully paid, of the Consideration Shares to the Vendor at Completion. A summary of the principal terms of the SPA is set out below:

Date

June 25, 2018

Parties

(1) the Company as the purchaser; and

(2) the Vendor as the seller.

The Vendor is a company incorporated in the BVI with limited liability which is principally engaged in investment holding. The Vendor is wholly owned by EGII, a controlling shareholder of the Company.

Assets to be acquired

The Company conditionally agreed to purchase and the Vendor conditionally agreed to sell the Sale Shares free from all encumbrances together with all rights now or thereafter attaching thereto, including all dividends or distributions which may be paid, declared or made in respect thereof at any time on or after the Completion. The Sale Shares represent the entire share capital of the Target Company.

The Vendor has given certain representations and warranties to the Company in relation to the title of the Sale Shares as well as business and operations of the Target Group under the SPA.

Consideration

The Consideration for the Acquisition is RMB2,606,595,755 (equivalent to approximately HK$3,194,122,681), which shall be fully settled by the allotment and issue, credited as fully paid, of 39,926,534 Consideration Shares to the Vendor at Completion.

The 39,926,534 Consideration Shares represent (i) approximately 3.68% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 3.68% of the issued share capital of the Company as at the date of the Announcement; and (iii) approximately 3.55% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming that there is no other change to the share capital of the Company prior to Completion).

The issue price of HK$80.00 per Consideration Share represents:

(1) a discount of approximately 2.38% to the closing price of HK$81.95 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(2) a discount of approximately 1.23% to the closing price of HK$81.00 per Share as quoted on the Stock Exchange on the Last Trading Day, being the date of the SPA;

(3) a premium of approximately 4.49% to the average closing price of approximately HK$76.56 per Share as quoted on the Stock Exchange for the five consecutive trading days of the Shares up to and including the Last Trading Day;

(4) a premium of approximately 20.30% to the average closing price of approximately HK$66.50 per Share as quoted on the Stock Exchange for the six months immediately prior to the Last Trading Day; and

(5) a premium of approximately 317.97% to the audited consolidated net asset value of the Group of approximately RMB15.62 (equivalent to approximately HK$19.14) per Share as at December 31, 2017, calculated based on the audited consolidated net asset value of the Group attributable to owners of the Company of RMB16,952,000,000 (equivalent to approximately HK$20,772,982,379) as at December 31, 2017 divided by the total number of Shares in issue as at the Latest Practicable Date.

Based on the number of 39,926,534 Consideration Shares and assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date up to Completion, the number of Shares in issue will increase from 1,085,227,224 Shares to 1,125,153,758 Shares upon Completion and the shareholding of Independent Shareholders would be diluted from approximately 69.66% to approximately 67.19%, representing a dilution effect of approximately 2.47% as a result of the issue of the Consideration Shares. Notwithstanding the potential dilution impact on the Independent Shareholders' shareholding, taking into account that (i) the issue price of the Consideration Shares represents a premium of approximately 4.49% the average closing price of approximately HK$76.56 per Share for the five consecutive trading days of the Shares immediately prior to and including the Last Trading Day and a premium of approximately 317.97% to the audited consolidated net asset value of approximately RMB15.62 (equivalent to approximately HK$19.14) per Share as at December 31, 2017, calculated based on the audited consolidated net asset value of the Group attributable to owners of the Company of RMB16,952,000,000 (equivalent to approximately HK$20,772,982,379) as at December 31, 2017 divided by the total number of Shares in issue as at the Latest Practicable Date; (ii) the proposed settlement for the Consideration by way of the issue of Consideration Shares can serve to preserve the cash reserve of the Group, which may be used for other desirable opportunities which may need speedy completion or require significant cash consideration (as at the Latest Practicable Date, the Group had not identified any such definitive opportunities and entered into any definitive agreements in relation thereto, which are required to be disclosed in accordance with the Listing Rules); and (iii) debt financing would incur additional finance costs to the Group and further increase the gearing of the Group, the Directors (including all the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) chose to settle the Consideration by way of Issuance of Consideration Shares as compared to by way of cash, and consider the settlement by way of Issuance of Consideration Shares to be in the interests of the Company and the Shareholders as a whole.

The Consideration Shares will be issued under the Specific Mandate to be granted to the Directors by the Independent Shareholders at the EGM.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares to be allotted and issued shall rank *pari passu* among themselves and with all the Shares in issue at Completion. The Vendor, which will be the holder of the Consideration Shares, undertakes not to dispose, agree to dispose, or create any option, right, interest or encumbrances over these Shares during a period of 12 months from the date on which dealings of the Consideration Shares commence on the Stock Exchange.

The expenses for the allotment and issue of the Consideration Shares are estimated to be approximately RMB20 million, which is payable by the Company.

The Consideration was arrived at after arm's length negotiations between the parties to the SPA on normal commercial terms with reference to:

(a) the future prospects of the Target Operating Group, the anticipated operational synergies, and the expected enhancement in the competitive position of the Group as a result of the Acquisition, further details of which are set out in the paragraph headed "Reasons for and Benefits of the Acquisition" below; and

(b) an implied price-to-earnings ratio ("**P/E Ratio**") of approximately 10.6 times based on the audited profit attributable to owners of the Target Operating Group in 2017 as disclosed in the paragraph headed "Information of the Target Group" below, which represents a fair and reasonable valuation of the Acquisition taking into account the liabilities as disclosed in the paragraph headed "Information of the Target Group" below and having regard to certain other comparable companies whose financial information was publicly available as at the date of the Announcement.

The P/E Ratio of the comparable companies as at the Last Trading Day ranges from approximately 9.93 times to approximately 31.51 times, with an average of 21.45 times. The implied P/E Ratio of the Acquisition of approximately 10.6 times is lower than the average of the P/E Ratio of the comparable companies. Details of the comparable companies are set out below:

Company Name	**Stock Code**	**P/E Ratio** *(Note 1)*
VPower Group International Holdings Limited	1608.HK	26.70
China Power Clean Energy Development Company Limited	735.HK	9.93
Panda Green Energy Group Limited	686.HK	31.51
LongiTech Smart Energy Holding Limited	1281.HK	17.64
	Average	**21.45**
	Maximum	**31.51**
	Minimum	**9.93**

Note:

(1) PE Ratio is calculated based on the market capitalization of the respective comparable companies as at the Last Trading Day divided by profit for the year attributable to owner of the Company of the respective comparable companies as obtained from their respective 2017 annual report.

The market capitalization of each comparable companies was calculated using the total number of shares disclosed in the monthly return on movements in securities for the month ended May 31, 2018 of each comparable companies and their respective closing price as at the Last Trading Day.

The 2017 annual reports of the comparable companies, the aforementioned monthly return and the closing price were obtained from the websites of the Stock Exchange (www.hkexnews.hk and www.hkex.com.hk). The exchange rate of HK$1 to RMB0.81606 was used for calculation purposes.

The Board considers it fair and reasonable to select those comparable companies (as suggested by the Financial Adviser and represented an exhaustive list of comparable companies) and use the P/E Ratio for comparison and assessment purposes for the following reasons:

- those comparable companies are primarily engaged in provision of energy related services such as provision of smart and integrated energy solutions, design, construction, installment, operation and maintenance with little or no involvement in manufacturing of equipment, which are comparable to the business of the Target Operating Group;

- each of those comparable companies is currently listed on the Main Board of the Stock Exchange, which is comparable to the Company in terms of listing status;

- each of the comparable companies has a market capitalization of over HK$2 billion and such size is relatively comparable to that of the Target Operating Group; and

- the Target Operating Group is profit-making and relatively asset light, and the comparable companies have similar nature in this regard.

Considering the above, the Directors (including the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) are of the view that the Consideration is fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

Conditions precedent

Completion shall be conditional upon the following conditions precedent:

(a) the Independent Shareholders having passed the necessary resolution approving the Transactions at the EGM by way of poll;

(b) the Executive having granted the Whitewash Waiver and any condition attached to the Whitewash Waiver having been satisfied, and the Whitewash Waiver not being revoked;

(c) the Stock Exchange granting or agreeing to grant the approval for the listing of, and permission to deal in, the Consideration Shares, and such approval not being revoked; and

(d) there not having been any material breach of any of the representations, warranties, agreements, covenants and undertakings given by the Vendor and the Company in the SPA that are to be performed or complied with prior to Completion.

Condition precedent (d) above may be waived by the party which is not in breach of the relevant representations, warranties, agreements, covenants or undertakings, whereas conditions (a), (b) and (c) are not capable of being waived by any party to the SPA in any event.

It is confirmed that in relation to the condition precedent (d) above, there is no such breach of any representations, warranties, agreements, covenants or undertakings by either party to the SPA as at the Latest Practicable Date.

In the event that the conditions precedent above cannot be fulfilled (or waived, where applicable) on or before December 31, 2018, the SPA shall automatically be terminated and neither party shall have any claim against the other party except in respect of any rights and liabilities which have accrued before termination.

As at the Latest Practicable Date, none of the above conditions precedent has been fulfilled.

Completion

Completion shall take place at 10:00 a.m. on the fifth Business Day after the date upon which the conditions set out in the SPA to be satisfied shall have been satisfied or waived (other than the conditions that by their terms are to be satisfied at Completion) or such other date as the Company and the Vendor shall agree in writing.

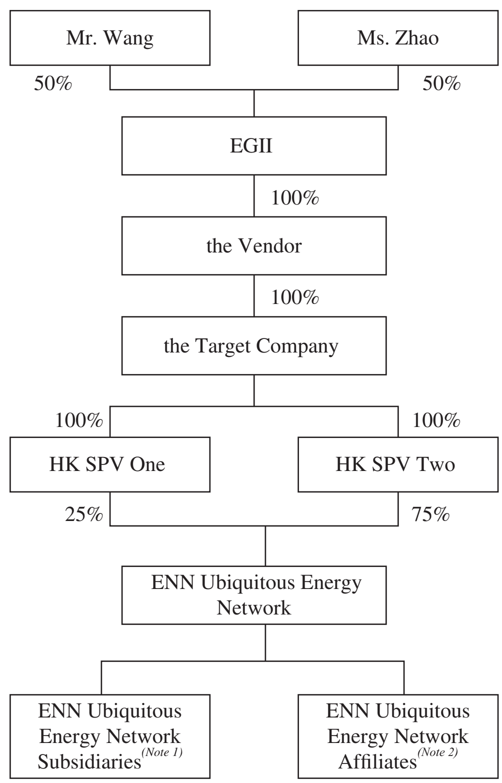
INFORMATION OF THE TARGET GROUP

The Target Company is an investment holding company incorporated on February 28, 2018 in the BVI with limited liability. The controlling shareholders, being Mr. Wang, Ms. Zhao and EGII, through the Vendor, are interested in 100% of the equity interest in the Target Company.

The only operating asset of the Target Company is its indirect 100% equity interest in ENN Ubiquitous Energy Network, a limited liability company established in the PRC, which is principally engaged in the business of providing technology solutions of multiple forms of energy in China. ENN Ubiquitous Energy Network was established in 2009 in the PRC by ENN Group Co., Ltd (新奧集團股份有限公司) and ENN Technology Development Co., Ltd (新奧科技發展有限公司), being entities ultimately controlled by Mr. Wang and Ms. Zhao.

To ensure the Acquisition is in compliance with the PRC laws and regulations including *Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors* which sets forth certain restrictions on and requirements for foreign investors' acquiring domestic companies and *Certain Provisions on Change of the Equity Interests of the Investors of a Foreign-Invested Enterprise* which sets forth certain requirements and procedures for transfer of equity interest in a foreign-invested enterprise, ENN Ubiquitous Energy Network undertook a pre-acquisition process to convert itself into a PRC wholly-foreign-owned enterprise in accordance with the relevant PRC laws and regulations. As part of the pre-acquisition process, (i) the Target Company, HK SPV One and HK SPV Two were set up recently in 2018 to be the intermediate holding companies of ENN Ubiquitous Energy Network; and (ii) ENN Ubiquitous Energy Network was transferred to the Target Company, an entity also ultimately controlled by Mr. Wang and Ms. Zhao. Set out below is the simplified shareholding structure and corporate structure chart of the Target Group immediately before the Acquisition:

Simplified shareholding structure chart of the Target Group immediately before the Acquisition:



Notes:

1. Comprise seven subsidiaries wholly owned and one subsidiary owned as to 60% by ENN Ubiquitous Energy Network. See the definition of "ENN Ubiquitous Energy Network Subsidiaries" for details.

2. Comprise three affiliates owned by ENN Ubiquitous Energy Network as to 40%, 23% and 15% respectively. See the definition of "ENN Ubiquitous Energy Network Affiliates" for details.

As a result of the pre-acquisition process and as at the Latest Practicable Date: (i) there is an outstanding shareholder's loan (the "**Shareholder Loan**") between the Target Company (as the borrower) and EGII (as the lender) in the amount of RMB98,857,841; and (ii) there is an outstanding amount (the "**Debt of HK SPV Two**") of RMB294,170,100 owed by HK SPV Two (an investment holding company wholly-owned by the Target Company) to ENN Green Energy (a PRC company controlled by Mr. Wang). Both the Shareholder Loan and the Debt of HK SPV Two are on reasonable and normal commercial terms.

According to the audited accounts of the Target Operating Group for the two years ended December 31, 2017, the total asset value and net asset value of the Target Operating Group as at December 31, 2017 were approximately RMB1,674 million and RMB486 million respectively.

As each of the Target Company, HK SPV One and HK SPV Two was recently set up in February 2018, none of them have any operating assets other than their equity interest in ENN Ubiquitous Energy Network as illustrated in the above shareholding structure chart. None of them have any liabilities other than the Shareholder Loan and the Debt of HK SPV Two (both of which are one-off items) as disclosed above and certain ancillary costs and expenses, mostly in relation to the pre-acquisition process which required cash settlement. Due to such liabilities, the total asset value and the net asset value of the Target Group as at December 31, 2017 were approximately RMB1,675 million and RMB94 million respectively, according to the management accounts of the Target Group (based on the audited accounts of the Target Operating Group for the two years ended December 31, 2017 with necessary adjustments to include the subsequent financials of the Target Company, HK SPV One and HK SPV Two since their establishment in February 2018 which primarily included the Shareholder Loan and the Debt of HK SPV Two as disclosed above).

The Target Company, HK SPV One and HK SPV Two were recently set up in February 2018 and none of them have any operating assets. Set out below is a summary of certain audited financial information of the Target Operating Group for the three years ended December 31, 2017:

	Target Operating Group *(audited)*		
	For the year ended December 31, 2017 *RMB'000 approximately*	**For the year ended December 31, 2016** *RMB'000 approximately*	**For the year ended December 31, 2015** *RMB'000 approximately*
Revenue	1,220,861	523,321	274,475
Profit before taxation	323,642	88,973	61,886
Profit after taxation	275,405	73,200	51,791
Profit attributable to owners of the company	283,934 *(Note 1)*	72,208 *(Note 2)*	52,586 *(Note 3)*

Notes:

1. This included non-recurring gains of approximately RMB17 million.

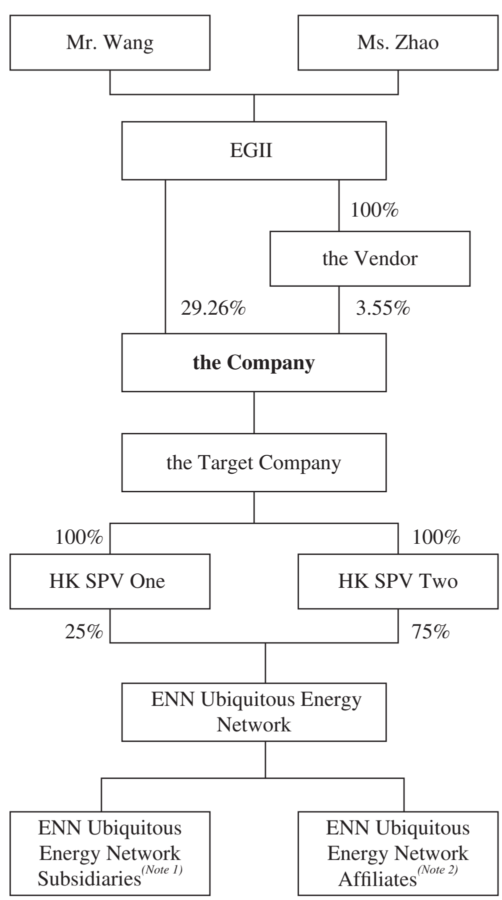
2. This included non-recurring gains of approximately RMB0.8 million.

3. This included non-recurring gains of approximately RMB0.8 million.

The substantial increase of the profit attributable to owners of the Target Operating Group as at December 31, 2017 as compared to that as at December 31, 2016 was primarily due to a significant growth of the revenue in 2017 driven by continuous introduction of energy reform policies by the PRC government and the development of distributed energy and energy efficiency technology by the Target Operating Group, as well as the effective cost control adopted by it in 2017.

Upon Completion, other than the ENN Ubiquitous Energy Network Affiliates, each member of the Target Group shall become a subsidiary of the Company and the financial results of the Target Group will be consolidated into the Group.

Set out below is the shareholding structure of the Target Group immediately after the Completion:



Notes:

1. Comprise seven subsidiaries wholly owned and one subsidiary owned as to 60% by ENN Ubiquitous Energy Network. See the definition of "ENN Ubiquitous Energy Network Subsidiaries" for details.

2. Comprise three affiliates owned by ENN Ubiquitous Energy Network as to 40%, 23% and 15% respectively. See the definition of "ENN Ubiquitous Energy Network Affiliates" for details.

INFORMATION OF THE COMPANY

The Group is one of the largest clean energy distributors in the PRC and is principally engaged in the investment and construction, as well as operation and management of gas pipeline infrastructures, vehicle and ship refuelling stations and integrated energy stations, the sales and distribution of piped gas, liquefied natural gas and other multi-energy products, and energy trading business and provision of other services in relation to energy supply in the PRC.

REASONS FOR AND BENEFITS OF THE ACQUISITION

Industry Outlook and Prospects of the Target Operating Group

The PRC government has been continuously introducing energy reform policies in recent years. In the "Energy Production and Consumption Revolution Strategy (2016–2030)" (《能源生產和消費革命戰略(2016–2030)》) issued by the National Development ("**NDRC**") and Reform Commission and National Energy Administration ("**NEA**"), it was promoted to achieve a fundamental shift in energy production and consumption, strengthening the construction of a smart energy management system, enhancing demand-side responding capability, and realizing the smart interaction between energy production and consumption. Currently, the energy system in China is moving from a traditional one to a modern energy system promoting "cleanness, efficiency, economy and safety." Together with the accelerated transformation of energy structure into a clean, low-carbon and efficient model, and the ongoing development of distributed energy and energy efficiency technologies, the integrated energy market is expected to move into a rapidly growing stage. Take the most important regional integrated energy business market, the industrial park, as an example, there are currently more than 1,500 national and provincial-level industrial parks in the PRC, and there are more than 5,000 other industrial parks. According to the "Implementation Opinions on the Integration and Optimization of Demonstrative Project Construction"《關於推進多能互補集成優化示範工程建設的實施意見》by the NDRC and NEA in 2016, by 2020, the proportion of complementary multi-energy reconstruction in existing industrial parks will reach 30%, and the share of complementary multi-energy projects amongst newly-established industrial parks will reach 50%, demonstrating the large market potential of integrated energy business. The Target Operating Group, with its leading technical capabilities and extensive project experience (see below for details), is well positioned to tap into the strategic development window of the large integrated energy market in the PRC to further grow its business.

The Group's Strategy in the Integrated Energy Industry

The Group, as one of the pioneers to conduct integrated energy business, actively adjusted its strategy and accelerated its integrated energy business development, to foster new profit growth driver and stimulate its gas distribution business development. Capitalizing on the Group's vast downstream customer base and first-mover advantages, its integrated energy business has been expanded into cities such as Shanghai, Changsha, Qingdao, Shijiazhuang, Langfang, Dongguan, Zhaoqing, Yancheng and Hangzhou. By the end of 2017, the Group has cumulatively put into operation 31 integrated energy projects and is currently constructing 30 new projects.

In the past, the Group mainly leveraged on its own customer base and channel advantages to develop its integrated energy business, but it did not possess the core technological know-hows such as planning and designing the integrated energy systems and solutions. Thus, it had to procure relevant technology services from external service providers. With the backdrop of the rapidly growing integrated energy market, competitors have accelerated their efforts in developing the business. The Group urgently needs to establish its core technology and strengthen its competitive advantages in a short period of time to enhance its integrated servicing capabilities, so that it can seize any opportunities that arise and gain more market share.

The Group believes that the most effective and efficient way of obtaining the core technology to supplement its capabilities in providing integrated energy solutions is through strategic acquisition, after considering the need for more investment in resources, opportunity costs and failure risks. Therefore, the Group has been paying attention to and seeking related acquisition opportunities. The Company has compared the Target Company with certain integrated energy technology service companies and planning and designing institutions when selecting the acquisition target. For such integrated energy service companies, they are generally subsidiaries of electric power or gas energy groups, all of which have direct or indirect competition with the Group and are unwilling to sell such subsidiaries to us. For the planning and designing institutions, they are commonly founded by reputable universities which are state-owned and also generally commissioned with certain national academic research missions. It will be difficult, if not impossible, for us, as a foreign company, to acquire such institutions. In addition, planning and designing institutions, as academic institutions, are less capable in project implementation and/or commercialization. As such, we believe ENN Ubiquitous Energy Network, a technology company with relevant technological advantages in the industry and synergy with the Group, is an ideal acquisition target. Please see below for details of the anticipated synergy effect post the Acquisition.

ENN Ubiquitous Energy Network as a Leading Integrated Energy Service Provider in China

ENN Ubiquitous Energy Network is a leading integrated energy service provider in China. It has won many prestigious awards and honors in the integrated energy field, including "2017 China Distributed Energy Project – Outstanding Award" awarded by China Energy Research

Society Distribution Energy Committee, China Distributed Energy Organizing Committee of International Forum and China Tongzhou Industrial Association Energy Internet Branch, "2016 China Distributed Energy Project – Innovative Award" and "China Excellence Designer Company of Distributed Energy Project in 2016" awarded by China Energy Research Society, Chinese Society for Electrical Engineering, China Enterprises Investment Association, China Gas Association, China Biogas Society and Chinese Renewable Energy Industry Association, and "Most Influential Company of Energy Internet-of-Things Industry in 2016" awarded by China Institute of Energy Economics Research and China Energy News. Since its establishment in 2009, ENN Ubiquitous Energy Network has committed itself to technology innovation and application. It has provided customized integrated energy solutions to various types of customers, including urban areas/industrial parks, industrial customers and municipal buildings, with a focus on technology services such as consultation, planning, designing, operation and maintenance. The services provided by ENN Ubiquitous Energy Network mainly include three categories: (i) tailor-made design services based on planning and consulting services to ubiquitous energy projects, comprising basic project design and subsequent detailed construction plan design; (ii) project management services for construction of ubiquitous energy projects; and (iii) project operation services to ubiquitous energy projects entrusted to it as well as providing operational advice and assistance to third-party operators. ENN Ubiquitous Energy Network has expanded its business since 2013 after years of technology advancement. As of today, it has provided service to hundreds of integrated energy projects in more than 50 cities in China, its high quality and efficient technology services and project delivery capabilities are widely recognized in the market.

As one of China's leading technology service providers for integrated energy projects, ENN Ubiquitous Energy Network has the following competitive advantages:

(i) Possessing the core technological know-hows of integrated energy business. ENN Ubiquitous Energy Network masters a number of core technologies required during the course of planning, designing and operating integrated energy projects, such as load forecasting, quantitative screening, and integration of energy facilities and network within a region, it has also obtained 66 patents and 231 patents under application, as well as 46 software copyrights. Technical competence of ENN Ubiquitous Energy Network ranks in the forefront of the industry. The load forecasting technology analyzes the electricity and cooling/heating load of each user according to the usage of energy facilities at different times and locations, to predict the future energy demand of users and provide reliable decision-making basis for energy system planning, designing and operation. Quantitative screening technology focuses on the user's energy usage characteristics, compares the value of various technologies in terms of economics, energy saving, and emission reduction at different times based on factors such as locally available resources and energy prices. It selects the best technology application and the best integration method. The integration of energy facility and network in a region makes full use of the load of each main energy source to complement each other, share energy facilities, realize energy interconnection and intercommunication within the region, and optimize the scale and pace of energy facilities construction. Relying on the aforementioned core technologies, ENN

Ubiquitous Energy Network has created a unique model that adapts to local conditions, integrates multiple technologies, collaborates multiple facilities and smartly interacts with demand and supply. This model has the characteristics of a shared economy. Compared with traditional, single distributed energy systems, it can further increase efficiency and save costs. It not only meets the needs of users for safe, clean, economical, and efficient energy resources, but also helps investors increase revenues, reduce expenditures and risks; and

(ii) Having accumulated broad project experiences. As of the end of 2017, ENN Ubiquitous Energy Network has participated in 225 integrated energy projects, providing services to various types of customers, including government institutions and energy companies. At present, ENN Ubiquitous Energy Network provides technology services to many national-level demonstrative projects, including China's first standardized demonstrative project of pan-energy micro-grid, China's first batch of multi-energy complementary integration optimization demonstration projects, China's first batch of new energy microgrid demonstration projects, and China's first commercial data center projects with nature of green.

Anticipated Synergy Effect Post Acquisition

The Group believes that the integrated energy sector will experience a rapid growth in future. The acquisition of ENN Ubiquitous Energy Network is in line with and will create synergy effect with the Group's existing business as well as its strategic development. The reasons are as follows:

(i) The Acquisition facilitates the Group to seize market opportunity and gain a stronger foothold in the integrated energy market, so as to promote the transformation of the Group's business. Through the consolidation of competitive resources, the Group will obtain the core technological know-hows on planning, designing and operating integrated energy projects, establish an integrated servicing capability, which will allow the Group to exploit market potential from existing customers in regards to integrated energy demands, and enhance the adoption of such services in existing city-gas concessions. The integration of the technical advantage of ENN Ubiquitous Energy Network and the market advantage of the Group, such as in branding, customer and distribution channel, after completion of the Acquisition will help the Group to obtain quality projects, such as national and provincial-level industry parks, and to deliver large and complex projects in future;

(ii) The Acquisition is conducive to enhancing the operational efficiency of the Group's existing integrated energy projects. After the completion of the acquisition, the Group will leverage ENN Ubiquitous Energy Network's technological competitiveness, continue to monitor technological upgrading and system optimization over the course of project operation, so as to increase existing projects' operating efficiency and improve the return on investment;

(iii) The Acquisition will enable the Group to reinforce its first-mover advantage with exclusive access to the industry's leading technology owned by ENN Ubiquitous Energy Network which has already established its reputation in the industry. The acquisition will consolidate the interests of the Group and ENN Ubiquitous Energy Network. The Group, equipped with the leading technical capabilities and extensive project experience acquired from the ENN Ubiquitous Energy Network, together with its own advantage in customer base and distribution channel, will be able to build the necessary technical barriers and competitive advantage in the integrated energy market quickly and in time to seize the strategic development window of the integrated energy market in the PRC; and

(iv) The Acquisition will help improve the Group's corporate governance and reduce the number of continuous connected transactions relating to the procurement of technology services in the future. The Group paid approximately RMB200 million to ENN Ubiquitous Energy Network in 2017 for its integrated energy technology services, such as provision of customized energy efficiency technical solutions, including energy efficiency planning and energy efficiency management consulting, to support the Group's expansion needs and operation optimization of its energy sales business. With the continuous expansion on the scale of integrated energy business, the Group's demand for ENN Ubiquitous Energy Network's technology service and the number of relevant connected transactions are expected to increase substantially due to the rapid growth of the integrated energy market and the Company's strategy to develop the integrated energy business. The transaction will eliminate the need to continue procuring relevant technology services from the connected party in future.

Notwithstanding the above, the Acquisition is subject to certain potential risks such as the macro economy of the PRC and the adjustments of the PRC Government policies. Any factors in connection with the economic decline or the changes in the PRC Government policies that is negative to the industry in which the Target Operating Group operates would affect the operating performance of the Target Operating Group. The Acquisition will also involve the integration of the management as well as the personnel of the Group and the Target Group which would take time and incur costs.

The terms of the SPA were determined after arm's length negotiations between the parties thereto. In light of the above reasons, the Directors (including all the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) are of the view that the terms of the Transactions are fair and reasonable, and the Transactions are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

CHANGES IN SHAREHOLDING STRUCTURE

As at the Latest Practicable Date:

(i) the Company had 1,085,227,224 Shares in issue;

(ii) the Company granted a total of 200,000 and 7,008,750 share options under the share option schemes adopted by the Shareholders on May 21, 2002 and on June 26, 2012 (the "**Share Option Schemes**") respectively which were outstanding; and

(iii) save for the Share Option Schemes, the Company did not have any outstanding convertible securities, options, warrants or other derivatives in issue which are convertible or exchangeable into Shares.

The following table illustrates the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Completion (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date and up to Completion other than the issue of the Consideration Shares); and (iii) immediately after the Completion (assuming all outstanding share options of the Company are exercised):

Shareholders	**As at the Latest Practicable Date**		**Immediately after Completion (assuming no change in the issued share capital of the Company from the Latest Practicable Date and up to Completion other than the issue of the Consideration Shares)**		**Immediately after Completion (assuming all outstanding share options of the Company are exercised)**	
	Number of Shares	*Approximate % (Note 5)*	*Number of Shares*	*Approximate % (Note 5)*	*Number of Shares*	*Approximate % (Note 5)*
Mr. Wang Concert Group						
Mr. Wang	329,249,000 *(Note 1)*	30.34	329,249,000	29.26	329,829,000 *(Note 3)*	29.13
Ms. Zhao	329,249,000 *(Note 1)*	30.34	329,249,000	29.26	329,829,000 *(Note 4)*	29.13
EGII	329,249,000 *(Note 1)*	30.34	329,249,000	29.26	329,249,000	29.08
The Vendor	0	0.00	39,926,534	3.55	39,926,534	3.53
Mr. Wang Zizheng	0	0.00	0	0.00	60,000	0.01
Subtotal	329,249,000 *(Note 1)*	30.34	369,175,534	32.81	369,815,534	32.66
The Capital Group Companies, Inc.	141,345,028 *(Note 2)*	13.02	141,345,028	12.56	141,345,028	12.48
Commonwealth Bank of Australia	72,439,717	6.68	72,439,717	6.44	72,439,717	6.40
JP Morgan Chase & Co.	54,208,902	5.00	54,208,902	4.82	54,208,902	4.79
Public Shareholders	487,984,577	44.97	487,984,577	43.37	494,553,327	43.67
Total	1,085,227,224	100.00	1,125,153,758	100.00	1,132,362,508	100.00

Notes:

(1) The three references to 329,249,000 Shares relate to the same block of Shares. Such Shares are held by EGII, which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao. As at the Latest Practicable Date, the Company has share options granted under its share option schemes entitling the holders thereof to subscribe for an aggregate of 7,208,750 Shares, of which share options entitling the holders thereof to subscribe for an aggregate of 640,000 Shares are held by certain members of Mr. Wang Concert Group (being 580,000 Shares for Mr. Wang and 60,000 Shares for Mr. Wang Zizheng).

(2) Of these Shares, 141,345,028 Shares are held by Capital Research and Management Company (a company which is wholly owned by The Capital Group Companies, Inc.).

(3) The 329,829,000 Shares comprise the 329,249,000 Shares held by EGII referred to in Note 1 above and 580,000 Shares which Mr. Wang is entitled to under the share option scheme of the Company.

(4) The 329,829,000 Shares comprise the 329,249,000 Shares held by EGII referred to in Note 1 above and 580,000 Shares of Mr. Wang referred to in Note 3 above which Ms. Zhao is deemed as holding as Mr. Wang's spouse.

(5) The percentage figures have been subject to rounding adjustments. Accordingly, figures shown in totals may not be an arithmetic aggregation of the figures preceding them.

IMPLICATIONS UNDER THE LISTING RULES

The Acquisition constitutes a discloseable transaction for the Company under the Listing Rules and is therefore subject to notification and announcement requirements of Chapter 14 of the Listing Rules.

Furthermore, in view of the fact that the Vendor is wholly owned by EGII, a controlling shareholder of the Company which held 329,249,000 Shares, representing 30.34% of the issued share capital of the Company as at the Latest Practicable Date, the Vendor is a connected person of the Company and accordingly, each of the Acquisition and the Issuance of Consideration Shares constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Although the highest applicable percentage ratio (other than the profits ratio, as defined under the Listing Rules) in respect of the Acquisition and Issuance of Consideration Shares does not exceed 5%, the Issuance of Consideration Shares is issuance of securities to a connected person, which will not be exempted under the Listing Rules, therefore the Acquisition, as well as the Issuance of Consideration Shares, are subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Wang, Chairman of the Board and an executive Director of the Company, indirectly owns the entire issued share capital of the Vendor, and Mr. Wang Zizheng, an executive Director and Executive Chairman of the Company, is an associate of Mr. Wang, and accordingly, these Directors abstained from voting on the resolutions at the Board meeting held to approve the Transactions. Mr. Cheung Yip Sang, Mr. Han Jishen, Mr. Liu Min and Mr. Wang Dongzhi, each an executive Director of the Company, also abstained from voting on such resolutions at the Board meeting due to their taking of the office as a director or executive in the Target Group or EGII.

TAKEOVERS CODE IMPLICATIONS

Application for the Whitewash Waiver

As the Vendor is wholly owned by EGII, which is in turn held as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang, and Mr. Wang Zizheng is the son of Mr. Wang, the Vendor is presumed to be "acting in concert" with Mr. Wang, Ms. Zhao, Mr. Wang Zizheng and EGII under the definition of "acting in concert" of the Takeovers Code. As at the Latest Practicable Date, Mr. Wang Concert Group, taken together, directly or indirectly, held 329,249,000 Shares, representing approximately 30.34% of the existing issued share capital of the Company.

Upon Completion, a total of 39,926,534 Consideration Shares will be allotted and issued to the Vendor. As a result, the aggregate voting rights of the Company held by Mr. Wang Concert will be increased by 2.47%, assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to Completion. Such increase of Mr. Wang Concert Group's collective holding of the voting rights of the Company would therefore trigger an obligation of Mr. Wang Concert Group to make a mandatory general offer for all the issued Shares not already owned by them under Rule 26 of the Takeovers Code, unless the Whitewash Waiver is granted by the Executive and the Whitewash Waiver is approved by the Independent Shareholders. According to the SPA, such conditions precedent are not capable of being waived by any party to the SPA. Mr. Wang, on behalf of Mr. Wang Concert Group, has made an application to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by simple majority by way of poll. Mr. Wang Concert Group and persons interested or involved in the Transactions would abstain from voting in respect of the relevant resolutions. Mr. Wang Concert Group and persons interested or involved in the Transactions would abstain from voting in respect of the relevant resolutions. As Mr. Wang Concert Group do not have any plan to make a general offer in respect of the Shares, in the event that the Whitewash Waiver is not granted by the Executive and approved by the Independent Shareholders by simple majority by way of poll, the SPA shall lapse and the Acquisition will not proceed.

If the Whitewash Waiver is approved by the Independent Shareholders by simple majority by way of poll and granted by the Executive, Mr. Wang Concert Group will be deemed to have a lowest percentage holding equal to its percentage holding immediately after the Completion, being 32.81% of the enlarged share capital of the Company. As the shareholding of Mr. Wang Concert Group in the Company upon Completion is not less than 30% but not more than 50%, any acquisition of additional voting rights by any member(s) of Mr. Wang Concert Group of more than 2% by reference to the lowest percentage holding in the 12 month period ending on the date of the completion of such acquisition subsequent to the Acquisition will trigger an obligation of such member(s) of Mr. Wang Concert Group to make a mandatory general offer for all the issued Shares not already owned by it/them or parties acting in concert with it/them under Rule 26 of the Takeovers Code, unless a whitewash waiver is granted by the Executive and approved by the independent Shareholders of that acquisition.

The view and recommendation of the Independent Financial Adviser in respect of the Transactions are set out on pages 30 to pages 64 of this circular.

As at the Latest Practicable Date, the Company does not believe that the Transactions will give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules) other than those as set out in this Circular. If a concern should arise after the Latest Practicable Date, the Company will endeavour to resolve the matter to the satisfaction of the relevant authority as soon as possible. The Company notes that the Executive may not grant the Whitewash Waiver if any part of the Transactions does not comply with other applicable rules and regulations.

FURTHER INTENTION OF THE VENDOR REGARDING THE GROUP

Following the Completion, the Vendor intends to continue the existing business of the Group. The Vendor has no intention of introducing any change to the existing business of the Group, including any redeployment of the fixed assets of the Group or terminate the continued employment of the employees of the Group.

APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER AND GENERAL

Pursuant to the Takeovers Code and the Listing Rules, the Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Ma Zhixiang, Mr. Yuen Po Kwong and Mr. Law Yee Kwan, Quinn, has been established to advise and provide recommendation to the Independent Shareholders on the Transactions as to whether the terms thereof are fair and reasonable, and whether the Transactions are on normal commercial terms or better, in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote. In this connection, the Board has appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Transactions are fair and reasonable, and whether the Transactions are on normal commercial terms or better, in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote. Such appointment has been approved by the Independent Board Committee pursuant to Rule 2.1 of the Takeovers Code. The Board does not comprise any non-executive Director.

THE EGM

The EGM will be held at Tianshan and Lushan Rooms, Level 5, Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Central, Hong Kong on Wednesday, August 8, 2018 at 11:00 a.m. for the Shareholders to consider and, if thought fit, approve the Transactions. In compliance with the Listing Rules, the resolutions will be voted on by way of a poll at the EGM.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save for Mr. Wang Concert Group and their respective associates, who directly or indirectly held 329,249,000 Shares representing approximately 30.34% of the existing issued share capital of the Company as at the Latest Practicable Date, are required to abstain from voting on the resolutions to be proposed at the EGM, no other Shareholder had a material interest in the Transactions and no other Shareholder would be required to abstain from voting at the EGM in respect of the resolutions relating to the Transactions.

Whether or not you are able to attend the meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof to the office of the Company's branch share registrar and transfer office in Computershare Hong Kong Investor Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish, and in such event, the instrument appointing a proxy shall be deemed to be revoked.

RECOMMENDATION

The Directors (including all the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) believe that the terms of the Transactions are fair and reasonable, and the Transactions are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including all the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) recommend the Independent Shareholders to vote in favour of the resolutions to approve the Transactions at the EGM.

Shareholders are advised to read carefully the letter from the Independent Board Committee on pages 28 to 29 of this circular. The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, the text of which is set out on pages 30 to 64 of this circular, considers that despite that the Transactions are not in the ordinary and usual course of business of the Group, the Transactions are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole, the term of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to approve the Transactions at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
ENN Energy Holdings Limited
Wang Yusuo
Chairman

The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Transactions.

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)

July 16, 2018

To the Independent Shareholders

Dear Sir or Madam,

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY AND ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE AND (2) APPLICATION OF WHITEWASH WAIVER

We refer to the circular of the Company dated July 16, 2018 ("**Circular**") of which this letter forms part. Unless the context specifies otherwise, capitalized terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board to advise the Independent Shareholders as to whether the terms of the Transactions are fair and reasonable, whether the Transactions are on normal commercial terms or better, in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole insofar as the Independent Shareholders are concerned, and to recommend how the Independent Shareholder should vote. Platinum Securities Company Limited has been appointed as the Independent Financial Adviser to advise you and us in this respect.

Having taken into account the principal reasons and factors considered by, and the advice of, the Independent Financial Adviser as set out in its letter of advice to you and us on pages 30 to 64 of the Circular, despite that the Transactions are not in the ordinary and usual course of business of the Group, we are of the opinion that the Transactions are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole, the terms of which are fair and reasonable insofar as the Company and the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Transactions.

Yours faithfully,
For and on behalf of the Independent Board Committee

Mr. Ma Zhixiang
Independent non-executive Director

Mr. Yuen Po Kwong
Independent non-executive Director

Mr. Law Yee Kwan, Quinn
Independent non-executive Director

The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this circular.

PLATINUM Securities Company Limited

21/F LHT Tower
31 Queen's Road Central
Hong Kong

Telephone	(852) 2841 7000
Facsimile	(852) 2522 2700
Website	www.platinum-asia.com

July 16, 2018

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE TARGET COMPANY AND ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE AND (2) APPLICATION OF WHITEWASH WAIVER

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the Specific Mandate and the Whitewash Waiver. Details of the Acquisition, the Specific Mandate and the Whitewash Waiver are contained in the letter from the Board as set out in the circular of the Company dated July 16, 2018 (the "**Circular**"). Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On June 25, 2018, the Company and the Vendor entered into the SPA pursuant to which the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to purchase the Sale Shares. The Sale Shares represent the entire issued share capital of the Target Company. The Consideration for the Acquisition is RMB2,606,595,755 (equivalent to approximately HK$3,194,122,681), which shall be fully settled by the allotment and issue, credited as fully paid, of 39,926,534 Consideration Shares to the Vendor at Completion. The Consideration Shares will be issued under the Specific Mandate and the Company will seek the Independent Shareholders' approval at the EGM for the grant of the Specific Mandate to allot and issue the Consideration Shares to the Vendor.

The 39,926,534 Consideration Shares represent (i) approximately 3.68% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 3.68% of the issued share capital of the Company as at the date of the Announcement; and (iii) approximately 3.55% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming that there is no other change to the share capital of the Company prior to Completion). The Consideration Shares will be issued at a price ("**Issue Price**") of HK$80.00 per Consideration Shares.

The Vendor is wholly owned by EGII, a controlling shareholder of the Company which held 329,249,000 Shares, representing 30.34% of the issued share capital of the Company as at the Latest Practicable Date, the Vendor is a connected person of the Company and accordingly, each of the Acquisition and the Issuance of Consideration Shares constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Although the highest applicable percentage ratio (other than the profits ratio, as defined under the Listing Rules) in respect of the Acquisition does not exceed 5%, the Issuance of Consideration Shares, is issuance of securities to a connected person, which will not be exempted under the Listing Rules, therefore the Acquisition, as well as the Issuance of Consideration Shares, are subject to the reporting, announcement and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Vendor is wholly owned by EGII, which is in turn held as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang, and Mr. Wang Zizheng is the son of Mr. Wang, the Vendor is presumed to be "acting in concert" with Mr. Wang, Ms. Zhao, Mr. Wang Zizheng and EGII under the Takeovers Code. Accordingly, the Mr. Wang Concert Group, taken together, directly or indirectly, held 329,249,000 Shares, representing approximately 30.34% of the existing issued share capital of the Company as at the Latest Practicable Date.

Upon Completion, a total of 39,926,534 Consideration Shares will be allotted and issued to the Vendor. As a result, the aggregate voting rights of the Company held by the Mr. Wang Concert Group will be increased by 2.47%, assuming that there is no other change to the issued share capital of the Company from the Latest Practicable Date and up to Completion. Such increase of Mr. Wang Concert Group's collective holding of the voting rights of the Company would therefore trigger an obligation of Mr. Wang Concert Group to make a mandatory general offer for all the issued Shares not already owned by them and parties acting in concert with them under Rule 26 of the Takeovers Code, unless the Whitewash Waiver is granted by the Executive and the Whitewash Waiver is approved by the Independent Shareholders. According to the SPA, such condition precedents are not capable of being waived by any party to the SPA. Mr. Wang, on behalf of Mr. Wang Concert Group, will make an application to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted, would normally be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll. Mr. Wang Concert Group and persons interested or involved in the Transactions would abstain from voting in respect of the relevant resolutions. As Mr. Wang Concert Group do not have any plan to make a general offer in respect of the Shares, in the event that the Whitewash Waiver is not granted by the Executive and approved by the Independent Shareholders by simple majority by way of poll, the SPA will lapse and the Acquisition will not proceed.

BASIS OF OUR OPINION

In our capacity as the Independent Financial Adviser, our role is to the Independent Board Committee and the Independent Shareholders as to whether the Transactions are fair and reasonable, on normal commercial terms or better, in the ordinary and usual course of business of the Group, and are in the interests of the Company and the Shareholders as a whole, and to give independent advice to the Independent Board Committee and Independent Shareholders as to whether the Independent Shareholders should vote in favour of the Acquisition, the Specific Mandate and the Whitewash Waiver.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinion expressed to us by the Directors and/or management of the Company. We have reviewed, among other things: (i) the SPA dated June 25, 2018; (ii) the announcement of the Company dated June 25, 2018 (the "**Announcement**"); (iii) the annual reports of the Company for each of the two financial years ended December 31, 2016 (the "**2016 Annual Report**") and December 31, 2017 (the "**2017 Annual Report**"); and (iv) the audited consolidated financial statements and report of Target Operating Group for three years ended December 31, 2015 (the "**2015 Accountant's Report**"), December 31, 2016 (the "**2016 Accountant's Report**") and December 31, 2017 (the "**2017 Accountant's Report**").

We have assumed that all information, facts, opinions and representations contained in the Circular are true, complete and accurate in all material respects and we have relied on the same. The Directors have confirmed that they take full responsibility for the contents of the Circular and have made all reasonable inquiries that no material facts have been omitted from the information supplied to us. The Company will notify the Shareholders of any material changes during the offer period (as defined under the Takeovers Code) as soon as possible in accordance with Rule 9.1 of the Takeovers Code. The Independent Shareholders will also be notified of any material changes to our opinion as soon as possible after the Latest Practicable Date and throughout the offer period (as defined under the Takeovers Code).

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy or completeness of the information of all facts as set out in the Circular and of the information and representations provided to us by the Directors and/or management of the Company. Furthermore, we have no reason to suspect the reasonableness of the opinions and representations expressed by the Directors and/or management of the Company which have been provided to us. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the Company. We consider that we have reviewed sufficient information to enable us to reach our opinion and advice as set out in this letter.

During the past two years, Platinum Securities Company Limited had no past engagement with the Company. As at the Latest Practicable Date, we were independent from, and were not associated with the Company or any other party to the Acquisition, the Specific Mandate and the Whitewash Waiver, or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules and accordingly, are considered eligible to give independent advice on the Acquisition, the Specific Mandate and the Whitewash Waiver. We will receive a fee from the Company for our role as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, the Specific Mandate and the Whitewash Waiver. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the Acquisition, the Specific Mandate and the Whitewash Waiver or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules.

The Independent Board Committee, comprising Mr. MA Zhixiang, Mr. YUEN Po Kwong, and Mr. LAW Yee Kwan, Quinn, has been established to advise the Independent Shareholders as to whether the terms of the Acquisition, the Specific Mandate and the Whitewash Waiver are on normal commercial terms, in the ordinary and usual course of business of the Company, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Acquisition, the Specific Mandate and the Whitewash Waiver, we have taken into account the following principal factors and reasons:

I. Background information on the Group, the Vendor, the Target Company and the Target Operating Group

1. Information on the Group

The Company is an investment holding company. The Group is one of the largest clean energy distributors in the PRC and is principally engaged in investment and construction, as well as operation and management of gas pipeline infrastructures, vehicle and ship refueling stations and integrated energy stations, the sales and distribution of piped gas, liquefied natural gas and other multi-energy forms. The Group also conducts energy trading business and provision of other services in connection with energy supply in the PRC.

As at December 31, 2017, the Group had 172 project cities in PRC across 17 provinces, municipalities and autonomous regions, namely Anhui, Beijing, Fujian, Guangdong, Guangxi, Hainan, Hebei, Henan, Hunan, Inner Mongolia, Jiangsu, Jiangxi, Liaoning, Sichuan, Shandong, Yunan and Zhejiang, covering a connectable urban population of over 84.69 million. Meanwhile, the Group has actively developed integrated energy business in key regions of 25 provinces and there were 19 integrated energy projects being put into operation during the year of 2017, promoting the overall upgrade of urban energy use and leading the building of a modern energy system. As at December 31, 2017, the Group has invested in and operated a total of 31 integrated energy projects.

1.1 Financial performance of the Group

Set out below are the highlights of certain financial information on the Group as extracted from the consolidated statement of profit or loss and other comprehensive income for each of the two years ended December 31, 2016 ("**FY2016**") and December 31, 2017 ("**FY2017**"):

	For the year ended December 31,			
	2017		2016	
	% of the revenue	*Amount RMB million* (audited)	*% of the revenue*	*Amount RMB million* (audited)
Revenue	100%	48,269	100%	34,103
Sales of goods				
– Sales of piped gas	49.6%	23,948	52.5%	17,900
– Vehicle gas refueling stations	6.4%	3,102	9.3%	3,169
– Wholesale of gas	24.6%	11,878	18.0%	6,153
– Sales of integrated energy	0.5%	234	0.4%	153
– Sales of gas appliances	0.7%	320	0.7%	238
– Sales of material	5.8%	2,773	2.6%	879
Provision of services				
– Gas connection	12.3%	5,954	16.5%	5,611
– Integrated energy	0.1%	60	0%	–
Cost of sales		(39,930)		(26,753)
Gross profit		8,339		7,350
Profit for the year		3,673		2,888
Profit attributable to the owners of the Company		2,802		2,151

Revenue from continuing operation of the Group has been generated from the sales of goods including sales of piped gas, vehicle gas refueling stations, wholesale of gas, sales of integrated energy, gas appliances and material, and provision of services in relation to gas connection and integrated energy.

As disclosed in 2017 Annual Report, the total revenue from continuing operation recorded an increase of approximately 41.5% from approximately RMB34.1 billion for FY2016 to approximately RMB48.3 billion for FY2017. The increase in revenue was mainly due to the powerful gas sources dispatching and the allocating capabilities of the Group, provided that the sales of piped gas and the wholesale of gas increased by approximately 33.8% and approximately 93.0% respectively from approximately RMB17.9 billion and approximately RMB6.2 billion for FY2016 to approximately RMB23.9 billion and approximately RMB11.9 billion for FY2017, respectively. Gross profit of the Group for FY2017 was approximately RMB8.3 billion, increased by 13.5% as compared with approximately RMB7.4 billion for FY2016, while the gross profit margin dropped to approximately 17.3% for FY2017 from approximately 21.6% for FY2016. The decrease in gross profit margin was mainly due to the increasing share of revenue from natural gas sales which was a recurring revenue stream and the increase in its average procuring cost. Profit attributable to the owners of the Company was approximately RMB2.8 billion for FY2017, representing an increase of approximately 30.3% year on year as compared with approximately RMB2.2 billion for FY2016, whereas the profit margin decreased slightly from approximately 8.5% for FY2016 to approximately 7.6% for FY2017.

1.2 Financial position of the Group

Set out below is the summary of the consolidated statements of financial position of the Group as at December 31, 2016 and December 31, 2017 as extracted from the 2017 Annual Report:

	As at December 31,	
	2017	**2016**
	RMB million	*RMB million*
	(audited)	(audited)
Non-current assets		
Property, plant and equipment	25,490	22,297
Prepaid lease payments	1,262	1,221
Intangible assets	1,681	1,487
Interests in associates	1,505	1,350
Interests in joint ventures	3,929	3,704
AFS financial assets	4,578	4,882
Other non-current assets	3,144	2,600
	41,589	37,541
Current assets		
Inventories	744	515
Trade and other receivables	6,068	4,423
Cash and cash equivalents	7,972	7,163
Other current assets	2,842	1,739
	17,626	13,840
Total assets	59,215	51,381

	As at December 31, 2017	2016
	RMB million (audited)	*RMB million* (audited)
Current liabilities		
Trade and other payables	11,217	8,323
Bank and other loans – due within one year	1,737	3,944
Corporate bonds	2,996	–
Convertible bonds at fair value through profit or loss	3,635	–
Other current liabilities	6,020	6,074
	25,605	18,341
Non-current liabilities		
Bank and other loans – due after one year	523	197
Corporate bonds	2,494	5,482
Senior notes	2,366	2,507
Unsecured bonds	4,316	446
Deferred income	3,185	2,642
Other non-current liabilities	509	3,912
	13,393	15,186
Total liabilities	38,998	33,527
Total equity		
Equity attributable to owners of the Company	16,952	14,966
Non-controlling interests	3,265	2,888
	20,217	17,854

As at December 31, 2017, the Group's total assets amounted to approximately RMB59.2 billion, representing an increase of approximately 15.2% from approximately RMB51.4 billion as at December 31, 2016. Non-current assets of the Group, which mainly consist of property, plant and equipment, interests in joint ventures and AFS financial assets, amounted to approximately RMB41.6 billion as compared to approximately RMB37.5 billion as at December 31, 2016. The Group's current assets recorded an increase of approximately 27.4% from approximately RMB13.8 billion as at December 31, 2016 to approximately RMB17.6 billion as at December 31, 2017, which was mainly resulted from the increase in trade and other receivables, inventories and cash and cash equivalents. The Group had a cash and cash equivalents of approximately RMB8.0 billion as at December 31, 2017, representing an increase of approximately 11.3% from RMB7.2 billion as at December 31, 2016.

Total liabilities of the Group recorded approximately RMB39.0 billion as at December 31, 2017, increased approximately 16.3% from approximately RMB33.5 billion as at December 31, 2016. The increase in total liabilities was mainly due to the issuance of unsecured company bonds with an aggregate nominal value of US$600 million (equivalent to approximately RMB4.1 billion) by the Company during FY2017.

As at December 31, 2017, the total equity attributable to owners of the Company was amounted to approximately RMB17.0 billion, which represented an increase of approximately 13.3% from approximately RMB15.0 billion as at December 31, 2016.

2. *Information on the Vendor*

The Vendor is a company incorporated in the BVI with limited liability which is principally engaged in investment holding. The Vendor is wholly owned by EGII, a controlling shareholder of the Company.

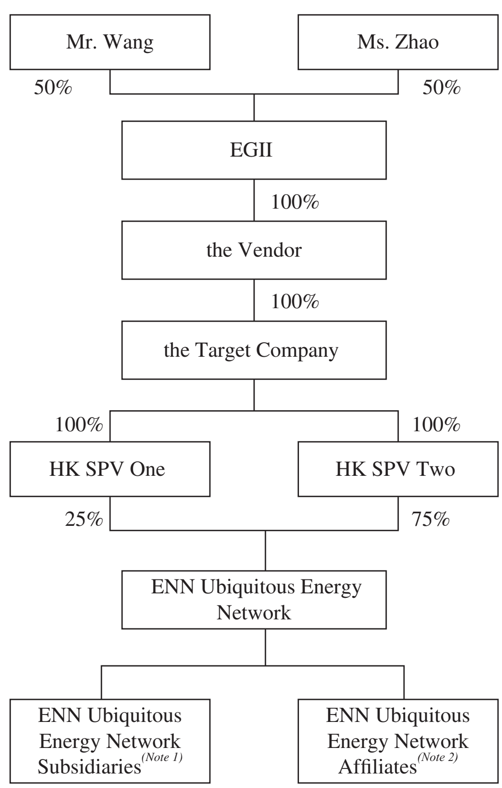
3. *Information on the Target Group and the Target Operating Group*

The Target Company is an investment holding company incorporated on February 28, 2018 in the BVI with limited liability which is principally engaged in investment holding. The controlling shareholders, being Mr. Wang, Ms. Zhao and EGII, through the Vendor, are interested in 100% of the equity interest in the Target Company.

The only operating asset of the Target Company is its indirect 100% equity interest in ENN Ubiquitous Energy Network, a limited liability company established in the PRC, which is principally engaged in the business of providing technology solutions of integrated energy in China. We understand from the 2017 Annual Report that the integrated energy business is in relation to the integration of multiple forms of energy (such as natural gas, industrial waste heat and renewable energy resources including solar energy, geothermal energy and wind power) for different regions as appropriate. The solution provider could customize integrated energy solutions, which is in connection with a modification on the foundation of distributed energy technology, as to satisfy the diverse energy needs of the customers. Therefore, it will improve customers' efficiency in energy utilization and reducing their energy cost. It is noted that ENN Ubiquitous Energy Network was established in 2009 in the PRC by ENN Group Co. Ltd (新奧集團股份有限公司) and ENN Technology Development Co., Ltd (新奧科技發展有限公司), entities ultimately controlled by Mr. Wang and Ms. Zhao. ENN Ubiquitous Energy Network is one of the leading integrated energy service providers in China, it has committed itself to technology innovation and application, it has provided customized integrated energy solutions to various types of customers, including urban areas/industrial parks, industrial customers and municipal buildings with focus on technology services such as consultation, planning, designing, operation and maintenance. The ENN Ubiquitous Energy Network has provided services to hundreds of integrated energy projects in more than 50 cities in China, and its high quality and efficient technology services and project delivery capabilities were widely recognized by the market.

We noted from the management of the Company that, as to ensure the Acquisition is in compliance with the PRC laws and regulations including *Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors* which sets forth certain restrictions on and requirements for foreign investors' acquiring domestic companies and *Certain Provisions on Change of the Equity Interests of the Investors of a Foreign-Invested Enterprise* which sets forth certain requirements and procedures for transfer of equity interest in a foreign-invested enterprise, ENN Ubiquitous Energy Network undertook a pre-acquisition process to convert itself into a PRC wholly-foreign-owned enterprise in accordance with the relevant PRC laws and regulations.

As part of the pre-acquisition process, (i) the Target Company, HK SPV One and HK SPV Two were set up recently in 2018 to be the intermediate holding companies of ENN Ubiquitous Energy Network; and (ii) ENN Ubiquitous Energy Network was transferred to the Target Company, an entity also ultimately controlled by Mr. Wang and Ms. Zhao. Set out below is the simplified shareholding structure chart of the Target Group immediately before the Acquisition:



Notes:

1. Comprise seven subsidiaries wholly owned and one subsidiary owned as to 60% by ENN Ubiquitous Energy Network. See the definition of "ENN Ubiquitous Energy Network Subsidiaries" for details.

2. Comprise three affiliates owned by ENN Ubiquitous Energy Network as to 40%, 23% and 15% respectively. See the definition of "ENN Ubiquitous Energy Network Affiliates" for details.

As a result of the pre-acquisition process and as the Latest Practicable Date, (i) there is an outstanding shareholder's loan (the "**Shareholder Loan**") between the Target Company (as the borrower) and EGII (as the lender) in the amount of RMB98,857,841, and (ii) there is an outstanding amount (the "**Debt of HK SPV Two**") of RMB294,170,100 owed by HK SPV Two (an investment holding company wholly-owned by the Target Company) to ENN Green Energy (a PRC company controlled by Mr. Wang). We have inquired the Shareholder Loan's agreement from the management of the Company and concur with the management of the Company that terms contained in the Shareholder Loan's agreement are on normal commercial terms. In addition, we noted that there is no additional condition attached to the Debt of HK SPV Two and it is an one-off item as a result of the pre-acquisition process.

According to the audited accounts of the Target Operating Group for the two years ended December 31, 2016 and December 31, 2017, the total asset value and net asset value of the Target Operating Group as at December 31, 2017 were approximately RMB1,674 million and RMB486 million respectively.

As each of the Target Company, HK SPV One and HK SPV Two was recently set up in 2018, none of them have any operating assets other than their equity interest in ENN Ubiquitous Energy Network as illustrated in the above shareholding structure chart. None of them have any liabilities other than the Shareholder Loan and the Debt of HK SPV Two (both of which are one-off items) as disclosed above and certain ancillary costs and expenses, mostly in relation to the pre-acquisition process which required cash settlement. Due to such liabilities, the total asset value and the net asset value of the Target Group as at December 31, 2017 were approximately RMB1,675 million and RMB94 million respectively, according to the management accounts of the Target Group (based on the audited accounts of the Target Operating Group for the two years ended December 31, 2017 with necessary adjustments to include the subsequent financials of the Target Company, HK SPV One and HK SPV Two since their establishment in February 2018 which primarily included the Shareholder Loan and the Debt of HK SPV Two as disclosed above).

3.1 Financial information of the Target Operating Group

The Target Company, HK SPV One and HK SPV Two were recently set up in February 2018 and none of them have any operating assets. Set out below is a summary of certain audited financial information of the Target Operating Group for the three years ended December 31, 2017:

	Target Operating Group (audited)		
	For the year ended December 31,		
	2017	**2016**	**2015**
	RMB'000 approximately (audited)	*RMB'000 approximately* (audited)	*RMB'000 approximately* (audited)
Revenue	1,220,861	523,321	274,475
Profit before taxation	323,642	88,973	61,886
Profit after taxation	275,405	73,200	51,791
Profit attributable to owners of the Target Operating Group	283,934 *(Note 1)*	72,208 *(Note 2)*	52,586 *(Note 3)*

Notes:

1. This included non-recurring gains of approximately RMB17 million.

2. This included non-recurring gains of approximately RMB0.8 million.

3. This included non-recurring gains of approximately RMB0.8 million.

The profit attributable to owners of the Target Operating Group was amounted to approximately RMB283.9 million for the year ended December 31, 2017, which represented an increase of approximately 293.2% comparing with approximately RMB72.2 million for the year ended December 31, 2016. Based on our review of 2017 Accountant's Report and 2016 Accountant's Report, as well as the discussion with the management of the Company, we noted that the combined non-recurring gains recognised from 2015 to 2017 of the Target Operating Group were only amounted to approximately RMB18.6 million, and the non-recurring gains of approximately RMB17 million in 2017 only represented approximately 6.0% of the profit attributable to owners of the Target Operating Group for the year ended December 31, 2017. We consider that the amount of the non-recurring gains derived from the Target Operating Group would not have materially negative impact on the profits recognised by the Target Operating Group. Furthermore, we have also inquired the reasons regarding the substantial increase of the profit attributable to owners of the Target Operating Group for the year ended December 31, 2017 as compared with the same period of the year ended December 31, 2016 from the management of the Company and understood that the substantial increase of the profit attributable to owners of the Target Operating

Group were mainly due to a substantial growth of the revenue in 2017 driven by continuous introduction of energy reform policies by the PRC government and the development of integrated energy industry and energy efficiency technology by the Target Operating Group, as well as the effective cost control adopted by the Company in 2017.

Upon Completion, other than the ENN Ubiquitous Energy Network Affiliates, each member of the Target Group shall become a subsidiary of the Company and the financial results of the Target Group will be consolidated into the Group.

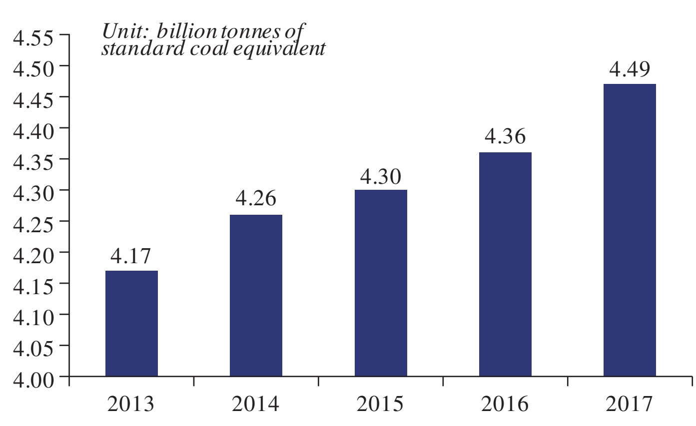
II. Industry overview

1. China energy and natural gas industry

According to the National Bureau of Statistics of PRC ("**NBS**"), the nominal gross domestic product ("**GDP**") of the PRC in 2017 rose to RMB82.7 trillion, representing an increase of 6.9% year on year. With the supply-side structural reform achieving progress, the economic structure underwent further optimization. As clearly emphasized in the report to the 19th National Congress of the Communist Party of China, China's economy has shifted from a phase of rapid growth to a stage of high-quality development.

With reference to BP Energy Outlook 2017[1], China has been driving the growth in global energy markets for the past two decades and it is currently the world's largest energy consumer. The total energy consumption in PRC increased approximately 2.98% in 2017 to 4.49 Gtce (billion tonnes of standard coal equivalent), from approximately 4.36 Gtce in 2016. Natural gas output in PRC rose to approximately 147 billion cubic meters in 2017, representing an increase of approximately 8.1% from the same period of last year.

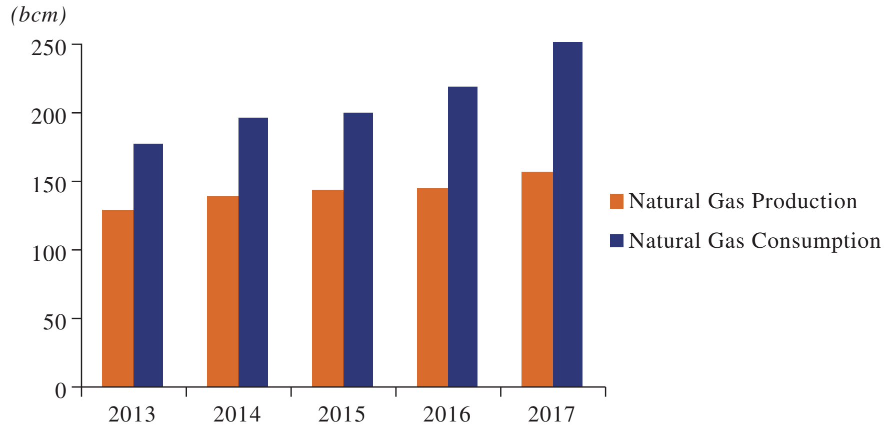
China Total Energy Consumption during 2013–2017



Source: NBS, BP Energy Outlook 2017

[1] https://www.bp.com/content/dam/bp/pdf/energy-economics/energy-outlook-2017/bp-energy-outlook-2017.pdf

China Natural Gas Production & Consumption during 2013–2017



Source: NBS, Enerdata[2]

Benefiting from the improving macro-economy and the PRC government's determination in controlling air pollution, the natural gas consumption in PRC recorded a significant growth of approximately 15.3% in 2017. We believe that the surge in consumption of the natural gas is a result of the PRC government's drive started in 2016 to switch factories and millions of homes from the use of coal to gas in order to cut harmful emissions.

2. PRC Government policies

The National Development and Reform Commission ("**NDRC**") and National Energy Administration ("**NEA**") had announced the 13th Five-Year Plan for Energy Development in 2017, a guideline for promoting an "energy revolution" and to push diversity in energy sources in China (the "**13FYP**"). We note that these plans collectively focus on emissions cuts, renewable energy development, and improved energy industry efficiency, and it clearly stated that natural gas, a clean fossil fuel, will become one of the main energy sources in China, and strongly supports the development of new energy sources, such as solar power and wind power.

Energy development through innovation was strongly advocated by the PRC Government according to the 13FYP. Science and technology innovation will promote clean and intelligent energy, propelling new industries and business. We consider that energy consumption growth will focus on modern manufacturing, smart and integrated energy, offering opportunities to the Company with expertise in energy efficiency. Combining the launch of National Carton Emissions Trading Market and the implementation of Environmental Protection Tax on January 1, 2018, we concur with the management of the Company that these initiatives have likewise presented a lucrative opportunity for the

2 https://yearbook.enerdata.net/natural-gas/gas-consumption-data.html
https://yearbook.enerdata.net/natural-gas/world-natural-gas-production-statistics.html

Group to develop integrated energy business, provided that the sale of integrated energy of the Group recorded approximately RMB234 million in FY2017, representing an increase of approximately 52.9% comparing with approximately RMB153 million in FY2016.

Furthermore, according to the "Guidelines for Energy Work in 2018" issued by NEA, it was stated to improve the efficiency of energy systems, and actively promote "Internet+ Smart Energy" to encourage the exploration of new energy models and the active development of new energy industry trends. Therefore, we consider that the Acquisition is in line with the PRC energy industry development trend and is an active response to the PRC Government's favorable policies with a strong regulatory support and development opportunity for the Company to expand its integrated energy business and position itself into innovative energy service provider in the industry.

However, the Shareholders shall be aware of the potential risks toward the macro economy of PRC and the adjustments of the PRC Government policies. The industry involved of the Target Operating Group in relation to the integrated energy business is relatively dependent on marketization. Any factors in connection with the economic decline or the changes in the PRC Government policies that is negative to the energy industry, which may affect the users on the energy consumption and therefore affect the operating performance of the Target Operating Group.

III. The Acquisition

1. Reasons for and Benefits of the Acquisition

1.1 PRC energy is structurally reforming driven by government policies

Referring to the《Energy Production and Consumption Revolution Strategy (2016–2030)》《能源生產和消費革命戰略 (2016–2030)》* issued by NDRC and NEA, it was promoted to achieve a fundamental shift in forms of energy production and consumption, strengthening the construction of a smart energy management system, enhancing demand-side responding capability, and realizing the smart interaction between energy production and consumption. Currently, China's energy system is moving from a traditional one to a modern energy system promoting "clean, efficient, economical, and safe." The accelerated transformation of energy structure into a clean, low-carbon and efficient model, and the ongoing development of distributed energy and energy efficiency technologies, have led to an explosive growth of the integrated energy sector. On the demand-side, consumption upgrade has led to the diversification in energy supply. Users would need not only natural gas, but other integrated energy supply, such as electricity, cooling, heating and steam. Also we have reviewed《關於推進多能互補集成優化示範工程建設的實施意見》《Implementation Opinions on the Integration and Optimization of Demonstrative Project Construction》* released by NDRC and NEA in 2016, it stated that the proportion of complementary multi-energy reconstruction in existing industrial parks will reach 30% and the share of complementary multi-energy projects amongst newly-established industrial parks will reach 50% respectively by 2020, which demonstrating the tremendous market potential of integrated energy business. We understand from the management of the Company that the industrial park is the most important market for developing the integrated energy business. According to the State Council of PRC, there were over 1,500 different kinds of national and provincial industrial parks, and other around 5,000 industrial parks in China by 2017. It is expected that there is an increasing demand and opportunities in respect of those parks renovation and reconstruction projects which leads to the industry participants to actively deploy the development of integrated energy business, we consider that the time for a rapid launch of integrated energy business has arrived.

1.2 The Acquisition is consistent with the Group's strategic plan and the overall development trend of the industry

According to the 2017 Annual Report, we understand that the Group has consistently adhered to a clear strategy for integrated energy business and has actively explored and initiated integrated energy business in recent years following the changes of the energy industry in China. As of the end of 2017, the Group has invested and maintained in operation 31 integrated energy stations, with another 30 projects under construction. Nevertheless, the Group mainly leveraged on its own customer base and channel advantages to develop its integrated energy business, but it did not possess the core technological know-hows such as planning and designing the integrated energy systems and solutions, thus, it had to procure relevant technology services from external service providers in the past. The Group urgently needs to establish its core technology and strengthen its competitive advantages in a short period of time to enhance its integrated service capabilities, so that it can seize any opportunities that may arise and quickly gain more market share. The management of the Company believes that the most effective and efficient way of obtaining the core technology to supplement its capabilities in providing integrated energy solutions is through strategic acquisition, considering time consuming and would require substantial initial investment in terms of research and development, technical and systematic training on the employees as well as the failure risks. We noted from the management of the Company that the Company has compared the Target Company with certain integrated energy technology service companies and planning and designing institutions when selecting the acquisition target. For such integrated energy service companies, they are generally subsidiaries of electric power or gas energy groups, all of which have direct or indirect competition with the Group and are unwilling to sell such subsidiaries to the Company. For the planning and designing institutions, they are commonly founded by reputable universities which are state-owned and also generally commissioned with certain national academic research missions. It will be difficult, if not impossible, for the Company, as a foreign company, to acquire such institutions. In addition, planning and designing institutions, as academic institutions, are less capable in project implementation and/or commercialization.

1.3 The Target Operating Group is one of the China's leading technical service providers of integrated energy solutions

The Target Operating Group possesses the core technological know-hows of integrated energy business. It masters a number of core technologies required during the course of planning, designing and operating integrated energy projects, such as load forecasting, quantitative screening, and integration of energy facilities and network within a region, and it has also obtained 66 patents and 231 patents under application, as well as 46 software copyrights. As advised by the management of the Company, the Target Operating Group has won many prestigious awards and honors in the integrated energy field, including "2017 China Distributed Energy Project – Outstanding Award" awarded by China Energy Research Society Distribution Energy Committee, China Distributed Energy Organizing Committee of International Forum and China Tongzhou Industrial Association Energy Internet Branch, "2016 China Distributed Energy Project – Innovative Award" and "China Excellence Designer Company of Distributed Energy Project in 2016" awarded by China Energy Research Society, Chinese Society for Electrical Engineering, China Enterprises Investment Association, China Gas Association, China Biogas Society and Chinese Renewable Energy Industry Association, and "Most Influential Company of Energy Internet-of-Things Industry in 2016" awarded by China Institute of Energy Economics Research and China Energy News. The services provided by the Target Operating Group mainly include three categories: (i) tailor-made design services based on planning and consulting services to ubiquitous energy projects, comprising basic project design and subsequent detailed construction plan design; (ii) project management services for construction of ubiquitous energy projects; and (iii) project operation services to ubiquitous energy projects entrusted to the Company well as providing operational advice and assistance to third-party operators.

1.3.1 Key competitive advantages of ENN Ubiquitous Energy Network:

– The Load Characteristic Prediction

It mainly analyze the load of electricity, cooling/heating load of each user according to the usage of energy facilities at different time frame and locations as to predict the potential future energy demand of the users and to provide reliable decision-making basis for energy system planning, design and operation.

– The Quantitative Screening of Energy Utilization

It mainly focus on the user's energy usage characteristics, comparing the various technologies in terms of economic, energy efficiency and energy saving, and emission reduction at different time frames based on factors such as locally available resources and energy prices. It helps to select the best technology application and the most favorable integration method.

– The integration of energy facility and network in a region

It makes full use of the load of each main energy source to complement each other, share energy facilities, realize the energy interconnection and intercommunication within the region, and optimize the scale and pace of energy facilities construction.

Based on the above main competitive advantages, the ENN Ubiquitous Energy Network has created a universal energy network model that adapts to local conditions, integrated multiple technologies, and collaborated multiple facilities and smart interaction between demand and supply. Such system and model have the characteristics of economic sharing comparing with traditional and single-unit distributed energy system. It can further assist client to increase efficiency of energy consumption and to achieve energy cost saving. In addition, it not only meets the needs of users for safe, clean, economical and efficient energy resources, but also provides incentives for the investors to increase revenues and reduce the cost on capital expenditures and investment risk.

1.3.2 Extensive project experience:

As of the end of 2017, the Target Operating Group has participated in 225 integrated energy projects, providing services to various types of customers including government institutions and energy companies. Currently, the Target Operating Group provides technology services to many national-level demonstrative projects, including China's first standardized demonstration project of integrated energy micro-grid, China's first batch of multi-energy complementary integration optimization demonstration projects, China's first batch of new energy micro-grid demonstration projects, and China's first commercial data center projects with nature of green concept.

1.4 Synergy effect and enlarge the business scale of the Company

Since the Group has initiated integrated energy business in recent years, we consider that the Acquisition will facilitate the Group to seize market opportunity and gain stronger foothold in the integrated energy market, so as to promote the transformation of the Group's business. Through the consolidation of competitive resources, the Group will obtain the core technological know-hows on planning, designing and operating integrated energy projects, establish an integrated service capability, which will allow the Group to exploit market potential from existing customers in regards to integrated energy demands, and enhance the adoption of such services in existing city-gas concessions. The transaction can also facilitate the

Group's penetration into customers located beyond its concessions, as well as development of quality projects such as national and provincial-level industrial parks. In addition, the Group could leverage on the core technological competitiveness of the Target Operating Group upon completion of the Acquisition and continue to monitor technological upgrading and system optimization over the course of project operation, so as to increase existing projects' operating efficiency and improve the return on investment. As advised by the management of the Company that the integration of the technical advantage of ENN Ubiquitous Energy Network and the market advantage of the Group, such as in branding, customer and distribution channel, after completion of the Acquisition will help the Group to obtain quality projects, such as national and provincial-level industry parks, and to deliver large and complex projects in future.

In addition, the Acquisition enables the Group to reinforce its first-mover advantage with exclusive access to the industry's leading technology owned by the Target Operating Group which has already built up its reputation in the market. The Acquisition will also consolidate the interest of the Group and the Target Operating Group, the Group, equipped with the leading technical capabilities and extensive project experience acquired from the Target Operating Group, together with its own advantage in customer base and distribution channel, will be able to build the necessary technical barriers and competitive advantage in the integrated energy market quickly and in time to seize the strategic development window of the integrated energy market in PRC.

1.5 Improve corporate government of the Group

As the Target Operating Group is a connected party to the Group we concur with the management of the Company that the Acquisition will improve the Group's corporate governance and reduce the number of continuous connected transactions relating to the procurement of technology services in the future. We note from the Company that the Group has paid approximately RMB200 million to the Target Operating Group in 2017 for its integrated energy technology services such as provision of customised energy efficiency technical solutions, including energy efficiency planning and energy efficiency management consulting, to support the Group's expansion needs and operation optimisation of its energy sales business. Given the continuous expansion on the scale of integrated energy business, the Group's demand for the Target Operating Group's technology services and the number of relevant connected transaction are expected to increase substantially due to the rapid growth of the integrated energy market and the Company's strategy to develop the integrated energy business. As such, we concur with the view of the management of the company that the Acquisition will eliminate the needs to continue procuring relevant technology services from connected party in the future.

2. Principal terms of the SPA

Date

June 25, 2018

Parties

(1) the Company as the purchaser; and

(2) the Vendor as the seller.

The Vendor is a company incorporated in the BVI with limited liability which is principally engaged in investment holding. The Vendor is wholly owned by EGII, a controlling shareholder of the Company.

Assets to be acquired

The Company conditionally agreed to purchase and the Vendor conditionally agreed to sell the Sale Shares free from all encumbrances together with all rights now or thereafter attaching thereto, including all dividends or distributions which may be paid, declared or made in respect thereof at any time on or after the Completion Date. The Sale Shares represent the entire share capital of the Target Company.

The Vendor has given certain representations and warranties to the Company in relation to the title of the Sale Shares as well as business and operations of the Target Group under the SPA.

Consideration

The Consideration for the Acquisition is RMB2,606,595,755 (equivalent to approximately HK$3,194,122,681), which shall be fully settled by the allotment and issue, credited as fully paid, of 39,926,534 Consideration Shares to the Vendor at Completion. The management of the Company has considered other alternatives of financial resources to settle the Consideration, such as internal financial resources and debt financing. However, after considered (i) the proposed settlement for the Consideration by way of the issue of Consideration Shares can serve to preserve the cash reserve of the Group, in which may be used for other business opportunities and (ii) debt financing would incur additional finance costs to the Group and further increase the gearing of the Group, the Directors consider the settlement by way of issue of Consideration Shares to be in the interests of the Company and the Shareholders as a whole. We understand from the management of the Company that the Group had not identified any definite business opportunities and entered into any definite agreements which are required to be disclosed in accordance with the List Rules as at the Latest Practicable Date.

The 39,926,534 Consideration Shares represent (i) approximately 3.68% of the issued share capital of the Company as at the Latest Practicable Date; and approximately 3.55% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares (assuming that there is no other change to the share capital of the Company prior to Completion).

The issue price of HK$80.00 per Consideration Shares represents:

(i) a discount of approximately 2.38% to the closing price of HK$81.95 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 1.23% to the closing price of HK$81.00 per Share as quoted on the Stock Exchange on the Last Trading Day, being the last full trading day immediately prior to date of the SPA;

(iii) a premium of approximately 4.49% to the average closing price of approximately HK$76.56 per Share as quoted on the Stock Exchange for the five consecutive trading days of the Shares up to and including the Last Trading Day;

(iv) a premium of approximately 20.30% to the average closing price of approximately HK$66.50 per Share as quoted on the Stock Exchange for the six months trading days of the Shares up to and including the Last Trading Day; and

(v) a premium of approximately 317.97% to the audited consolidated net asset value of approximately RMB15.62 (equivalent to approximately HK$19.14) per Share as at December 31, 2017, calculated based on the audited consolidated net asset value of the Group attributable to owners of the Company of RMB16,952,000,000 (equivalent to approximately HK$20,772,982,379) as at December 31, 2017 divided by the total number of Shares in issue as at the Latest Practicable Date.

The Consideration Shares will be issued under the Specific Mandate to be granted to the Directors by the Independent Shareholders at the EGM.

As disclosed in the letter from the Board in the Circular, an application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares to be allotted and issued shall rank *pari passu* among themselves and with all the Shares in issue at Completion Date. The Vendor, which will be the holder of the Consideration Shares, undertakes not to dispose, agree to dispose, or create any option, right, interest or encumbrances over these Shares during a period of 12 months from the date on which dealings of the Consideration Shares commence on the Stock Exchange.

As stated in the letter from the Board in the Circular, the Consideration was arrived at after arm's length negotiations between the parties to the SPA on normal commercial terms with reference to (a) the future prospects of the Target Operating Group, the anticipated operational synergies, the enhancement in the competitive position of the Group as a result of the Acquisition and (b) an implied price-to earnings ratio of approximately 10.6 times based on the audited profit attributable to owners of the Target Operating Group in 2017, which represents a fair and reasonable valuation of the Acquisition taking into account the liabilities as disclosed in the Letter from the Board regarding the paragraph headed "Information of the Target Group" and having regard to certain other comparable companies whose financial information was publicly available as at the date of the Announcement. We have reviewed the comparable companies selected by the management of the Company and noted that there are four comparable companies have been selected exhaustively by the management of the Company after taking into considerations of (i) those comparable companies are primarily engaged in provision of energy related services such as provision of smart and integrated energy solutions, design, construction, installment, operation and maintenance with little or no involvement in manufacturing of equipment, which are comparable to the business of the Target Operating Group; (ii) each of those comparable companies is currently listed on the Main Board of the Stock Exchange, which is comparable to the Company in terms of listing status; (iii) each of the comparable companies has a market capitalization of over HK$2 billion and such size is relatively comparable to that of the Target Operating Group; and (iv) the Target Operating Group is profit-making and relatively asset light, and the comparable companies have similar nature in this regard.

Conditions precedent

Completion shall be conditional upon the following conditions precedent:

(a) the Independent Shareholders having passed the necessary resolution approving the Transactions at the EGM by way of poll;

(b) the Executive having granted the Whitewash Waiver and any condition attached to the Whitewash Waiver having been satisfied, and the Whitewash Waiver not being revoked;

(c) the Stock Exchange granting or agreeing to grant the approval for the listing of, and permission to deal in, the Consideration Shares, and such approval not being revoked; and

(d) there not having been any material breach of any of the representations, warranties, agreements, covenants and undertakings given by the Vendor and the Company in the SPA that are to be performed or complied with prior to Completion.

Condition precedent (d) above may be waived by the party which is not in breach of the relevant representations, warranties, agreements, covenants or undertakings, whereas conditions (a), (b) and (c) are not capable of being waived by any party to the SPA in any event.

It is confirmed that in relation to the condition precedent (d) above, there is no such breach of any representations, warranties, agreements, covenants or undertakings by either party to the SPA as at the Latest Practicable Date.

In the event that the conditions precedent above cannot be fulfilled (or waived, where applicable) on or before December 31, 2018, the SPA shall automatically be terminated and neither party shall have any claim against the other party except in respect of any rights and liabilities which have accrued before termination.

As at the Latest Practicable Date, none of the above conditions precedent has been fulfilled.

Completion

Completion shall take place at 10:00 a.m. on a day within fifth Business Days after the date upon which the conditions set out in the SPA to be satisfied shall have been satisfied or waived (other than the conditions that by their terms are to be satisfied at Completion) or such other date as the Company and the Vendor shall agree in writing.

3. *Evaluation of the Issue Price and the Consideration*

3.1 Historical price performance of the Shares

Set out below is a chart reflecting movements in the closing prices of the Shares as quoted on the Stock Exchange from June 26, 2017 up to and including the Last Trading Day (the "**Review Period**"), which represented a sufficient period of time to provide a general overview of the recent price performance of the Shares.

Source: Website of the Stock Exchange (www.hkex.com.hk), Bloomberg

As shown in the above chart, the closing prices of the Shares demonstrated a significant upward trend ranged from HK$46.25 per Share to HK$81.60 per Share with an average closing price of approximately HK$60.21 during the Review Period. We note that the Issue Price of HK$80.00 per Consideration Shares is within the range of the lowest and highest closing prices of the Shares and is above the averaging closing price during the Review Period, representing a premium of approximately 73.0% over the lowest closing price of HK$46.25 and a discount of approximately 2.0% to the highest closing price of HK$81.60, and a premium of approximately 32.9% over the average closing price of the Shares at HK$60.21 as quoted on the Hong Kong Stock Exchange during the Review Period.

3.2 Comparison with recent issue of consideration shares to connected person(s) with the application of whitewash waiver

We have conducted a comparable analysis through identifying companies listed on the Main Board of the Stock Exchange (excluding companies under prolonged suspension) which announced issues of new shares (excluding the issue of A shares) as acquisition consideration to connected person(s) with the application of whitewash waiver during the Review Period, and such whitewash waiver application was granted by the Executive and such issue was not terminated or lapsed. Due to the Transactions also involve issuing new shares to connected person as the consideration for the purpose of acquisition with the application of whitewash waiver, therefore we consider that the above selection criteria are most comparable and have these same features to the Transactions as to provide a general reference of this type of transaction. On such basis, we have identified seven issues of shares as acquisition consideration with the application of whitewash waiver ("**Comparable Shares Issues**") which provide a reasonable number of comparable transactions for comparison purposes. As there is no transaction announced on the website of the Stock Exchange in relation to acquisition of companies with similar business operation of the Target Operating Group during the Review Period and we consider that a review period of approximately one year prior and up to the Last Trading Date is adequate and appropriate to capture the most recent market practice and reflect the general trend of the transactions which are issues of shares as all or part of the consideration for the purpose of acquisition to connected person(s) with the application of whitewash waiver. The Comparable Shares Issues have been selected exhaustively based on the said criteria above, and have been identified, in our research through the website of the Stock Exchange. It should be noted that all subject companies involved in Comparable Shares Issues may have different principal activities, market capitalisation, profitability, financial position as compared with those of the Company. Circumstances leading to the subject companies to proceed with the issue may also be different from that of the Company. Nevertheless, as the Comparable Shares Issues fulfill the above criteria, and serve for the purpose of giving a general reference of this type of transaction in Hong Kong equity market, we consider them to be an appropriate basis, meaningful and fair to assess the fairness of the Issue Price.

Date of announcement	Name of the issuer	Stock code	Issue price (HK$)	Premium/ (Discount) of the issue price over/to the closing price on the date of the relevant announcement/ agreement in relation to the respective issue of consideration	Premium/ (Discount) of the issue price over/to the average closing price per share for the last five trading days prior to the date of the relevant announcement/ agreement in relation to the respective issue of consideration	Premium/ (Discount) of the issue price over/to the average closing price per share for the last ten trading days prior to the date of the relevant announcement/ agreement in relation to the respective issue of consideration	Premium/ (Discount) of the issue price over/to the average closing price per share for the last six months trading days prior to the date of the relevant announcement/ agreement in relation to the respective issue of consideration	Premium/ (Discount) of the net asset value per share of the group in relation to the respective issue of consideration	Whitewash waiver grant date
24-Jul-17	Goodbaby International Holdings Limited	1086.HK	3.49	6.4%	4.6%	3.80%	(0.3%)	57.2%	20-Sep-17
17-Aug-17	Yunfeng Financial Group Limited	376.HK	6.50	3.5%	16.3%	17.9%	34.5%	255.2%	9-Jan-18
19-Sep-17	AVIC International Holding (HK) Limited	232.HK	0.37	15.6%	16.2%	15.2%	3.0%	2.8%	22-Jan-18
11-Oct-17	Richly Field China Development Limited	313.HK	0.086	0.0%	0.0%	0.7%	2.4%	(30.4%)	14-Feb-18
4-Dec-17	China Fire Safety Enterprise Group Limited	445.HK	0.366	(20.4%)	(17.0%)	(16.9%)	(14.9%)	20.4%	7-Feb-18
28-Dec-17	Beijing Gas Blue Sky Holdings Limited	6828.HK	0.5	0.0%	(0.4%)	(0.2%)	(3.7%)	47.1%	11-May-18
5-Jan-18	Sino Biopharmaceutical Limited	1177.HK	12.73	(9.6%)	(14.5%)	(12.8%)	35.7%	960.8%	11-Apr-18
			Maximum	15.6%	16.3%	17.9%	35.7%	960.8%	
			Minimum	(20.4%)	(17.0%)	(16.9%)	(14.9%)	(30.4%)	
			Average	(0.6%)	0.7%	1.1%	8.1%	187.6%	
		The Issue Price	80.00	(1.2%)	4.5%	3.5%	20.3%	318.0%	

Source: Website of the Stock Exchange (www.hkex.com.hk), Bloomberg

As shown in the table above, the issues prices of the Comparable Shares Issues ranged from (i) a discount of approximately 20.4% to a premium of approximately 15.6% to/over the respective closing prices of their shares on the date of the relevant announcement/agreement in relation to the respective issue of consideration (the "**Comparable Share Issue Range I**"), with an average of a discount of approximately 0.6% (the "**Comparable Share Issue Average I**"); (ii) a discount of approximately 17.0% to a premium of approximately 16.3% to/over the average closing prices of their shares on the last five trading days prior to the date of the relevant announcement/agreement in relation to the respective issue of consideration (the "**Comparable Share Issue Range II**"), with an average of a premium of approximately 0.7% (the "**Comparable Share Issue Average II**"); (iii) a discount of approximately 16.9% to a premium of approximately 17.9% to/over the average closing prices of their shares on the last ten trading days prior to the date of the relevant announcement/agreement in relation to the respective issue of consideration (the "**Comparable Share Issue Range III**"), with an average of a premium of approximately 1.1% (the "**Comparable Share Issue Average III**"); (iv) a discount of approximately 14.9% to a premium of approximately 35.7% to/over the average closing prices of their shares on the last six months trading days prior to the date of the relevant announcement/agreement in relation to the respective issue of consideration (the "**Comparable Share Issue Range IV**"), with an average of a premium of approximately 8.1% (the "**Comparable Share Issue Average IV**"); and a discount of approximately 30.4% to a premium of approximately 960.8% to/over the net asset value per share of the respective group in relation to the respective issue of consideration (the "**Comparable Share Issue Range V**"), with an average of a premium of approximately 187.6% (the "**Comparable Share Issue Average V**").

If excluding the China Fire Safety Enterprise Group Limited from the Comparable Shares Issues since its issue price was issued at a comparatively substantial discount to the closing price on the date of the relevant announcement, last five trading days prior to the date of the relevant announcement, last ten trading days prior to the date of the relevant announcement and the last six months trading days prior to the date of the relevant announcement, respectively, as compare with the other companies contained in the Comparable Shares Issues (the "**New Comparable Shares Issues**"), the issues prices of the New Comparable Shares Issues ranged from (i) a discount of approximately 9.6% to a premium of approximately 15.6% to/over the respective closing prices of their shares on the date of the relevant announcement/agreement in relation to the respective issue of consideration (the "**New Comparable Share Issue Range I**"), with an average of a premium of approximately 2.7% (the "**New Comparable Share Issue Average I**"); (ii) a discount of approximately 14.5% to a premium of approximately 16.3% to/over the average closing prices of their shares on the last five trading days prior to the date of the relevant announcement/agreement in relation to the respective issue of consideration (the "**New Comparable Share Issue Range II**"), with an average of a premium of approximately 3.7% (the "**New Comparable Share Issue Average II**"); (iii) a discount of approximately 12.8% to a premium of approximately 17.9% to/over the average closing prices of their shares on the last ten trading days prior to the date of the relevant announcement/agreement in relation to the respective issue of consideration (the "**New Comparable Share Issue Range III**"), with an average of a premium of approximately 4.1% (the "**New Comparable Share Issue Average III**"); and (iv) a discount of approximately 3.7% to a premium of approximately 35.7% to/over the average closing prices of their shares on the last six months trading days prior to the date of the relevant announcement/agreement in relation to the respective issue of consideration (the "**New Comparable Share Issue Range IV**"), with an average of a premium of approximately 11.9% (the "**New Comparable Share Issue Average IV**").

The Issue Price represents (i) a discount of approximately 1.2% to the closing price of the Share on the Last Trading Day; (ii) a premium of approximately 4.5% over the average closing price of the Share for the last five consecutive trading days prior to the Last Trading Day; (iii) a premium of approximately 3.5% over the average closing price of the Share for the last 10 consecutive trading days prior to the Last Trading Day; and (iv) a premium of approximately 20.3% over the average closing price of the Share for the last 180 consecutive trading days prior to the Last Trading Day.

Having considered that the Issue Price represents (i) only a slight discount to the closing price on the Last Trading Day, (ii) more premium over the last 5, 10 and 180 consecutive trading days prior to the Last Trading Day comparing to the Comparable Issue Average II, III and IV respectively; (iii) a slightly less premium over the last 10 consecutive trading days prior to the Last Trading Day comparing to the New Comparable Issue Average III but more premium over the last 5 and 180 consecutive trading days prior to the Last Trading Day comparing to the New Comparable Issue Average II and the New Comparable Issue Average IV; and (iv) a substantial premium of approximately 318.0% over the audited consolidated net asset value of the Group of approximately RMB15.62 (equivalent to approximately HK$19.14) per Share as at December 31, 2017, calculated based on the audited consolidated net asset value of the Group attributable to owners of the Company of RMB16,952,000,000 (equivalent to approximately HK$20,772,982,379) as at December 31, 2017 divided by the total number of Shares in issue as at the Latest Practicable Date and have much more premium comparing with the Comparable Share Issue Average V, we are of the view that the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned.

3.3 Evaluation of the Consideration

Comparable Companies analysis

To assess the fairness and reasonableness of the Consideration of the Target Operating Group, we have identified companies (the "**Comparable Companies**") which (i) are currently listed on the main board of the Hong Kong Stock Exchange with the market capitalization of over HK$2 billion, which we consider is relatively comparable to the Consideration for the Acquisition; (ii) are primarily engaged in the provision of energy related services such as design, construction, installment, operation and maintenance; (iii) providing smart energy and/or integrated energy solutions; and (iv) have generated over 50% of their respective revenue during the latest full financial year was derived from the related business segment mentioned in (ii) and (iii) and have relatively similar geographical operating locations as compared with those of the Target Operating Group of which are mainly based in PRC. As at the Latest Practicable Date, there are total of six Comparable Companies have been selected exhaustively based on the above criteria, which have been identified as set out in the table below, in our research through Bloomberg and the website of the Stock Exchange. We have also attempt the companies listed on the PRC Stock Exchanges and other oversea stock exchanges such as the U.S. Stock Exchange and the Japan Stock Exchange, however, taking into considerations of (i) the integrated energy business was just growing and developing rapidly in PRC in recent two years, the related valuation of these comparable companies were relatively trading at a higher premium in PRC capital market comparing with the Comparable Companies, (ii) the development of the integrated energy business in other developed countries such as U.S. and Japan are quite mature comparing with PRC, of which the valuation of the comparable companies listed on the U.S. Stock Exchange and the Japan Stock Exchange were relatively trading at a higher discount on the respective capital market comparing with the Comparable Companies and (iii) different investor behaviors and market conditions among Hong Kong, PRC and other oversea capital markets, therefore we consider that the Comparable Companies listed on the Hong Kong Stock Exchange are most comparative based on the abovementioned selection criteria.

The table below illustrates the price-to-earnings ratio ("**P/E Ratio**") of each of the Comparable Companies, which we consider to be suitable ratio for comparison after considering the business nature and business model of the Target Operating Group. P/E Ratio makes reference to the income generating ability of a company, rather than, for example, the net asset backing as is the case for price-to-book ratio ("**P/B Ratio**"), which is less relevant since the Comparable Companies and Target Operating Group mostly are asset light firms and project companies of which are more closely related to profitability derived from its provision of related energy services. We think that P/B Ratio is usually adopted in the valuation of asset-intensive companies and is not commonly used as a valuation multiple to assessing the valuation of the Comparable Companies and the Target Operating Group.

Company Name	**Ticker**	**Principal business**	**Market Capitalisation as at Latest Practicable Date** *(HK$ million)* *(Note 1)*	**Latest earnings** *(Note 2)*	**P/E Ratio** *(Note 3)*
VPower Group International Holdings Limited	1608 HK	Principally engaged in the design, integration, sale and installation of electricity generation units and the provision of distributive power solutions, including the design, and operation of operation of distributive power generation stations.	8,762	332	26.40

Company Name	Ticker	Principal business	Market Capitalisation as at Latest Practicable Date *(HK$ million)* *(Note 1)*	Latest earnings *(Note 2)*	P/E Ratio *(Note 3)*
China Power Clean Energy Development Company Limited	735 HK	Principally engaged in the development, construction, ownership, operation and management of clean energy power plants and provision of integrated energy services in the PRC	4,189	470 *(Note 5)*	8.91
Wasion Group Holdings Limited	3393 HK	Principally engaged in the development, manufacture and sale of electronic power, water, gas and heat and data collection terminal, as well as providing energy efficiency solution services.	4,210	353 *(Note 5)*	11.93
Panda Green Energy Group Limited	686 HK	Principally engaged in the development, investment, operation and management of solar power plants businesses and other renewable energy projects.	5,337	179 *(Note 5)*	29.81
Concord New Energy Group Limited	182 HK	Principally engaged in the engineering, construction, manufacture of equipment, operation and maintenance of power plants and providing renewable energy power generation company.	2,294	234 *(Note 5)*	9.80

Company Name	Ticker	Principal business	Market Capitalisation as at Latest Practicable Date *(HK$ million)* *(Note 1)*	Latest earnings *(Note 2)*	P/E Ratio *(Note 3)*
LongiTech Smart Energy Holding Limited	1281 HK	Principally engaged in the smart energy based and solar energy businesses, provision with a full range of smart energy comprehensive utilization services based on various energy resources including cooling, heat, electricity, gas and photovoltaic, as well as smart operation, energy efficiency analysis and relevant consultancy management services.	2,357	159 *(Note 5)*	14.84
		Highest	**8,762**	**470**	**29.81**
		Lowest	**2,294**	**159**	**8.91**
		Average	**4,525**	**288**	**16.95**
		Median	**4,199**	**283**	**13.39**
		The Consideration for the Acquisition *(Note 4)*	**3,000**	**284**	**10.56**

Source: Bloomberg and the respective companies' latest annual reports

Notes:

(1) The market capitalizations of the respective Comparable Companies are as at the Latest Practicable Date extracted from Bloomberg.

(2) The audited consolidated earnings attributable to the owners are extracted from the latest published annual report of the Comparable Companies.

(3) PE ratio is calculated based on the market capitalisations of the respective Comparable Companies as at Latest Practicable Date divided by total profits of the respective Comparable Companies as obtained from their latest published financial information.

(4) The implied multiples of the Consideration for the Acquisition are calculated based on the total Consideration for the Acquisition plus Shareholder Loan and Debt of HK SPV Two, and divided by total profits attributable to the owners of the Target Operating Group for the ended December 31, 2017.

(5) The reporting currency is dominated in RMB, and the exchange rate is 1RMB:1.17HKD according to the Bloomberg as at the Latest Practicable Date.

Based on the table above, the P/E of the Comparable Companies ranges from approximately 8.91 times to approximately 29.81 times (the "**Comparable Companies P/E Range**") with an average of 16.95 times (the "**Average Comparable Companies P/E**") and a median of 13.39 times (the "**Median of Comparable Companies P/E**"). The implied P/E Ratio of the Target Operating Group is 10.56 times which is within the Comparable Companies P/E Range, and below the Average Comparable Companies P/E and the Median of Comparable Companies P/E.

Notwithstanding the inherent discrepancies exhibited in business models, locations, risk associated with the markets and target end-customers of the Comparable Companies as compared with the Target Operating Group, we consider that the Comparable Companies, in general, serve as fair and representative samples for the purpose of comparison with the Target Operating Group because: (i) the principal business of the Comparable Companies are similar to that of the Target Operating Group which are engaged in the provision of energy related services and providing smart energy and/or integrated energy solutions, in that the Comparable Companies and the Target Operating Group both encounter similar market conditions given the operating location are mainly based in PRC; and (ii) the size of the Comparable Companies in terms of their market capitalisations are similar to that of the Target Operating Group which classified as the middle cap, meaning they are encountering comparable business risks and opportunities in connection with related PRC government policies, supply and demand of energy consumptions as well as the global economy.

Having taking into account of (i) the Acquisition will realize potential synergies and benefits between the Company and the Target Operating Group as discussed under the section headed "III. The Acquisition – 1. The reasons for and benefits of the Acquisition"; and (ii) the implied P/E of the Target Operating Group is within the Comparable Companies P/E Range and below the Average Comparable Companies P/E and the Median of Comparable Companies P/E.

We are of the view that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole.

3.4 Effect on the shareholding structure of the Company

The following table illustrates the shareholding structure of the Company as at Latest Practicable Date, immediately after the Completion (assuming that there is no change in the issued share capital of the Company from the Latest Practicable Date and up to the Completion other than the issue of the Consideration Shares) and immediately after the Completion (assuming all outstanding share options of the Company are exercised).

Shareholders	As at the Latest Practicable Date		Immediately after the Completion (assuming no change in the issued share capital of the Company from the Latest Practicable Date and up to the Completion other than the issue of the Consideration Shares)		Immediately after the Completion (assuming all outstanding share options of the Company are exercised)	
	Number of Shares	*Approximate % (Note 5)*	*Number of Shares*	*Approximate % (Note 5)*	*Number of Shares*	*Approximate % (Note 5)*
Mr. Wang Concert Group						
Mr. Wang	329,249,000 *(Note 1)*	30.34	329,249,000	29.26	329,829,000 *(Note 3)*	29.13
Ms. Zhao	329,249,000 *(Note 1)*	30.34	329,249,000	29.26	329,829,000 *(Note 4)*	29.13
EGII	329,249,000 *(Note 1)*	30.34	329,249,000	29.26	329,249,000	29.08
The Vendor	0	0	39,926,534	3.55	39,926,534	3.53
Mr. Wang Zizheng	0	0	0	0.00	60,000	0.01
Subtotal	329,249,000 *(Note 1)*	30.34	369,175,534	32.81	369,815,534	32.66
The Capital Group Companies, Inc.	141,345,028 *(Note 2)*	13.02	141,345,028	12.56	141,345,028	12.48
Commonwealth Bank of Australia	72,439,717	6.68	72,439,717	6.44	72,439,717	6.40
JP Morgan Chase & Co.	54,208,902	5.00	54,208,902	4.82	54,208,902	4.79
Public Shareholders	487,984,577	44.97	487,984,577	43.37	494,553,327	43.67
Total	1,085,227,224	100.00	1,125,153,758	100.00	1,132,362,508	100.00

Notes:

(1) The three references to 329,249,000 Shares relate to the same block of Shares. Such Shares are held by EGII, which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao. As at the Last Practicable Date, the Company has share options granted under its share option schemes entitling the holders thereof to subscribe for an aggregate of 7,208,750 Shares, of which share options entitling the holders thereof to subscribe for an aggregate of 640,000 Shares are held by certain members of Mr. Wang Concert Group (being 580,000 Shares for Mr. Wang and 60,000 Shares for Mr. Wang Zizheng).

(2) Of these Shares, 141,345,028 Shares are held by Capital Research and Management Company (a company which is wholly owned by The Capital Group Companies, Inc.).

(3) The 329,829,000 Shares comprise the 329,249,000 Shares held by EGII referred to in Note 1 above and 580,000 Shares with Mr. Want is entitled to under the share option scheme of the Company.

(4) The 329,829,000 Shares comprise the 329,249,000 Shares held by EGII referred to in Note 1 above and 580,000 Shares of Mr. Wang referred to in Note 3 above which Ms. Zhao is deemed as holding as Mr. Wang's spouse.

(5) The percentage figures have been subject to rounding adjustments. Accordingly, figures shown in totals may not be an arithmetic aggregation of the figures preceding them.

As shown in the table above, the shareholdings held by the Mr. Wang Concert Group will be increased from approximately 30.34% as at the Latest Practicable Date to approximately 32.81% immediately after the Completion before exercising all the outstanding share options or to approximately 32.66% immediately after Completion with all the outstanding share options being exercised. The aggregate shareholdings of the Capital Group Companies, Inc., Commonwealth bank of Australia, JP Morgan Chase & Co., and Public Shareholders (except the Mr. Wang Concert Group, together, as the "**Other Independent Shareholders**") as at the Latest Practicable Date were approximately 69.67%, which would be slightly decreased by approximately 2.48% or 2.33% to approximately 67.19% or 67.34% immediately upon Completion before exercising all the outstanding share options or with all the outstanding share options being exercised.

Although the shareholding of the Other Independent Shareholders will be slightly diluted due to the issue of the Consideration Shares, taking into account (i) the benefits of the Acquisition as stated in the section headed "III. The Acquisition – 1. reasons and benefits of the Acquisition"; (ii) the fairness and reasonableness of the Issue Price and the Consideration as set out in the section headed "III. The Acquisition – 3. Evaluation of the Issue Price and the Consideration"; and (iii) the issue of the Consideration Shares will avoid an immediate cash outlay (either from internal resources and/or external borrowings) and hence prevent weakening the working capital position, we are of the opinion that the dilution effect to the shareholding of the Other Independent Shareholders in the event of the issue of the Consideration Shares is justifiable and acceptable so far as the Independent Shareholders are concerned.

3.5 Financial impacts of the Acquisition on the Group

3.5.1 Effect on earnings

Following the Completion, the Target Operating Group would be accounted for a subsidiary of the Company and the financial results of the Target Operating Group will be reflected in the consolidated financial statements of the Group.

Given (i) the profitability of the Target Operating Group for the year ended December 31, 2015, December 31, 2016 and December 31, 2017 respectively, and (ii) the favourable prospect of the Target Operating Group as mentioned in the paragraphs headed "III. Reasons for and benefit of the Acquisition" above, we concur with the Directors' view that the Acquisition is expected to reinforce the Group's position and layout in integrated energy segment and enlarge the revenue stream of the Group. As such, we believe that the Acquisition would have a positive impact on the growth of the Group's earnings in the future.

3.5.2 Effect on net asset value

With reference to the 2017 Annual Report, the net asset value of the Group was approximately RMB20,217 million as at December 31, 2017. As disclosed in the letter from the Board that the net assets value of the Target Operating Group was approximately RMB486.5 million as at December 31, 2017. Assuming the Acquisition had been completed on December 31, 2017, the net assets of the enlarged Group as at December 31, 2017 would have been increased by approximately 2.4% to RMB20,703.5 million. Therefore, the Acquisition would have a potential positive impact on the net asset value of the Group.

3.5.3 Effect working capital

Since the Consideration will be satisfied in full by the allotment and issue of the Consideration Shares by the Company, we are of the view that the Acquisition would not have material adverse effect on the cash level and working capital of the Group immediately upon completion of the Acquisition.

IV. The Whitewash Wavier

As stated in the letter from the Board, since the Vendor is wholly owned by EGII, which is in turn held as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang and Mr. Wang Zizheng is the son of Mr. Wang, the Vendor is presumed to be "acting in concert" with Mr. Wang, Ms. Zhao, Mr. Wang Zizheng and EGII under the Takeovers Code. Accordingly, as at the Latest Practicable Date, Mr. Wang Concert Group (comprising Mr. Wang, Ms. Zhao, EGII and the Vendor), taken together, directly or indirectly, held 329,249,000 Shares, representing approximately 30.34% of the existing issued share capital of the Company.

Upon Completion, a total of 39,926,534 Consideration Shares will be allotted and issued to the Vendor. As a result, the aggregate voting rights of the Company held by Mr. Wang Concert Group (comprising Mr. Wang, Ms. Zhao, EGII and the Vendor) will be increased by 2.47%. Such increase of Mr. Wang Concert Group's collective holding of the voting rights of the Company would therefore trigger an obligation of Mr. Wang Concert Group to make a mandatory general offer for all the issued Shares not already owned by them and parties acting in concert with them under Rule 26 of the Takeovers Code, unless the Whitewash Waiver is granted by the Executive and the Whitewash Waiver is approved by the Independent Shareholders. According to the SPA, such conditions precedents are not capable of being waived by any party to the SPA.

Therefore, Mr. Wang Concert Group has made an application to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of the Issuance of the Consideration Shares. The Whitewash Waiver, if granted by the Executive, would be subject to the approval by the Independent Shareholders at the EGM by way of poll. In the event that the Whitewash Waiver is not granted by the Executive approved by the Independent Shareholders by simple majority by way of poll, the SPA shall lapse and the Acquisition will not proceed.

We noted that the granting of the Whitewash Waiver and the approval of the Whitewash Waiver by the Independent Shareholders are part of the conditions precedent for the Acquisition Agreement and are not waivable. If the Whitewash Waiver is not granted, the SPA shall lapse and the Acquisition will not proceed. The Company would then lose the potential benefits and synergies that are expected to be brought to the Group by the Acquisition.

Taking into account (i) the benefits of the Acquisition as discussed under the section headed "III. The Acquisition – 1. The reasons for and benefits of the Acquisition"; (ii) that as discussed under the section headed "III. The Acquisition – 3. Evaluation of the Issue Price and the Consideration" above, the terms of the SPA, including the Consideration and the Issue Price, are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) that if the Whitewash Waiver is not granted, the SPA shall lapse and the Acquisition will not proceed, we consider the granting of the Whitewash Waiver to be fair and reasonable so far as the Independent Shareholders are concerned.

V. Opinion and Recommendation

Having taken into account, in particular:

(i) the entering into of the Acquisition is considered in line with the Group's strategic business development direction and the terms of the Acquisition are fair and reasonable and on normal commercial terms so far as the Independent Shareholders are concerned;

(ii) the Acquisition is in line with the PRC energy industry development trend and is an active response to PRC Government's favorable policies with a strong regulatory support and development opportunity for the company to expand its integrated energy business and position itself into innovative energy service provider in the industry;

(iii) the synergy effect and enlarging the business scale of the Company as a result of the Transaction;

(iv) the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned;

(v) the implied P/E of the Target Operating Group is within the Comparable Companies P/E Range and below the Average Comparable Companies P/E and the Median of Comparable Companies P/E;

(vi) the dilution effect to the shareholding of the Other Independent Shareholders in the event of the issue of the Consideration Shares is justifiable and acceptable so far as the Independent Shareholders are concerned taking into account (i) the benefits of the Acquisition as stated in the section headed "III The Acquisition – 1. reasons and benefits of the Acquisition"; (ii) the fairness and reasonableness of the Issue Price and the Consideration as set out in the section headed "III The Acquisition – 3. Evaluation of the Issue Price and the Consideration"; and (iii) the issue of the Consideration Shares will avoid an immediate cash outlay (either from internal resources and/or external borrowings) and hence prevent weakening the working capital position; and

(vii) the overall positive financial impact would be brought to the Group upon the Completion.

We are of the view that terms of the Transactions are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, and the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions to approve the Acquisition, the Specific Mandate and the Whitewash Wavier at the EGM.

Yours faithfully,
For and on behalf of
Platinum Securities Company Limited

Li Lan
Director and Co-head of Corporate Finance

Mr. Li Lan is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Platinum Securities Company Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over eleven years of experience in corporate finance industry.

1. FINANCIAL SUMMARY

The following summary financial information for each of the three financial years ended December 31, 2015, 2016 and 2017 is extracted from the audited consolidated financial statements of the Group as set forth in the annual reports of the Company for the years ended December 31, 2016 and 2017 respectively.

The auditor's reports issued by Deloitte Touche Tohmatsu in respect of the Group's audited consolidated financial statements for each of the three years ended December 31, 2015, 2016 and 2017 did not contain any qualifications.

There are no exceptional items because of size, nature or incidence that are required to be disclosed in the financial statements of the Group for each of the three years ended December 31, 2015, 2016 and 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended December 31, *(audited)*		
	2015	**2016**	**2017**
	RMB million	*RMB million*	*RMB million*
Revenue	32,063	34,103	48,269
Cost of sales	(25,197)	(26,753)	(39,930)
Gross profit	6,866	7,350	8,339
Other income	391	650	676
Other gains and losses	(700)	(1,010)	(895)
Distribution and selling expenses	(500)	(534)	(635)
Administrative expenses	(2,183)	(2,223)	(2,377)
Share of results of associates	116	73	129
Share of results of joint ventures	579	498	505
Finance costs	(542)	(609)	(552)
Profit before tax	4,027	4,195	5,190
Income tax expense	(1,306)	(1,307)	(1,517)

	For the year ended December 31, (audited)		
	2015	2016	2017
	RMB million	*RMB million*	*RMB million*
Profit for the year	2,721	2,888	3,673
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Gain on revaluation of properties arising from the transfer to investment properties	–	14	4
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating foreign operations	58	69	(88)
Fair value (loss) gain on available for sale financial assets	–	2	(46)
	58	71	(134)
Other comprehensive (expense) income for the year	58	85	(130)
Total comprehensive income for the year	2,779	2,973	3,543
Profit for the year attributable to:			
Owners of the Company	2,036	2,151	2,802
Non-controlling interests	685	737	871
	2,721	2,888	3,673
Total comprehensive income for the year attributable to:			
Owners of the Company	2,094	2,233	2,672
Non-controlling interests	685	740	871
Earnings per share			
Basic	1.88	1.99	2.59
Diluted	1.88	1.82	2.59

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following is the full text of the audited financial statements of the Group for the year ended December 31, 2017 extracted from the annual report of the Company for the year ended December 31, 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** *RMB million*	**2016** *RMB million*
Revenue	6	48,269	34,103
Cost of sales		(39,930)	(26,753)
Gross profit		8,339	7,350
Other income	8	676	650
Other gains and losses	9	(895)	(1,010)
Distribution and selling expenses		(635)	(534)
Administrative expenses		(2,377)	(2,223)
Share of results of associates		129	73
Share of results of joint ventures		505	498
Finance costs	10	(552)	(609)
Profit before tax	11	5,190	4,195
Income tax expense	13	(1,517)	(1,307)
Profit for the year		3,673	2,888
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Gain on revaluation of properties arising from the transfer to investment properties		4	14
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating foreign operations		(88)	69
Fair value (loss) gain on available-for-sale ("AFS") financial assets		(46)	2
		(134)	71
Other comprehensive (expense) income for the year		(130)	85
Total comprehensive income for the year		3,543	2,973

	Notes	2017 *RMB million*	2016 *RMB million*
Profit for the year attributable to:			
Owners of the Company		2,802	2,151
Non-controlling interests		871	737
		3,673	2,888
Total comprehensive income for the year attributable to:			
Owners of the Company		2,672	2,233
Non-controlling interests		871	740
		3,543	2,973
		RMB	*RMB*
Earnings per share	15		
– Basic		2.59	1.99
– Diluted		2.59	1.82

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 RMB million	2016 RMB million
Non-current Assets			
Property, plant and equipment	16	25,490	22,297
Prepaid lease payments	17	1,262	1,221
Investment properties	18	246	208
Goodwill	19	192	188
Intangible assets	20	1,681	1,487
Interests in associates	21	1,505	1,350
Interests in joint ventures	22	3,929	3,704
AFS financial assets	23	4,578	4,882
Financial assets at fair value through profit or loss (“FVTPL”)	24	5	154
Other receivables	25	183	32
Amounts due from associates	27	278	89
Amounts due from joint ventures	28	674	407
Deferred tax assets	30	941	745
Deposits paid for investments	31	35	61
Deposits paid for acquisition of property, plant and equipment, land use rights and right of operation		104	227
Restricted bank deposits	34	486	489
		41,589	37,541
Current Assets			
Inventories	32	744	515
Trade and other receivables	25	6,068	4,423
Prepaid lease payments	17	37	30
Financial assets at FVTPL	24	4	16
Amounts due from customers for contract work	33	553	303
Amounts due from associates	27	367	185
Amounts due from joint ventures	28	943	790
Amounts due from related companies	29	112	63
AFS financial assets	23	528	–
Restricted bank deposits	34	241	352
Cash and cash equivalents	34	7,972	7,163
		17,569	13,840
Assets classified as held for sale	35	57	–
		17,626	13,840

	Notes	2017 RMB million	2016 RMB million
Current Liabilities			
Trade and other payables	36	11,217	8,323
Amounts due to customers for contract work	33	2,134	2,149
Amounts due to associates	27	282	218
Amounts due to joint ventures	28	1,677	1,645
Amounts due to related companies	29	642	416
Taxation payables		982	732
Bank and other loans – due within one year	40	1,737	3,944
Corporate bonds	41	2,996	–
Medium-term notes		–	700
Convertible bonds at FVTPL	43	3,635	–
Financial guarantee liability	39	5	22
Financial liabilities at FVTPL	24	17	–
Deferred income	37	243	192
		25,567	18,341
Liabilities associated with assets classified as held for sale	35	38	–
		25,605	18,341
Net Current Liabilities		(7,979)	(4,501)
Total Assets less Current Liabilities		33,610	33,040
Capital and Reserves			
Share capital	38	112	112
Reserves		16,840	14,854
Equity attributable to owners of the Company		16,952	14,966
Non-controlling interests		3,265	2,888
Total Equity		20,217	17,854

	Notes	2017 RMB million	2016 RMB million
Non-current Liabilities			
Bank and other loans – due after one year	40	523	197
Corporate bonds	41	2,494	5,482
Senior notes	42	2,366	2,507
Convertible bonds at FVTPL	43	–	3,515
Unsecured bonds	44	4,316	446
Financial liabilities at FVTPL	24	81	–
Deferred tax liabilities	30	428	397
Deferred income	37	3,185	2,642
		13,393	15,186
		33,610	33,040

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Equity attributable to owners of the Company											
	Share capital *RMB million* *(Note 38)*	**Share premium** *RMB million*	**Special reserve** *RMB million* *(note a)*	**Revaluation reserve** *RMB million*	**Share options reserve** *RMB million*	**Exchange reserve** *RMB million*	**Statutory surplus reserve fund** *RMB million* *(note b)*	**Designated safety fund** *RMB million* *(note c)*	**Retained earnings** *RMB million*	**Total** *RMB million*	**Non-controlling interests** *RMB million*	**Total equity** *RMB million*
At 1 January 2016	113	44	(20)	–	4	56	1,616	46	11,609	13,468	2,627	16,095
Profit for the year	–	–	–	–	–	–	–	–	2,151	2,151	737	2,888
Other comprehensive income for the year	–	–	–	13	–	69	–	–	–	82	3	85
Total comprehensive income for the year	–	–	–	13	–	69	–	–	2,151	2,233	740	2,973
Recognition of equity-settled share-based payment *(Note 45)*	–	–	–	–	51	–	–	–	–	51	–	51
Share repurchase *(Note 38)*	(1)	(28)	–	–	–	–	–	–	–	(29)	–	(29)
Issue of ordinary shares on exercise of share options *(Note 45)*	–	4	–	–	(1)	–	–	–	–	3	–	3
Acquisition of subsidiaries and businesses *(Notes 47 & 48)*	–	–	–	–	–	–	–	–	–	–	38	38
Acquisition of additional interests in subsidiaries	–	–	(74)	–	–	–	–	–	19	(55)	(41)	(96)
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	56	56
Disposal of subsidiaries *(Note 49)*	–	–	–	–	–	–	–	–	–	–	(3)	(3)
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	–	(6)	(6)
Dividends appropriation *(Note 14)*	–	–	–	–	–	–	–	–	(705)	(705)	–	(705)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	(523)	(523)
Transfer to statutory surplus reserve fund	–	–	–	–	–	–	253	–	(253)	–	–	–
At 31 December 2016	112	20	(94)	13	54	125	1,869	46	12,821	14,966	2,888	17,854
Profit for the year	–	–	–	–	–	–	–	–	2,802	2,802	871	3,673
Other comprehensive income for the year	–	–	–	(42)	–	(88)	–	–	–	(130)	–	(130)
Total comprehensive income for the year	–	–	–	(42)	–	(88)	–	–	2,802	2,672	871	3,543

	Equity attributable to owners of the Company											
	Share capital *RMB million (Note 38)*	**Share premium** *RMB million*	**Special reserve** *RMB million (note a)*	**Revaluation reserve** *RMB million*	**Share options reserve** *RMB million*	**Exchange reserve** *RMB million*	**Statutory surplus reserve fund** *RMB million (note b)*	**Designated safety fund** *RMB million (note c)*	**Retained earnings** *RMB million*	**Total** *RMB million*	**Non-controlling interests** *RMB million*	**Total equity** *RMB million*
Recognition of equity-settled share-based payment *(Note 45)*	–	–	–	–	34	–	–	–	–	34	–	34
Share repurchase *(Note 38)*	–	–	–	–	–	–	–	–	–	–	–	–
Issue of ordinary shares on exercise of share options *(Note 45)*	–	52	–	–	(14)	–	–	–	–	38	–	38
Acquisition of subsidiaries and businesses *(Notes 47 & 48)*	–	–	–	–	–	–	–	–	–	–	112	112
Acquisition of additional interests in subsidiaries	–	–	2	–	–	–	–	–	15	17	(17)	–
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	79	79
Dividends appropriation *(Note 14)*	–	–	–	–	–	–	–	–	(775)	(775)	–	(775)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	(668)	(668)
Transfer to statutory surplus reserve fund	–	–	–	–	–	–	213	–	(213)	–	–	–
Transfer to designated safety fund	–	–	–	–	–	–	–	13	(13)	–	–	–
At 31 December 2017	112	72	(92)	(29)	74	37	2,082	59	14,637	16,952	3,265	20,217

Notes:

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 RMB million	2016 RMB million
OPERATING ACTIVITIES			
Profit before tax		5,190	4,195
Adjustments for:			
Share of results of associates		(129)	(73)
Share of results of joint ventures		(505)	(498)
Exchange differences		(358)	305
Fair value loss (gain) of convertible bonds at FVTPL		278	(41)
Fair value loss (gain) of financial assets/liabilities at FVTPL		314	(170)
Impairment loss on goodwill		–	601
Impairment loss on property, plant and equipment		478	–
Impairment loss on trade and other receivables, net		145	35
Loss on disposal of property, plant and equipment		55	37
Gain on disposal of prepaid lease payments		(14)	(2)
Loss (gain) on disposal of subsidiaries/a business	49	13	(46)
Gain on disposal of an associate		(18)	–
Gain on disposal of an AFS investment		(1)	–
Dividends income from AFS investments		(148)	(180)
Increase in fair value of investment properties		(10)	(4)
Depreciation of property, plant and equipment		1,016	969
Amortisation of intangible assets		102	95
Release of prepaid lease payments		38	36
Share-based payment expenses		34	51
Financial guarantee income		(17)	(7)
Loss on repurchase and redemption of convertible bonds	43	4	–
Loss on repurchase of senior notes	42	–	308
Bank interest income		(222)	(153)
Finance costs		552	609
		6,797	6,067
Movements in working capital:			
Increase in inventories		(220)	(105)
Increase in trade and other receivables		(2,139)	(871)
Increase in amounts due from customers for contract work		(250)	(106)
Increase in amounts due from associates		(110)	(51)
(Increase) decrease in amounts due from joint ventures		(178)	8
Increase in amounts due from related companies		(18)	(12)
Increase in trade and other payables		2,697	1,263
Decrease in amounts due to customers for contract work		(15)	(99)
Increase in amounts due to joint ventures		223	36
(Decrease) increase in amounts due to associates		(19)	28
Increase in deferred income		594	621
Increase in amounts due to related companies		202	39
Cash generated from operations		7,564	6,818
PRC enterprise income tax paid		(1,471)	(1,452)
Net cash generated from operating activities		6,093	5,366

	Notes	2017 *RMB million*	2016 *RMB million*
INVESTING ACTIVITIES			
Dividends received from joint ventures		545	769
Dividends received from associates		43	33
Dividends received from AFS investments		148	180
Settlement of financial assets/liabilities at FVTPL		(55)	–
Interest received		222	124
Purchases of property, plant and equipment		(4,527)	(3,049)
Increase in prepaid lease payments		(88)	(106)
Deposits paid for investments		(27)	(53)
Deposits paid for prepaid lease payments		(11)	(32)
Deposits paid for acquisition of property, plant and equipment		(19)	(77)
Net cash outflow on acquisition of subsidiaries and businesses	47 & 48	(91)	(49)
Net cash inflow on disposal of subsidiaries/a business	49	8	12
Proceeds from disposal of assets classified as held for sale		–	34
Proceed from disposal of an AFS investment		11	–
Purchase of an AFS equity investment		(52)	(711)
Purchases of wealth management products		(14,434)	(8,728)
Release of wealth management products		14,511	8,177
Amounts advanced to banks and other financial institutions by Xinao Finance Company Limited ("ENN Finance")		(1,250)	(100)
Amounts withdrawn from banks and other financial institutions by ENN Finance		1,250	100
Investments in joint ventures		(186)	(165)
Investments in associates		(94)	(134)
Acquisition of intangible assets		(74)	(25)
Proceeds from disposal of property, plant and equipment		8	727
Proceeds from disposal of prepaid lease payments		50	23
Addition of restricted bank deposits		(3,419)	(796)
Release of restricted bank deposits		3,533	560
Amounts advanced to associates		(273)	(102)
Amounts repaid by associates		12	109
Amounts advanced to joint ventures		(308)	(941)
Amounts repaid by joint ventures		66	387
Amounts advanced to related companies		(33)	(13)
Amounts repaid by related companies		2	6
Net cash used in investing activities		(4,532)	(3,840)

	2017 *RMB million*	2016 *RMB million*
FINANCING ACTIVITIES		
Interest paid	(562)	(668)
Net proceeds from ordinary shares issued on exercise of share options	38	3
Repurchase of shares	–	(29)
Proceeds from issuance of corporate bonds	–	2,490
Proceeds from issuance of unsecured bonds	4,037	–
Proceeds used in repurchase and redemption of convertible bonds	(162)	–
Amounts advanced from banks and other financial institutions by ENN Finance	800	200
Amounts repaid to banks and other financial institutions by ENN Finance	(800)	(200)
Proceeds used in repurchase of senior notes	–	(2,706)
Capital contribution from non-controlling shareholders	79	56
Acquisition of additional interests in subsidiaries	–	(85)
Dividends paid to non-controlling shareholders	(668)	(523)
Dividends paid to shareholders	(775)	(705)
New bank loans raised	5,797	7,339
Repayment of bank loans	(7,687)	(6,630)
Repayment of medium-term notes	(700)	–
Amounts advanced from associates	93	124
Amounts repaid to associates	(10)	–
Amounts advanced from joint ventures	140	25
Amounts repaid to joint ventures	(331)	(404)
Amounts advanced from related companies	9	56
Amounts repaid to related companies	(6)	(79)
Net cash used in financing activities	(708)	(1,736)
Net increase (decrease) in cash and cash equivalents	853	(210)
Effect of foreign exchange rate changes	(41)	18
Cash and cash equivalents at the beginning of the year	7,163	7,355
Cash and cash equivalents at the end of the year	7,975	7,163
Represented by:		
Cash and cash equivalents included in assets classified as held for sale	3	–
Cash and cash equivalents at the end of the year	7,972	7,163
	7,975	7,163

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

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

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

The Company is an investment holding company. The activities of its principal subsidiaries are set out in Note 56.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company (the "Directors") have given careful consideration of the Group in light of its net current liabilities of approximately RMB7,979 million as at 31 December 2017. The Group has unutilised credit facilities of approximately RMB8,851 million as at 31 December 2017. After settling all of the outstanding convertible bonds, of which the carrying amount was RMB3,635 million as at 31 December 2017 as set out in Note 43, the Group has unutilised credit facilities of approximately RMB6,509 million at the date of approval of the consolidated financial statements, among which approximately RMB5,500 million 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 2017 have been prepared on a going concern basis.

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

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "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 position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendment 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 disclosure 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.

A reconciliation between the opening and closing balances of these items is provided in Note 54. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 54, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for annual periods beginning on or after a date to be determined

The Company anticipates that the application of the new and revised HKFRSs, other than set out below, will have no material impact on the consolidated financial statements.

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are generally measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at FVTPL, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 "Financial Instruments": Recognition and Measurement, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement:

- Listed equity securities classified as available-for-sale investments carried at fair value as disclosed in Note 23: these securities qualified for designation as measured at FVTOCI under HKFRS 9, however, the Group plans not to elect the option for the designation and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, revaluation reserve of approximately RMB44 million related to these available-for-sale investments will be transferred to retained earnings as at 1 January 2018.

- Certain unlisted equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in Note 23: these securities qualified for designation as measured at FVTOCI under HKFRS 9 and the Group plans to elect the option for designating these securities as measured at FVTOCI. Upon initial application of HKFRS 9, the differences between cost less impairment and fair value related to these securities, which are insignificant, would be adjusted to revaluation reserve as at 1 January 2018.

- The other unlisted equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in Note 23: these securities qualified for designation as measured at FVTOCI under HKFRS 9, however, the Group plans not to elect the option for the designation and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, fair value gains of approximately RMB59 million related to these securities, representing the differences between cost less impairment and fair value would be adjusted to retained earnings as at 1 January 2018.

- Convertible bonds issued by the Group designated as financial liabilities at FVTPL as disclosed in Note 43: these financial liabilities qualified for designation as measured at FVTPL under HKFRS 9, however, the amount of change in the fair value of these financial liabilities that is attributable to changes in the credit risk of those liabilities will be recognised in other comprehensive income with the remaining fair value change recognised in profit or loss. This is different from the current accounting treatment under which the entire change in fair value of the financial liabilities is recognised in profit or loss. The change in fair value attributed to a change in credit risk of these financial liabilities during the current year is insignificant and would not have material impact on other comprehensive income upon initial application of HKFRS 9; and

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment:

In general, the Directors anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other receivables, amount due from associates, joint ventures and related parties. Such further impairment recognised under expected credit loss model would reduce the retained earnings and increase the deferred tax assets as at 1 January 2018.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e., when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors have preliminarily assessed the performance obligations in respect of the different types of contracts with customers, in particular, the identification of distinct performance obligations under HKFRS 15 and the allocation of total consideration to the distinct performance obligations based on the relative fair values of piped gas sales and connection construction service. The revenue relevant to sales of piped gas will be recognised when the Group satisfied its performance obligation by providing gas to the customer. The revenue relevant to connection construction service will be recognised over time during the course of construction. The Directors intend to apply the limited retrospective method with cumulative effect of initial application recognised in opening balance of equity at 1 January 2018, and apply this standard retrospectively only to contracts that are not completed at 1 January 2018. Based on the current assessment on existing contracts, the Directors do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods. In addition, the application of HKFRS 15 in the future may result in more disclosure in the consolidated financial statements.

HKFRS 16 Leases

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB520 million as disclosed in Note 51. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for short-term leases or leases of low-value assets.

Furthermore, the application of new requirements under HKFRS 16 may result in changes in measurement, presentation and disclosure as indicated above.

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

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

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

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

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

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

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

Business combinations

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

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

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

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

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

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

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date, and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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

Acquisition of a subsidiary not constituting a business

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

Goodwill

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

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

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

On disposal of the relevant CGUs, the attributable amount of goodwill is included in the determination of the profit or loss on disposal (or any of the CGU within group of CGUs in which the Group monitors goodwill).

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

Interests in associates and joint ventures

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

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

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

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

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

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

Non-current assets held for sale

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

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

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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

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

The Group's accounting policy for the recognition of revenue from gas connection contract is described in the accounting policy for gas connection contract below.

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

Service income is recognised when services are provided.

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

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

Gas connection contracts

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

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

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

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

Leasehold land and buildings

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

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

Foreign currencies

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

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

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

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

Borrowing costs

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

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

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

Government grants

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

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

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

Retirement benefit scheme contribution

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

Short-term and other long-term employee benefit

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

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

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

Share-based payment arrangements

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

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

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

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

Taxation

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

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

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

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

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

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

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

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

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

Property, plant and equipment

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

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

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

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

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

Investment properties

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

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

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

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

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

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets – research and development expenditure

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

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

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

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

Intangible assets acquired in a business combination

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

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

Derecognition of intangible assets

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

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

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

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

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

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

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

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

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial assets and is included in the “other gains and losses” line item. Fair value is determined in the manner described in Note 53.

Loans and receivables

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

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

AFS financial assets

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

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

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

Effective interest method

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

Convertible bonds

The Group designated the convertible bonds as financial liabilities at FVTPL as the convertible bonds contained one or more embedded derivatives including the convertible option, which will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments, and HKAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract to be designated as at FVTPL. Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on measurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in the "other gains and losses" line item. Fair value is determined in the manner described in Note 53.

Financial liabilities at amortised cost

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

Financial guarantee contracts

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

A financial guarantee contract issued by the Group is initially measured at its fair value and if not designated as at FVTPL, are subsequently measured at the higher of: (i) the amount of the obligation under the contract, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets";

and (ii) the amount initially recognised less, where appropriate, cumulative amortisation. Amount initially recognised is amortised over the duration of the guarantee using the straight-line method.

Derivative financial instruments

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

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposure and are readily separable and independent of each other.

Contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments are recognised as derivative financial instruments with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements.

Derecognition

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

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated which is the higher of fair value less costs of disposal and its value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which results in downward revision of future cash inflows, further impairment loss may arise. As at 31 December 2017, impairment losses of the carrying amount of goodwill less impairment losses is RMB192 million (2016: RMB188 million). Details of the calculation of the recoverable amount are set out in Note 19.

Estimated impairment of intangible assets

Determining whether intangible assets are impaired requires the estimation of the recoverable amount of the CGUs to which intangible assets have been allocated which is the higher of the fair value less costs of disposal and its value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or changes in facts and circumstances which results in downward revision of future cash, a material impairment loss may arise. As at 31 December 2017, the carrying amount of intangible assets less accumulated amortisation is RMB1,681 million (2016: RMB1,487 million).

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimates, such differences from the original estimates will impact the depreciation charges in the year in which the estimates change. As at 31 December 2017, the carrying amount of property, plant and equipment less accumulated depreciation and accumulated impairment losses is RMB25,490 million (2016: RMB22,297 million).

6. REVENUE

	2017	**2016**
	RMB million	*RMB million*
Revenue comprises the following:		
Sales of goods		
Sales of piped gas	23,948	17,900
Vehicle gas refuelling stations	3,102	3,169
Wholesale of gas	11,878	6,153
Sales of integrated energy	234	153
Sales of gas appliances	320	238
Sales of material	2,773	879
	42,255	28,492
Provision of services		
Gas connection	5,954	5,611
Integrated energy	60	–
	48,269	34,103

7. SEGMENT INFORMATION

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

Segment revenue and results

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

Inter-segment sales are charged at prevailing market rates.

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

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

2016	Gas connection	Sales of piped gas	Vehicle gas refuelling stations	Wholesale of gas	Sales of integrated energy and services	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 turnover	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

Segment assets and liabilities

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

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

2016	Gas connection	Sales of piped gas	Vehicle gas refuelling stations	Wholesale of gas	Sales of integrated energy and services	Sales of gas appliances	Sales of material	Consolidation
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Assets:								
Segment assets	3,677	18,141	3,555	658	202	424	186	26,843
Interests in associates								1,350
Interests in joint ventures								3,704
Unallocated corporate assets								19,484
Consolidated total assets								51,381
Liabilities:								
Segment liabilities	8,835	4,116	476	250	30	132	299	14,138
Bank and other loans								4,141
Corporate bonds								5,482
Senior notes								2,507
Medium-term notes								700
Convertible bonds at FVTPL								3,515
Unsecured bonds								446
Unallocated corporate liabilities								2,598
Consolidated total liabilities								33,527

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

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

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

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

Other segment information

	Gas connection *RMB million*	Sales of piped gas *RMB million*	Vehicle gas refuelling stations *RMB million*	Wholesale of gas *RMB million*	Sales of integrated energy and services *RMB million*	Sales of gas appliances *RMB million*	Sales of material *RMB million*	Consolidation *RMB million*
Amounts included in the measurement of segment profit and segment assets:								
2017								
Additions to non-current assets *(note b)*	708	3,225	302	45	83	5	1	4,369
Depreciation and amortisation	196	590	124	4	16	2	–	932
Impairment loss on property, plant and equipment	–	–	478	–	–	–	–	478
Impairment loss on trade and other receivables recognised (reversed)	65	16	69	(6)	3	(2)	–	145
2016								
Additions to non-current assets *(note b)*	479	2,161	377	73	77	30	8	3,205
Depreciation and amortisation	176	562	124	2	14	2	–	880
Impairment loss on trade and other receivables recognised (reversed)	7	14	(4)	12	–	4	2	35

	Additions to non-current assets *(note b)*		**Depreciation and amortisation**	
	2017 *RMB million*	**2016** *RMB million*	**2017** *RMB million*	**2016** *RMB million*
Segment total	4,369	3,205	932	880
Adjustments *(note a)*	909	244	186	184
Total	5,278	3,449	1,118	1,064

Notes:

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

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

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

Substantially all of the Group's revenue and non-current assets are located in the PRC. For the year ended 31 December 2017, the revenues from the PRC and overseas were RMB48,056 million (2016: RMB33,946 million) and RMB213 million (2016: RMB157 million), respectively. As of 31 December 2017, the non-current assets located in the PRC were RMB28,520 million (2016: RMB24,629 million) and overseas were RMB74 million (2016: RMB564 million).

8. OTHER INCOME

	2017	2016
	RMB million	*RMB million*
Other income mainly includes:		
Incentive subsidies *(note)*	132	211
Dividends income from AFS investments	148	180
Bank interest income	222	153
Rental income from equipment, net	31	22
Financial guarantee income	17	7
Sale of proprietary technology	27	–

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

9. OTHER GAINS AND LOSSES

	2017	2016
	RMB million	*RMB million*
Impairment loss on trade and other receivables, net *(Note 25)*	(145)	(35)
(Loss) gain on disposal of:		
– Property, plant and equipment	(55)	(37)
– Prepaid lease payments	14	2
– Subsidiaries/a business *(Note 49)*	(13)	46
– An associate	18	–
– An AFS investment	1	–
Increase in fair value of investment properties *(Note 18)*	10	4
Loss on repurchase and redemption of convertible bonds *(Note 43)*	(4)	–
Loss on repurchase of senior notes *(Note 42)*	–	(308)
Fair value (loss) gain of:		
– Convertible bonds at FVTPL *(Note 43)*	(278)	41
– Financial assets/liabilities at FVTPL *(Note 24)*	(314)	170
Impairment loss on goodwill *(Note 19)*	–	(601)
Impairment losses on property, plant and equipment *(Note 16)*	(478)	–
Gain (loss) on foreign exchange, net *(note)*	349	(292)
	(895)	(1,010)

Note: Included in the amount for the year ended 31 December 2017 is an exchange gain of approximately RMB316 million (2016: exchange loss of approximately RMB327 million) arising from the translation of senior notes and unsecured bonds denominated in United States dollar ("USD") to RMB.

10. FINANCE COSTS

	2017	**2016**
	RMB million	*RMB million*
Interest on:		
Bank and other loans	148	207
Medium-term notes	31	39
Senior notes	153	280
Corporate bonds	221	131
Unsecured bonds	75	15
	628	672
Less: Amount capitalised under construction in progress *(note)*	(76)	(63)
	552	609

Note: During the years ended 31 December 2017 and 2016, borrowing costs capitalised were incurred on funds borrowed specifically and generally for the purpose of expenditure on qualifying assets. In respect of funds borrowed generally for the purpose of expenditure on qualifying assets, the amount of borrowing costs capitalised during the year was calculated by applying a capitalisation rate of 3.38% (2016: 3.79%) per annum.

11. PROFIT BEFORE TAX

	2017	**2016**
	RMB million	*RMB million*
Profit before tax has been arrived at after (crediting) charging:		
Staff costs:		
Share-based payment expenses, including directors' emoluments (included in administrative expenses)	34	51
Other staff costs, including directors' emoluments	2,367	2,236
Less: Amount of other staff costs capitalised under construction in progress	(30)	(63)
Total staff costs *(note)*	2,371	2,224
Depreciation and amortisation:		
Property, plant and equipment	1,016	969
Intangible assets	102	95
Total depreciation and amortisation *(note)*	1,118	1,064
Release of prepaid lease payments	38	36
Auditors' remuneration	14	13
Minimum lease payments under operating leases in respect of premises and equipment recognised in profit or loss	129	112

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

	2017	**2016**
	RMB million	*RMB million*
Staff costs included in:		
Cost of sales	915	884
Distribution and selling expenses	464	400
Administrative expenses	992	940
	2,371	2,224
Depreciation and amortisation included in:		
Cost of sales	932	880
Distribution and selling expenses	12	6
Administrative expenses	174	178
	1,118	1,064

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

a. Directors' emoluments

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

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

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

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

	2016					
Name of director	Fee	Salaries and allowance	Discretionary performance bonus	Share-based payment	Retirement benefit scheme contributions	Total emoluments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive Directors: *(note a)*						
Wang Yusuo	–	2,662	–	2,539	–	5,201
Cheung Yip Sang	–	1,638	–	2,329	–	3,967
Yu Jianchao*	–	503	–	441	–	944
Han Jishen	–	1,800	2,229	1,843	89	5,961
Wang Dongzhi	–	1,200	1,019	1,672	89	3,980
Sub-total	–	7,803	3,248	8,824	178	20,053
Non-executive Directors: *(note b)*						
Wang Zizheng	200	–	–	262	–	462
Jin Yongsheng****	200	–	–	622	–	822
Lim Haw Kuang**	54	–	–	70	–	124
Sub-total	454	–	–	954	–	1,408
Independent Non-executive Directors: *(note c)*						
Yien Yu Yu, Catherine***	83	–	–	–	–	83
Ma Zhixiang	200	–	–	262	–	462
Yuen Po Kwong	200	–	–	262	–	462
Law Yee Kwan, Quinn	200	–	–	262	–	462
Sub-total	683	–	–	786	–	1,469
Total	1,137	7,803	3,248	10,564	178	22,930

* Mr. Yu Jianchao retired from office as executive director of the Company on 31 May 2016.

** Mr. Lim Haw Kuang retired from office as non-executive director of the Company on 7 April 2016.

*** Ms. Yien Yu Yu, Catherine retired from office as independent non-executive director of the Company on 31 May 2016.

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

Notes:

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

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

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

The amounts disclosed above include directors' fees of RMB600,000 (2016: RMB683,000) paid or payable to independent non-executive directors. None of the Directors waived any emoluments during both years.

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

b. Five highest paid individuals

The five highest paid employees of the Group during the year included four (2016: four) directors, details of whose remuneration are set out in Note 12(a) above. Details of the remuneration for the year of the remaining one (2016: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2017	**2016**
	RMB'000	*RMB'000*
Salaries and allowance	1,963	1,147
Discretionary performance bonus	2,200	1,665
Share-based payment	479	760
Retirement benefits scheme	101	93
	4,743	3,665

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

	2017	**2016**
	Number of employees	*Number of employees*
Nil to HK$1,000,000	–	–
HK$1,000,001 to HK$2,000,000	–	–
HK$2,000,001 to HK$3,000,000	–	–
HK$3,000,001 to HK$4,000,000	–	–
HK$4,000,001 to HK$5,000,000	–	3
HK$5,000,001 to HK$6,000,000	2	–
HK$6,000,001 to HK$7,000,000	3	2
	5	5

13. INCOME TAX EXPENSE

	2017	2016
	RMB million	*RMB million*
Current tax	1,576	1,370
Underprovision in prior years	44	19
Withholding tax	101	90
	1,721	1,479
Deferred tax *(Note 30)*	(204)	(172)
	1,517	1,307

The charge represents PRC Enterprise Income Tax for both years.

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

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

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit for both 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:

	2017	2016
	RMB million	*RMB million*
Profit before tax	5,190	4,195
Tax at the PRC Enterprise Income Tax rate of 25% (2016: 25%)	1,298	1,049
Tax effects of share of results of associates	(32)	(18)
Tax effects of share of results of joint ventures	(126)	(124)
Tax effects of income not taxable for tax purpose	(217)	(191)
Tax effects of expenses not deductible for tax purpose	417	577
Tax effects of tax losses not recognised	78	64
Utilisation of tax losses previously not recognised	(119)	(140)
Tax effects of deductible temporary differences not recognised	132	11
Tax concession and exemption granted to certain PRC subsidiaries	(62)	(37)
Underprovision in respect of prior years	44	19
Withholding tax on undistributed profit of PRC entities	104	97
Income tax charge for the year	1,517	1,307

14. DIVIDENDS

	2017 *RMB million*	2016 *RMB million*
Final dividend paid in respect of previous financial year	775	705

Notes:

a. 2016 final dividend of HK$0.83 (equivalent to approximately RMB0.74) per ordinary share or approximately RMB775 million in aggregate was paid during the year ended 31 December 2017.

b. The proposed final dividend in respect of 2017 of HK$1.08 (equivalent to approximately RMB0.90) per ordinary share with total amount of HK$1,177 million (2016: HK$898 million) has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

15. EARNINGS PER SHARE

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

Basic earnings per share

Basic earnings per share for the years ended 31 December 2017 and 2016 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.

	2017	2016
Profit for the year attributable to the owners of the Company *(RMB million)*	2,802	2,151
Weighted average number of ordinary shares	1,081,956,725	1,082,384,883
Basic earnings per share *(RMB)*	2.59	1.99

Diluted earnings per share

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

Diluted earnings per share for the year ended 31 December 2016 was calculated through dividing the profit attributable to the owners of the Company after eliminating the fair value gain of the convertible bonds at FVTPL by the weighted average number of ordinary shares outstanding which assumes all dilutive potential ordinary shares were converted.

	2017	**2016**
Earnings		
Earnings for the purpose of basic earnings per share *(RMB million)*	2,802	2,151
Effect of dilutive potential ordinary shares:		
– Fair value gain of convertible bonds *(RMB million)*	–	(41)
Earnings for the purpose of diluted earnings per share *(RMB million)*	2,802	2,110
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,081,956,725	1,082,384,883
Effect of dilutive potential ordinary shares:		
– share options	878,186	188,083
– convertible bonds	–	79,778,897
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,082,834,911	1,162,351,863
Diluted earnings per share *(RMB)*	2.59	1.82

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB million	Pipelines RMB million	Machinery and equipment RMB million	Motor vehicles RMB million	Office equipment RMB million	Properties under construction RMB million	Total RMB million
COST							
At 1 January 2016	3,343	16,609	1,682	469	1,177	2,201	25,481
Exchange adjustments	15	–	17	1	2	14	49
Acquisition of subsidiaries	–	15	3	–	–	81	99
Additions	354	280	165	38	164	2,099	3,100
Revaluation surplus before the transfer to investment property	14	–	–	–	–	–	14
Transfer from investment property	16	–	–	–	–	–	16
Reclassification	220	1,595	176	–	–	(1,991)	–
Transfer to investment property	(111)	–	–	–	–	–	(111)
Disposal of subsidiaries/a business	(98)	(119)	(70)	(2)	(1)	(26)	(316)
Disposals	(376)	(383)	(100)	(44)	(16)	–	(919)
At 31 December 2016	3,377	17,997	1,873	462	1,326	2,378	27,413
Exchange adjustments	(8)	–	(10)	–	(1)	(12)	(31)
Acquisition of subsidiaries and businesses	21	71	52	2	2	101	249
Additions	136	141	160	17	169	3,989	4,612
Revaluation surplus before the transfer to investment property	4	–	–	–	–	–	4
Transfer to assets classified as held for sale	(184)	–	(194)	(7)	(18)	(243)	(646)
Reclassification	342	2,178	184	–	36	(2,740)	–
Transfer to investment property	(31)	–	–	–	–	–	(31)
Disposal of a subsidiary	–	–	(11)	(4)	–	–	(15)
Disposals	(7)	(49)	(26)	(53)	(34)	(12)	(181)
At 31 December 2017	3,650	20,338	2,028	417	1,480	3,461	31,374
DEPRECIATION AND IMPAIRMENT							
At 1 January 2016	390	2,677	441	239	607	6	4,360
Exchange adjustments	1	–	3	–	1	–	5
Provided for the year	110	556	143	54	112	(6)	969
Transfer to investment property	(5)	–	–	–	–	–	(5)
Eliminated on disposal of subsidiaries/a business	(14)	(20)	(22)	(1)	(1)	–	(58)
Eliminated on disposals	(19)	(60)	(31)	(36)	(9)	–	(155)

	Leasehold land and buildings	Pipelines	Machinery and equipment	Motor vehicles	Office equipment	Properties under construction	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
At 31 December 2016	463	3,153	534	256	710	–	5,116
Exchange adjustments	(2)	–	(3)	–	–	–	(5)
Provided for the year	119	562	168	51	116	–	1,016
Eliminated on transfer to investment property	(2)	–	–	–	–	–	(2)
Eliminated on transfer to assets classified as held for sale	(179)	–	(189)	(6)	(17)	(207)	(598)
Impairment losses recognised during the year	147	–	119	–	5	207	478
Eliminated on disposal of a subsidiary	–	–	(2)	(1)	–	–	(3)
Eliminated on disposals	(2)	(23)	(18)	(46)	(29)	–	(118)
At 31 December 2017	544	3,692	609	254	785	–	5,884
CARRYING VALUES							
At 31 December 2017	3,106	16,646	1,419	163	695	3,461	25,490
At 31 December 2016	2,914	14,844	1,339	206	616	2,378	22,297

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

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

The Group identified the indications that the property, plant and equipment of the two wholly-owned subsidiaries located in the United States and Canada had suffered impairment losses due to loss of key customers in last quarter of 2017. The recoverable amounts of these assets amounting to approximately RMB48 million were determined to be their fair values less costs of disposal and have been arrived at on the basis of a valuation, which was carried out by Duff & Phelps, LLC, a firm of independent valuers, adopting the cost and market approaches and assuming those assets to be sold within a short period. Accordingly, impairment losses of RMB478 million have been recognised in respect of these assets and the Group decided to dispose of the two subsidiaries by 31 December 2017 as set out in Note 35.

At the end of the reporting period, except for certain land and buildings with the carrying value of RMB39 million (2016: RMB40 million) which are located in Hong Kong under long-term lease, the remaining land and buildings are located in the PRC under medium-term lease.

At the end of the reporting period, the Group is in the process of applying for ownership certificates for its buildings in the PRC amounting to approximately RMB291 million (2016: RMB339 million).

17. PREPAID LEASE PAYMENTS

	2017	2016
	RMB million	*RMB million*
The Group's prepaid lease payments comprise land in the PRC under medium-term lease	1,299	1,251
Analysed for reporting purposes as:		
Current portion	37	30
Non-current portion	1,262	1,221

At the end of the reporting period, the Group is in the process of applying for the land use right certificates for the land in the PRC amounting to approximately RMB132 million (2016: RMB125 million). In the opinion of the Directors, the Group is not required to incur additional cost in obtaining the land use right certificates for the land in the PRC.

18. INVESTMENT PROPERTIES

	RMB million
FAIR VALUE	
At 1 January 2016	114
Net increase in fair value recognised in profit or loss	4
Transfers from property, plant and equipment	106
Transfers to property, plant and equipment	(16)
At 31 December 2016	208
Exchange adjustment	(1)
Net increase in fair value recognised in profit or loss	10
Transfers from property, plant and equipment	29
At 31 December 2017	246
Unrealised gains on property revaluation included in profit or loss, as at 31 December 2017	61

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

The fair value of the Group's investment properties at 31 December 2017 and 2016 has been arrived at on the basis of a valuation carried out on those dates by Knight Frank Petty, a firm of independent valuers. The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. A significant increase in the market rent used would result in a significant increase in fair value, and vice versa. The Group's investment properties were classified in the Level 3 of fair value hierarchy as at 31 December 2017 and 2016.

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

19. GOODWILL

	2017	2016
	RMB million	*RMB million*
COST		
At 1 January	840	803
Arising on acquisition of businesses *(Note 47)*	13	–
Disposal of a subsidiary *(Note 49)*	(9)	(3)
Exchange adjustments	(31)	40
At 31 December	813	840
IMPAIRMENT		
At 1 January	(652)	(51)
Impairment loss recognised during the year	–	(601)
Exchange adjustments	31	–
At 31 December	(621)	(652)
CARRYING VALUES		
At 31 December	192	188

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

For the purposes of impairment testing, goodwill has been allocated to the following CGUs. At the end of the reporting period, the carrying value of goodwill mainly represents goodwill arising from the acquisition of:

	2017	2016
	RMB million	*RMB million*
Gas refuelling business located in the United States	–	–
Gas refuelling business located in Canada	–	–
Sale of piped gas business located in Lianyungang, the PRC	18	18
Sale of piped gas business located in Kaifeng, the PRC	16	16
Sale of piped gas business located in Hangzhou, the PRC	37	37
Sale of piped gas business located in Guangdong, the PRC	21	21
Other CGUs, the PRC	100	96
	192	188

During the year ended 31 December 2016, the Group recognised an impairment loss of RMB552 million in relation to goodwill arising on acquisition of gas refuelling business in the United States and an impairment loss of RMB49 million in relation to goodwill arising on acquisition of gas refuelling business in Canada, respectively. Those impairment losses were mainly due to the revision of future market demand expectation in light of continuing low petroleum prices in North America, which resulted in significant downward revision of future cash inflows in respect of the relevant CGUs.

For the purpose of impairment testing, the recoverable amounts of the CGUs are determined from value in use calculations.

CGUs in the PRC

For CGUs in the PRC, the Group prepares cash flow projection covering a 10-year period which is shorter than the contractual operating period. The cash flow projections for the first three years are based on financial budgets approved by management. The 3-year period financial budgets are prepared based on the pattern consistent with the track record of the respective entities taking into account the stage of the development of the respective gas projects. The cash flow beyond the 3-year period are extrapolated using an estimated growth pattern at an annualised growth rates of revenue for each CGU ranging from 4.88% to 10.94% (2016: 4.07% to 9.46%) and assuming the gross profit margin will be the same throughout the 10-year period.

The growth rates are based on the management's estimation on the respective entity's projected market share and will not exceed the growth rate of natural gas consumption projected by the relevant government authorities.

The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs and determined the discount rate to be from 11.25% to 11.89% (2016: 10.95% to 11.76%).

The Directors believe that any reasonably possible change in any of these assumptions would not cause the carrying amounts of goodwill to exceed the recoverable amount of respective CGUs.

The United States CGU

As of 31 December 2016, the Group prepared cash flow projection for gas refuelling business in the United States covering a 10-year period and the cash flow beyond the 10-year period was extrapolated using a steady 2% growth rate. For the 10-year period, the first three years were based on financial budgets approved by management and based on the pattern consistent with the track record of the respective entity taking into account the stage of the development of the respective gas projects. The revenues beyond the 3-year period but within the tenth year were estimated using a growth rate of 12.51%. The growth rates were based on the management's estimation on the respective entity's projected market share and did not exceed average long-term growth rate for the relevant industry. The gross profit margin was assumed to be the same throughout the 10-year period.

The Directors estimated discount rate using pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the CGU and determined the discount rate to be 11.31%.

As of 31 December 2016, the recoverable amount of this CGU was equal to its carrying amount of approximately RMB470 million.

The Canada CGU

As of 31 December 2016, the Group prepared cash flow projection for gas refuelling business in Canada covering a 10-year period and the cash flow beyond the 10-year period was extrapolated using a steady 2% growth rate. For the 10-year period, the first three years were based on financial budgets approved by management and based on the pattern consistent with the track record of the respective entity taking into account the stage of the development of the respective gas projects. The revenues beyond the 3-year period but within the tenth year were estimated using a growth rate of 8.10%. The growth rates were based on the management's estimation on the respective entity's projected market share and did not exceed average long-term growth rate for the relevant industry. The gross profit margin was assumed to be the same throughout the 10-year period.

The Directors estimated discount rate using pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the CGU and determined the discount rate to be 11.37%.

As of 31 December 2016, the recoverable amount of this CGU was equal to its carrying amount of approximately RMB83 million.

20. INTANGIBLE ASSETS

	Right of operation *RMB million*	Customer base *RMB million*	Development expenses *RMB million*	Software *RMB million*	Total *RMB million*
COST					
At 1 January 2016	1,854	50	–	–	1,904
Arising on acquisition of subsidiaries and businesses *(Notes 47 and 48)*	103	–	–	–	103
Additions	–	–	25	–	25
Disposal of subsidiaries	(2)	–	–	–	(2)
At 31 December 2016	1,955	50	25	–	2,030
Arising on acquisition of subsidiaries and businesses *(Notes 47 and 48)*	157	–	–	–	157
Additions	53	–	60	26	139
At 31 December 2017	2,165	50	85	26	2,326
AMORTISATION					
At 1 January 2016	434	16	–	–	450
Charge for the year	93	2	–	–	95
Eliminated on disposal of subsidiaries	(2)	–	–	–	(2)
At 31 December 2016	525	18	–	–	543
Charge for the year	96	2	–	4	102
At 31 December 2017	621	20	–	4	645
CARRYING VALUES					
At 31 December 2017	1,544	30	85	22	1,681
At 31 December 2016	1,430	32	25	–	1,487

Note: Right of operation and customer base are amortised on a straight-line method over the operation periods ranging from 8 to 50 years and from 15 to 50 years, respectively.

Software is amortised on a straight-line method over the periods ranging from 3 to 10 years.

Development expenses mainly represent expenditure incurred during the development phase of the Group's integrated energy service technologies and online liquefied natural gas ("LNG") data platform.

21. INTERESTS IN ASSOCIATES

	2017	**2016**
	RMB million	*RMB million*
Cost of investments	1,109	1,045
Share of post-acquisition profits, net of dividends received	370	279
	1,479	1,324
Deemed capital contribution		
Financial guarantee	26	26
	1,505	1,350

Included in the interests in associates is goodwill of approximately RMB49 million (2016: RMB49 million) arising on acquisitions of associates.

In the opinion of the Directors, none of the associates principally affected the results or net assets of the Group. To give details of the associates of the Group would, in the opinion of the Directors, result in particulars of excessive length.

The associates are accounted for using the equity method in these consolidated financial statements.

Aggregate information of associates:

	2017	**2016**
	RMB million	*RMB million*
Profit and total comprehensive income for the year	472	353
Group's share of profit and total income from associates for the year	129	73
Aggregate carrying amount of the Group's interests in these associates	1,505	1,350

22. INTERESTS IN JOINT VENTURES

	2017 *RMB million*	2016 *RMB million*
Cost of investments	2,568	2,304
Shares of post-acquisition profits, net of dividends received	1,304	1,343
	3,872	3,647
Deemed capital contribution		
Financial guarantee	53	53
Fair value adjustments on interest-free advances	4	4
	57	57
	3,929	3,704

Included in the interests in joint ventures is goodwill of approximately RMB192 million (2016: RMB192 million) arising on acquisitions of joint ventures.

The fair value adjustments on the interest-free advances are calculated by using an effective interest rate of 4.75% (2016: 4.75%) per annum and average terms of two years.

The joint ventures are accounted for using the equity method in these consolidated financial statements.

Details of the Group's principal joint ventures as at 31 December 2017 and 2016 are as follows:

Name of company	Form of business structure	Place of establishment/ operation	Proportion of nominal value of registered capital held by the Group 2017	2016	Principal activities
東莞新奥燃氣有限公司 ("Dongguan Xinao") *(note)*	Incorporated	The PRC	55%	55%	Investment in gas pipeline infrastructure and sales of piped gas and gas appliances
長沙新奥燃氣發展有限公司 ("Changsha Xinao") *(note)*	Incorporated	The PRC	55%	55%	Sales of piped gas

Note: The Group holds more than 50% of the registered capital of these entities but it does not have the power to appoint sufficient number of directors to control these entities and the joint venture partners in each entity control jointly on the operational and financial policies of each entity. Accordingly, these entities are classified as joint ventures of the Group.

The table above lists the joint ventures of the Group which, in the opinion of the Directors, principally affected the results or net assets of the Group. To give details of other joint ventures of the Group would, in the opinion of the Directors, results in particulars of excessive length.

Summarised financial information of material joint ventures

Summarised financial information in respect of the Group's material joint ventures is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

Dongguan Xinao

	2017	**2016**
	RMB million	*RMB million*
Current assets	1,079	917
Non-current assets	2,616	2,556
Current liabilities	2,003	1,679
Non-current liabilities	2	2
Non-controlling interests	161	156

The above amounts of assets and liabilities include the following:

	2017	**2016**
	RMB million	*RMB million*
Cash and cash equivalents	543	500
Current financial liabilities (excluding trade and other payables and provisions)	397	299

	2017	**2016**
	RMB million	*RMB million*
Revenue	3,524	3,094
Profit and total comprehensive income for the year	493	488
Dividends received from Dongguan Xinao during the year	330	353

The above profit for the year include the following:

	2017	**2016**
	RMB million	*RMB million*
Depreciation and amortisation	95	86
Interest income	22	16
Interest expense	30	26
Income tax expense	111	180

Reconciliation of the above summarised financial information to the carrying amount of the interest in Dongguan Xinao is recognised in the consolidated financial statements:

	2017	2016
	RMB million	*RMB million*
Net assets of Dongguan Xinao	1,529	1,636
Proportion of the Group's ownership interest in Dongguan Xinao	841	900
Goodwill	31	31
Carrying amount of the Group's interest in Dongguan Xinao	872	931

Changsha Xinao

	2017	2016
	RMB million	*RMB million*
Current assets	1,318	1,101
Non-current assets	223	230
Current liabilities	747	657

The above amounts of assets and liabilities include the following:

	2017	2016
	RMB million	*RMB million*
Cash and cash equivalents	15	95
Current financial liabilities (excluding trade and other payables and provisions)	230	250

	2017	2016
	RMB million	*RMB million*
Revenue	2,374	2,150
Profit and total comprehensive income for the year	119	279
Dividends received from Changsha Xinao during the year	–	185

The above profit for the year include the following:

	2017	2016
	RMB million	*RMB million*
Depreciation and amortisation	9	8
Interest income	29	26
Interest expense	15	3
Income tax expense	46	72

Reconciliation of the above summarised financial information to the carrying amount of the interest in Changsha Xinao is recognised in the consolidated financial statements:

	2017 *RMB million*	2016 *RMB million*
Net assets of Changsha Xinao	794	674
Proportion of the Group's ownership interest in Changsha Xinao	437	371
Capitalisation of financial guarantee	4	4
Carrying amount of the Group's interest in Changsha Xinao	441	375

Aggregate information of joint ventures that are not individually material:

	2017 *RMB million*	2016 *RMB million*
Profit and total comprehensive income for the year	377	157
Group's share of profit and total income from joint ventures for the year	169	77
Aggregate carrying amount of the Group's interests in these joint ventures	2,616	2,398

23. AFS FINANCIAL ASSETS

	2017 *RMB million*	2016 *RMB million*
Unlisted equity securities, at cost less impairment *(note a)*		
1.13% equity interest in Sinopec Marketing Co., Ltd	4,003	4,003
Other unlisted equity securities	208	166
	4,211	4,169
Listed equity securities, at fair value *(note b)*		
4.45% equity interest in Shanghai Dazhong Public Utilities (Group) Co., Ltd ("Shanghai Utilities")	367	413
Unlisted wealth management products, at fair value *(note c)*	528	300
Total	5,106	4,882
Analysed for reporting purpose as:		
Current portion	528	–
Non-current portion	4,578	4,882

Notes:

a. The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably.

b. During the year ended 31 December 2016, the Group subscribed for 4.45% of the total issued share capital of Shanghai Utilities (1635.HK) with an investment of USD60 million (equivalent to approximately RMB411 million) and became one of the cornerstone investors through its initial public offering in Hong Kong, Shanghai Utilities is one of the largest city-gas operators in Shanghai and engaged in taxi operation as well as passenger and logistics vehicle business. During the year, the gross loss in respect of the Group's AFS investments recognised in other comprehensive income before tax amounted to RMB46 million (2016: gross gain of RMB2 million).

c. During the years ended 31 December 2017 and 2016, the Group purchased certain wealth management products from financial institutions, which mainly invested in a portfolio of domestic debt instruments. As at 31 December 2017, the fair value of the products was approximately RMB528 million (2016: RMB300 million).

24. FINANCIAL ASSETS/LIABILITIES AT FVTPL

The Group is exposed to foreign currency risk mainly arising from various bonds and bank loans denominated in USD. To mitigate the foreign exchange exposure, the Group entered into various foreign currency derivative contracts with certain financial institutions.

In addition, the Group is exposed to commodity price risk mainly arising from various long-term sale and purchase contracts on LNG, of which the pricing of LNG is tied to crude oil prices. To mitigate the commodity price risk, the Group entered into various commodity derivative contracts against the underlying contracts with certain financial institutions during the current year.

	2017	**2016**
	RMB million	*RMB million*
Financial assets		
Current portion		
Foreign currency derivative contracts	4	16
Non-current portion		
Foreign currency derivative contracts	–	154
Commodity derivative contracts	5	–
	9	170
Financial liabilities		
Current portion		
Foreign currency derivative contracts	(17)	–
Non-current portion		
Foreign currency derivative contracts	(78)	–
Commodity derivative contracts	(3)	–
	(98)	–

Note: The Foreign Currency Derivatives have a total notional amount of USD1,000 million, of which the maturity dates match to the maturity dates of certain debts denominated in USD. The Foreign Currency Derivatives will enable the Group to buy USD at the predetermined RMB/USD exchange rates on the maturity dates.

The commodity derivative contracts have a total quantity of 428,000 barrels of crude oil, of which the contracts expire by January 2021. The commodity derivative contracts will enable the Group to buy or sell crude oil at the predetermined prices on the expiry dates.

Both the foreign currency derivative contracts and commodity derivative contracts are not designated as hedging instruments. Accordingly, they are accounted for as financial instruments at FVTPL and classified as the current portion and non-current portion based on the terms of the contracts.

The fair value loss of the foreign currency derivative contracts amounting to approximately RMB326 million (2016: fair value gain of RMB170 million) is included in the other gains and losses during the year.

The fair value gain of the commodity derivative contracts amounting to approximately RMB12 million (2016: nil) is included in the other gains and losses during the year.

25. TRADE AND OTHER RECEIVABLES

	2017	**2016**
	RMB million	*RMB million*
Trade receivables	2,651	1,631
Less: Impairment	(201)	(121)
	2,450	1,510
Other receivables		
Current portion	1,392	1,030
Non-current portion *(note a)*	183	32
	1,575	1,062
Less: Impairment	(74)	(9)
	1,501	1,053
Notes receivable *(note b)*	552	388
Investment in wealth management products *(note c)*	275	580
Advances to suppliers and prepayments	1,473	924
Total trade and other receivables	6,251	4,455
Analysed for reporting purpose as:		
Current portion	6,068	4,423
Non-current portion	183	32

Notes:

a. The balance that the Directors expect to recover after one year from the end of the reporting period is initially recognised by using an effective interest rate at 4.75% (2016: 4.75%) per annum.

b. The notes receivable were endorsed by PRC banks for guarantee payments and the default risk is considered to be minimal.

c. The amount represents the wealth management products subscribed from certain commercial financial institutions, which invested in money market instruments with annual fixed returns. The products have fixed terms with less than one year and the principal amount is not guaranteed.

The following is an aged analysis of trade receivables, net of impairment, presented based on invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	2017	**2016**
	RMB million	*RMB million*
Within three months	2,120	1,388
4 to 6 months	140	57
7 to 9 months	167	56
10 to 12 months	23	9
	2,450	1,510

The following is an aged analysis of notes receivable, presented based on the date of notes receivable received at the end of the reporting period:

	2017	**2016**
	RMB million	*RMB million*
Within three months	322	249
4 to 6 months	230	139
	552	388

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. The Directors are of the opinion that the credit quality of the trade receivable balances that are neither past due nor impaired as at the end of the reporting period is good as the repayment history of the debtors is satisfactory.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of approximately RMB214 million (2016: RMB122 million) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 194 days (2016: 220 days).

Aged analysis of trade receivables which are past due but not impaired

The Group's trade receivables are assessed not to be impaired individually. Except for certain trade receivables past due beyond one year, which the Group has fully provided impairment, no impairment has been made to the remaining receivables past due as the Group is satisfied with the subsequent settlements from the debtors and the credit quality of these customers.

	2017	**2016**
	RMB million	*RMB million*
Past due within one year	214	122

Movements in the impairment on trade receivables

	2017	**2016**
	RMB million	*RMB million*
Balance at beginning of the year	121	86
Impairment losses recognised during the year	126	79
Amounts recovered during the year	(46)	(44)
Balance at end of the year	201	121

The Group does not hold any collateral over these balances.

Movements in the impairment on other receivables

	2017	**2016**
	RMB million	*RMB million*
Balance at beginning of the year	9	9
Impairment losses recognised during the year	65	–
Balance at end of the year	74	9

The Directors are of the opinion that except for those other receivables that are impaired, the remaining other receivables are not impaired as the counterparties are either companies controlled by non-controlling interests or companies with satisfactory repayment history.

26. TRANSFER OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2017 and 2016 that were transferred to banks or suppliers by discounting, pledging to banks or endorsing those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and the corresponding liabilities included in secured borrowings or trade payables respectively. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

At 31 December 2017

	Bills receivable discounted or pledged to banks	Bills receivable endorsed to suppliers	Total
	RMB million	*RMB million*	*RMB million*
Carrying amount of transferred assets	719	538	1,257
Carrying amount of associated liabilities	(719)	(538)	(1,257)
	–	–	–

At 31 December 2016

	Bills receivable discounted or pledged to banks	Bills receivable endorsed to suppliers	Total
	RMB million	*RMB million*	*RMB million*
Carrying amount of transferred assets	463	245	708
Carrying amount of associated liabilities	(463)	(245)	(708)
	–	–	–

27. AMOUNTS DUE FROM/TO ASSOCIATES

	2017	2016
	RMB million	*RMB million*
Amounts due from associates:		
Current portion	367	185
Non-current portion	278	89
	645	274
Amounts due to associates:		
Current portion	282	218

Included in the amounts due from/to associates are trade receivables amounting to approximately RMB235 million (2016: RMB125 million) and trade payables amounting to approximately RMB40 million (2016: RMB38 million) and the aged analysis presented based on the invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follows:

	2017	**2016**
	RMB million	*RMB million*
Trade receivables due from associates		
Within three months	143	57
4 to 6 months	44	8
7 to 9 months	33	9
10 to 12 months	6	4
More than one year	9	47
	235	125

	2017	**2016**
	RMB million	*RMB million*
Trade payables due to associates		
Within three months	26	36
4 to 6 months	11	–
7 to 9 months	1	–
More than one year	2	2
	40	38

Owing the strategic relationship with the associates, there is no formal credit period applied to above balances by the Group and in the opinion of the Directors, the above balances are not overdue.

The amounts due from/to associates are unsecured, interest-free and repayable on demand except for the amounts due from/to associates detailed in the following table.

At 31 December 2017

	Maturity date	**Effective interest rate per annum**	**2017**
			RMB million
Loan receivables from associates			
Secured	09/05/2022–30/11/2022	5.23%	22
Unsecured	28/02/2018–03/09/2020	4.35%–5.47%	264
			286
Loan payables to associates			
Savings in ENN Finance		0.35%	163
Unsecured loan	26/05/2018	3.92%	61
			224

At 31 December 2016

	Maturity date	Effective interest rate per annum	2016
			RMB million
Loan receivables from associates			
Secured	29/06/2017–28/07/2017	4.79%	27
Unsecured	18/01/2017–22/05/2019	4.35%–5.47%	90
			117
Loan payables to associates			
Savings in ENN Finance		0.35%	94
Unsecured loan	07/06/2017	3.92%	61
			155

For interest-free amounts due from associates amounting to RMB98 million (2016: RMB81 million), the Group expects to recover after one year from the end of the reporting period and the balance is initially recognised by using an effective interest rate of 4.75% (2016: 4.75%) per annum. For the remaining amounts due from associates, the Directors expect the amounts will be recoverable within one year from the end of the reporting period.

The Directors are of the opinion that the amounts due from associates are not impaired as the counterparties are associates that are financially sound.

28. AMOUNTS DUE FROM/TO JOINT VENTURES

	2017	2016
	RMB million	*RMB million*
Amounts due from joint ventures:		
Current portion	943	790
Non-current portion	674	407
	1,617	1,197
Amounts due to joint ventures:		
Current portion	1,677	1,645

Included in the amounts due from joint ventures was approximately RMB28 million (2016: RMB74 million) arising from the deposits placed for purchases of gas by the Group from the joint ventures, which the Directors consider, are not impaired. The balance approximates its fair value and is repayable on demand.

Included in the amounts due from/to joint ventures are trade receivables amounting to approximately RMB379 million (2016: RMB202 million) and trade payables amounting to approximately RMB343 million (2016: RMB134 million) and the aged analysis presented based on invoice date, which approximated the respective revenue recognition date, is as follows:

	2017	**2016**
	RMB million	*RMB million*
Trade receivables due from joint ventures		
Within three months	287	131
4 to 6 months	49	12
7 to 9 months	9	28
10 to 12 months	18	10
More than one year	16	21
	379	202
Trade payables due to joint ventures		
Within three months	273	115
4 to 6 months	16	–
7 to 9 months	2	–
10 to 12 months	4	1
More than one year	48	18
	343	134

Owing the strategic relationship with the joint ventures, there is no formal credit period applied to above balances by the Group and the joint ventures and in the opinion of the Directors, the above balances are not overdue.

The amounts due from/to joint ventures are unsecured, interest-free and repayable on demand except for the amounts due from/to joint ventures detailed in the following table:

At 31 December 2017

	Maturity date	**Effective interest rate per annum**	**2017**
			RMB million
Loan receivables from joint ventures			
Unsecured	16/01/2018–26/09/2022	2.61%–8%	884
Secured	21/04/2019–22/01/2020	6%–6.24%	250
			1,134
Loan payables to joint ventures			
Unsecured	01/01/2018–13/08/2020	0.35%–4.35%	839
Savings in the ENN Finance		0.35%	480
			1,319

At 31 December 2016

	Maturity date	Effective interest rate per annum	2016 *RMB million*
Loan receivables from joint ventures			
Unsecured	12/01/2017–28/01/2022	2.61%–7%	713
Secured	21/04/2019	6.24%	180
			893
Loan payables to joint ventures			
Unsecured	26/05/2017–15/07/2018	3.92%–6.15%	1,029
Savings in the ENN Finance		0.35%	432
			1,461

For interest-free amounts due from joint ventures amounting to RMB12 million (2016: RMB10 million), that the Group expects to recover after one year from the end of the reporting period and the balance is initially recognised by using an effective interest rate of 4.75% (2016: 4.75%) per annum. For the remaining amounts due from joint ventures, the Directors expect the amounts will be recoverable within one year from the end of the reporting period.

The Directors are of the opinion that the amounts due from joint ventures are not impaired as the counterparties are financially sound.

29. AMOUNTS DUE FROM/TO RELATED COMPANIES

	2017 *RMB million*	2016 *RMB million*
Amounts due from companies controlled by a director and shareholder with significant influence	112	63
Amounts due to companies controlled by a director and shareholder with significant influence	642	416

The related companies are controlled by Mr. Wang Yusuo ("Mr. Wang") who is a director and shareholder of the Company with significant influence. The maximum amount outstanding during the year in respect of the amounts due from companies controlled by Mr. Wang is RMB358 million (2016: RMB148 million).

The amounts due to related companies of RMB642 million (2016: RMB388 million) are unsecured, interest-free and repayable on demand. The remaining balance of RMB28 million as at 31 December 2016 was unsecured and carried a floating interest rate of 0.35% per annum.

Included in the amounts due from related companies are trade receivables amounting to RMB69 million (2016: RMB51 million) and the aged analysis presented based on invoice date, which approximated the respective revenue recognition date, at the end of the reporting period is as follow:

	2017	**2016**
	RMB million	*RMB million*
Within three months	14	33
4 to 6 months	31	6
7 to 9 months	10	4
10 to 12 months	4	1
More than one year	10	7
	69	51

Owing the strategic relationship with the related companies, there is no formal credit period applied to above balances by the Group and in the opinion of the Directors, the above balances are not overdue.

For the amounts due from companies controlled by a director and shareholder of the Company with significant influence, the counterparties are related companies that are financially sound. Therefore, the Directors are of the opinion that the amounts due from related companies are not impaired.

Included in the amounts due to related companies are trade payables amounting to approximately RMB630 million (2016: RMB379 million) and the aged analysis presented based on invoice date at the end of the reporting period is as follows:

	2017	**2016**
	RMB million	*RMB million*
Within three months	447	220
4 to 6 months	55	66
7 to 9 months	42	47
10 to 12 months	14	9
More than one year	72	37
	630	379

30. DEFERRED TAXATION

	2017 RMB million	2016 RMB million
Deferred tax assets	941	745
Deferred tax liabilities	(428)	(397)
	513	348

The following are the major deferred tax assets and liabilities recognised and movements thereon during the years ended 31 December 2017 and 2016:

	Intangible assets RMB million	Capitalisation of interest in property, plant and equipment RMB million	Undistributed retained profits of PRC entities from 1 January 2008 RMB million (note)	Deferred income RMB million	Unrealised profits RMB million	Others RMB million	Total RMB million
At 1 January 2016	230	135	101	(564)	(104)	13	(189)
Acquisition of businesses *(Note 47)*	13	–	–	–	–	–	13
Charge to profit or loss	–	16	67	42	3	5	133
Credit charge to profit or loss	(15)	(6)	(60)	(188)	(31)	(5)	(305)
At 31 December 2016	228	145	108	(710)	(132)	13	(348)
Acquisition of businesses *(Note 47)*	39	–	–	–	–	–	39
Charge to profit or loss	–	19	58	54	5	6	142
Credit charge to profit or loss	(15)	(6)	(55)	(201)	(49)	(20)	(346)
At 31 December 2017	252	158	111	(857)	(176)	(1)	(513)

Note: The amount represents deferred taxation in respect of the temporary differences attributable to the undistributed retained profits earned after 1 January 2008 by the group entities registered in the PRC. The amount has been provided based on the amount of undistributed retained profit of certain PRC entities from 1 January 2008 attributable to non-PRC parent entities at a withholding tax rate of 10% or 5% as the Directors consider the amount will be probably reversed in the foreseeable future upon distribution of profit by the respective group entities.

Deferred taxation of approximately RMB604 million (2016: RMB464 million) has not been provided for in the consolidated financial statements in respect of temporary differences attributable to undistributed retained profit of certain PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

As at 31 December 2017, the Group has unused tax losses of approximately RMB1,096 million (2016: RMB1,356 million) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the uncertainty of future profit streams. The unrecognised tax losses will be expired in the following year ending 31 December:

	2017 *RMB million*	**2016** *RMB million*
2017	–	195
2018	126	358
2019	164	177
2020	278	364
2021	214	262
2022	314	–
	1,096	1,356

As at 31 December 2017, the Group has other deductible temporary differences of approximately RMB550 million (2016: RMB569 million), which are mainly arising from impairment of trade and other receivables and unrealised profits within the Group. No deferred tax asset has been recognised by the Group in relation to such other deductible temporary differences as it is not probable that taxable profit will be available for offset against which the deductible temporary differences can be utilised.

31. DEPOSITS PAID FOR INVESTMENTS

The balance as at 31 December 2017 of RMB35 million (2016: RMB61 million) represented the deposits paid for the equity investments in the PRC which have not been completed at the end of the reporting period.

32. INVENTORIES

	2017 *RMB million*	**2016** *RMB million*
Construction materials	459	321
Gas appliances	145	90
Natural gas	132	89
Other energy inventories	6	2
Spare parts and consumables	2	13
	744	515

The cost of inventories recognised as an expense during the year was approximately RMB33,506 million (2016: RMB21,221 million).

33. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORK

	2017	2016
	RMB million	*RMB million*
Contract costs incurred plus recognised profits	899	739
Less: Progress billings	(2,480)	(2,585)
	(1,581)	(1,846)
Analysed for reporting purposes as:		
Amounts due from customers for contract work	553	303
Amounts due to customers for contract work	(2,134)	(2,149)
	(1,581)	(1,846)

34. CASH AND CASH EQUIVALENTS/RESTRICTED BANK DEPOSITS

	2017	2016
	RMB million	*RMB million*
Cash and cash equivalents	7,972	7,163
Restricted bank deposits		
Current portion	241	352
Non-current portion	486	489
	727	841
Bank deposits secured for:		
Letter of credit	6	–
Right of operation	19	17
Secured bank loans denominated in USD	–	325
Mandatory reserves in the People's Bank of China (the "PBOC")	473	467
Energy supplies	145	32
Bills payable	84	–
	727	841

Cash and cash equivalents include bank balances with original maturities less than three months carrying interest at market rates which range from 0.3% to 5.25% (2016: 0.3% to 5%) per annum as at 31 December 2017. The bank balances denominated in RMB are deposited with banks in the PRC.

At the end of the reporting period, the cash and cash equivalents denominated in foreign currencies other than the functional currency of respective group entities is RMB2,116 million (2016: RMB335 million), of which approximately RMB1,988 million (2016: RMB300 million), approximately RMB116 million (2016: RMB17 million) and approximately RMB1 million (2016: RMB17 million) are denominated in USD, Hong Kong dollar ("HK$") and Great British Pound ("GBP") respectively.

As at 31 December 2017, the restricted bank deposits carry fixed interest rate ranging from 0.3% to 5.25% (2016: from 0.35% to 5.25%) per annum. Except for the amount of mandatory reserves in the PBOC, other restricted bank deposits will be released upon the settlement of bank loans, the expiry of purchase contracts or right of operation. The mandatory reserves in the PBOC classified as non-current assets are deposits placed by the ENN Finance and the reserves amount is subject to change with respect to the savings accepted by the ENN Finance and the PBOC reserve rate is adjusted from time to time.

35. ASSETS/LIABILITIES CLASSIFIED AS HELD FOR SALE

The Group decided to dispose of two wholly-owned subsidiaries located in the United States and Canada on 12 December 2017 and therefore the relevant assets and liabilities are accounted for as held for sale and measured at the lower of carrying amount and fair value less costs to sell as at 31 December 2017.

The major classes of assets and liabilities classified as held for sale as at 31 December 2017 are as follows:

	2017 *RMB million*
Property, plant and equipment (after provisions for impairment)	48
Trade and other receivables	6
Cash and cash equivalents	3
Total assets classified as held for sale	57
Trade and other payables	38
Total liabilities associated with assets classified as held for sale	38

Subsequent to the end of the reporting period, the Group disposed of the entire equity interests of the two subsidiaries at arm's length to an independent third party on 31 January 2018, at an aggregate consideration of USD3 million (equivalent to approximately RMB19 million).

36. TRADE AND OTHER PAYABLES

	2017 *RMB million*	2016 *RMB million*
Trade payables	3,182	2,237
Advances received from customers	6,569	4,980
Accrued charges and other payables	1,466	1,106
	11,217	8,323

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

	2017 *RMB million*	2016 *RMB million*
Within three months	2,678	1,822
4 to 6 months	174	161
7 to 9 months	72	82
10 to 12 months	38	26
More than one year	220	146
	3,182	2,237

The average credit period on purchases of goods is 30 to 90 days.

37. DEFERRED INCOME

	Government grants	Subsidies received from customers	Connection fee received from customers	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*
		(note a)	*(note b)*	
GROSS				
At 1 January 2016	169	71	2,415	2,655
Additions	86	4	698	788
Disposal of subsidiaries	(34)	–	–	(34)
At 31 December 2016	221	75	3,113	3,409
Additions	137	11	662	810
At 31 December 2017	358	86	3,775	4,219
RECOGNITION				
At 1 January 2016	6	20	382	408
Release to profit or loss	8	2	157	167
At 31 December 2016	14	22	539	575
Release to profit or loss	11	2	203	216
At 31 December 2017	25	24	742	791
CARRYING VALUES				
At 31 December 2017	333	62	3,033	3,428
At 31 December 2016	207	53	2,574	2,834

	2017	**2016**
	RMB million	*RMB million*
Analysed for reporting purposes as:		
Current liabilities	243	192
Non-current liabilities	3,185	2,642
	3,428	2,834

Notes:

a. The balance represented the subsidies received from the customers to subsidise the construction cost of the main gas pipelines to the gas provision site and the gas storage. These customers do not restrict the Group to use the assets constructed for the use of other customers but the Group are committed to provide the gas to these customers for a period from 6 to 50 years. Accordingly, the Group has deferred the subsidies received and released to the profit or loss upon the completion of the assets over the shorter of the committed gas supply period and the useful lives of the related assets.

b. Since 2009, the local governments in certain provinces in the PRC have issued relevant notice to the Group's subsidiaries governing the subsidiaries that an amount of the connection fee received by the Group's subsidiaries from its customers are for the construction cost of their main gas pipelines. The Directors consider that the arrangement indicates that the subsidiaries are required to provide the customer with ongoing access to a supply of gas. As the agreement under such arrangement does not specify a period for provision of the ongoing access to a supply of gas, fees received are deferred and released to the profit or loss over the estimated useful lives of the assets used to provide the ongoing service.

38. SHARE CAPITAL

	2017	**2016**	**2017**	**2016**
	Number of shares	*Number of shares*	*HK$ million*	*HK$ million*
Shares of HK$0.10 each				
Authorised:				
At beginning and end of the year	3,000,000,000	3,000,000,000	300	300
Issued and fully paid:				
At beginning of the year	1,081,727,397	1,082,559,397	108	108
Issue of shares on exercise of share options *(note a)*	1,124,500	200,000	–	–
Share repurchase *(notes b & c)*	(7,000)	(1,032,000)	–	–
At end of the year	1,082,844,897	1,081,727,397	108	108

	2017	**2016**
	RMB million	*RMB million*
Presented in consolidated financial statements as:		
At beginning of the year	112	113
Share repurchase *(notes b & c)*	–	(1)
At end of the year	112	112

Notes:

a. During the year ended 31 December 2017, 1,124,500 shares (2016: 200,000 shares) were issued at the exercise price of HK$40.34 (2016: HK$16.26) per ordinary share in relation to the exercise of outstanding share options. These shares rank pari passu with the then existing shares in all respects.

b. On 16 May 2017, the Company repurchased 7,000 of its own ordinary shares through the Stock Exchange. The highest price was HK$38.00 and the lowest price was HK$37.85. The aggregate consideration paid was HK$265,750 (equivalent to approximately RMB236,000). The above ordinary shares were cancelled on 8 August 2017. None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities up to 31 December 2017.

c. On 11 January 2016, 21 January 2016, 22 December 2016 and 23 December 2016, the Company repurchased 200,000, 32,000, 400,000 and 400,000 of its own ordinary shares through the Stock Exchange respectively. The highest price was HK$34.00 and the lowest price was HK$30.60. The aggregate consideration paid was approximately HK$33 million (equivalent to approximately RMB29 million), 232,000 and 800,000 ordinary shares repurchased during the year ended 31 December 2016 were cancelled on 28 April 2016 and on 14 March 2017, respectively.

39. FINANCIAL GUARANTEE LIABILITY

As at 31 December 2017, the Group had outstanding guarantees issued to banks to secure loan facilities granted to joint ventures and an associate to the extent of approximately RMB126 million (2016: RMB230 million) for loans with maturity from two to three years, of which the amounts have been utilised at the end of the reporting period. The carrying amount of financial guarantee contracts as at 31 December 2017 is approximately RMB5 million (2016: RMB22 million).

40. BANK AND OTHER LOANS

	2017	**2016**
	RMB million	*RMB million*
Bank loans		
Secured	405	609
Unsecured	1,759	3,433
	2,164	4,042
Other loans		
Secured	–	3
Unsecured	96	96
	96	99
	2,260	4,141
The bank and other loans are repayable:		
Within one year	1,737	3,944
More than one year, but not exceeding two years	257	89
More than two years, but not exceeding five years	184	108
More than five years	82	–
	2,260	4,141
Less: Amounts due within one year shown under current liabilities	(1,737)	(3,944)
Amounts shown under non-current liabilities	523	197

All the bank and other loans are denominated in the functional currency of respective group entities except for approximately RMB262 million which is denominated in USD (2016: approximately RMB1,276 million and RMB347 million which were denominated in USD and HK$ respectively).

The secured bank and other loans are secured by property, plant and equipment and rights to receive fee income of certain subsidiaries and joint ventures as set out in Note 52.

Details of the terms of the Group's borrowings are set out below:

At 31 December 2017

	Maturity date	Effective interest rate per annum	Carrying amount
			RMB million
Fixed-rate borrowings			
Unsecured RMB bank loans	03/01/2018–11/09/2018	4.35%–7.83%	929
Unsecured RMB other loan	12/06/2018	3.79%	96
Secured RMB bank loan	15/04/2019–27/04/2019	4.28%	200
Total fixed-rate borrowings			1,225
Floating-rate borrowings			
Secured RMB bank loans at PBOC base rate	01/06/2018–28/12/2020	4.56%–4.99%	205
Unsecured RMB bank loans at PBOC base rate	16/08/2018–20/10/2024	5.00%–5.88%	208
Unsecured RMB bank loans at Loan Prime Rate ("LPR")	19/01/2018–28/11/2018	4.13%–4.35%	360
Unsecured USD bank loan at London Inter Bank Offer Rate ("LIBOR") plus 2.9%	25/12/2018	4.59%	262
Total floating-rate borrowings			1,035
Total borrowings			2,260

At 31 December 2016

	Maturity date	Effective interest rate per annum	Carrying amount
			RMB million
Fixed-rate borrowings			
Unsecured RMB bank loans	05/01/2017–01/12/2017	2.93%–5.67%	1,863
Unsecured RMB other loan	12/06/2017	3.25%	96
Unsecured USD bank loan	13/01/2017	1.18%	971
Secured USD bank loan	09/06/2017	1.55%	305
Total fixed-rate borrowings			3,235
Floating-rate borrowings			
Secured RMB bank loans at PBOC base rate	07/02/2017–20/12/2020	4.90%–6.77%	304
Unsecured RMB bank loan at PBOC base rate	01/04/2020	6.33%	2
Unsecured RMB bank loans at LPR	17/03/2017–23/11/2017	4.13%–4.35%	250
Unsecured HK$ bank loan at Hong Kong Inter Bank Offer Rate ("HIBOR") plus 1.2%	13/03/2017	2.02%	347
Secured RMB other loan at PRC government bond rate	12/06/2017	2.55%	3
Total floating-rate borrowings			906
Total borrowings			4,141

41. CORPORATE BONDS

a. Corporate bonds issued in 2011 (the "2011 Corporate Bonds")

On 16 February 2011, a subsidiary of the Group, Xinao (China) Gas Investment Company Limited ("Xinao (China)"), issued the 2011 Corporate Bonds of RMB500 million. The amount is unsecured and carries a fixed interest rate of 6.45% per annum and is repayable on 16 February 2018. The interest is payable to the holders of the bond on yearly basis. The net proceeds, after deducting the issuance costs, amounted to RMB496 million. The 2011 Corporate Bonds was listed on the Shanghai Stock Exchange on 25 March 2011.

According to the terms and conditions of the 2011 Corporate Bonds, Xinao (China) may at its option to increase the coupon rate by 0% to 1% at the end of year five, which is the 10th trading day before 16 February 2016 by giving a notice to the bondholders. And the bondholders may accordingly at their option to require Xinao (China) to redeem the bonds at a redemption price equaled to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bonds will be subject to the increased interest rate until the maturity date. Before 16 February 2016 the effective interest rate of the 2011 Corporate Bonds is approximately 6.62% per annum after the adjustment for transaction costs.

Xinao (China) decided not to adjust the coupon rate and no bondholder required Xinao (China) to redeem the 2011 Corporate Bonds in February 2016. Up to 16 February 2018, the 2011 Corporate bonds had been fully repaid by Xinao (China).

The 2011 Corporate Bonds recognised in the consolidated statement of financial position are calculated cumulatively as follows:

	2017	**2016**
	RMB million	*RMB million*
Principal amount	500	500
Issue costs	(4)	(4)
	496	496
Effective interest recognised	226	193
Interest paid/payable	(222)	(190)
Carrying amount as at end of the year	500	499
Analysed for reporting purposes as:		
Current liabilities	500	–
Non-current liabilities	–	499

b. Corporate bonds issued in 2015 (the "2015 Corporate Bonds")

On 18 December 2015, Xinao (China) issued the 2015 Corporate Bonds of RMB2,500 million. The amount is unsecured and carries a fixed interest rate of 3.68% per annum and is repayable on 17 December 2020. The interest is payable to the holders of the bond on yearly basis. The net proceeds, after deducting the issuance costs, amounted to RMB2,489 million. The 2015 Corporate Bonds was listed on the Shanghai Stock Exchange on 2 February 2016.

According to the terms and conditions of the 2015 Corporate Bonds, Xinao (China) has the right to adjust the coupon rate for the fourth and fifth year at the end of the third year, which is the 30th trading day before 18 December 2018 by giving a notice to the bondholder. The bondholders may accordingly at their option to require Xinao (China) to redeem the bonds at a redemption price equaled to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bonds will be subject to the interest rate offered by

Xinao (China) at the end of the third year until the maturity date. As at 31 December 2017, the 2015 Corporate Bonds were classified as current liabilities in the Group's consolidated financial statements as it is at the discretion of the holders to exercise their put option in December 2018. The effective interest rate of the 2015 Corporate Bonds is approximately 3.83% per annum after the adjustment for transaction costs.

The 2015 Corporate Bonds recognised in the consolidated statement of financial position are calculated cumulatively as follows:

	2017	**2016**
	RMB million	*RMB million*
Principal amount	2,500	2,500
Issue costs	(11)	(11)
	2,489	2,489
Effective interest recognised	195	99
Interest paid/payable	(188)	(95)
Carrying amount as at end of the year	2,496	2,493
Analysed for reporting purposes as:		
Current liabilities	2,496	–
Non-current liabilities	–	2,493

c. Corporate bonds issued in 2016 (the "2016 Corporate Bonds")

On 30 November 2016, Xinao (China) issued the 2016 Corporate Bonds of RMB2,500 million. The amount is unsecured and carries a fixed interest rate of 3.55% per annum and is repayable on 2 December 2019. The interest is payable to the holders of the bond on yearly basis. The net proceeds, after deducting the issuance costs, amounted to RMB2,490 million. The 2016 Corporate Bonds was listed on the Shanghai Stock Exchange on 13 December 2016. The effective interest rate of the 2016 Corporate Bonds is approximately 3.70% per annum after the adjustment for transaction costs.

The 2016 Corporate Bonds recognised in the consolidated statement of financial position were as follows:

	2017	**2016**
	RMB million	*RMB million*
Principal amount	2,500	2,500
Issue costs	(10)	(10)
	2,490	2,490
Effective interest recognised	100	8
Interest paid/payable	(96)	(8)
Carrying amount as at end of the year	2,494	2,490

42. SENIOR NOTES

On 13 May 2011, the Company issued 6% senior notes with an aggregated nominal value of USD750 million (equivalent to approximately RMB4,863 million) (the "2021 Senior Notes") at face value. The net proceeds, after deducting the issuance costs, amounted to USD735 million (equivalent to approximately RMB4,765 million). The 2021 Senior Notes will be matured on 13 May 2021. The 2021 Senior Notes are listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST") and dealt in over-the-counter market though a financial institution as the principal agent.

According to the terms and conditions of the 2021 Senior Notes, at any time or from time to time prior to the maturity date, the Company may at its option to redeem the notes at a redemption price equaled to 100% of the principal amount thereof plus applicable premium and accrued and unpaid interest to such redemption date. The applicable premiums are the greater of (1) 1.0% of the principal amount and (2) the excess of (A) the present value at such redemption date of 100% of the principal amount, plus all required remaining scheduled interest payments due on the 2021 Senior Notes through the maturity date (but excluding accrued and unpaid interest to redemption date), computed using a discount rate equaled to the United States treasury rate plus 25 basis points, over (B) the principal amount on redemption date.

The fair value of the early redemption right is insignificant at initial recognition and at the end of the reporting periods. The effective interest rate is approximately 6.28% per annum after the adjustment for transaction costs.

The 2021 Senior Notes recognised in the consolidated statement of financial position are calculated cumulatively as follows:

	2017	**2016**
	RMB million	*RMB million*
Nominal value of 2021 Senior Notes	4,863	4,863
Issue costs	(98)	(98)
Fair value at date of issuance	4,765	4,765
Repurchased *(note)*	(2,603)	(2,603)
Effective interest recognised	1,775	1,622
Interest paid/payable	(1,727)	(1,579)
Exchange loss	156	302
Carrying amount at 31 December	2,366	2,507

Note: In September 2015, the Company repurchased in aggregate of principal amount of USD35,000,000 (equivalent to approximately RMB222 million) in the open market and the aggregate amount of consideration paid by the Company was RMB247 million (included the applicable premium and accrued interests).

In December 2016, the Company repurchased in aggregate of principal amount of USD349,457,000 (equivalent to approximately RMB2,410 million) in the open market and the aggregate amount of consideration paid by the Company was RMB2,706 million (included the applicable premium and accrued interests). As a result, a loss on repurchase of RMB308 million was recognised and included in other gains and losses as set out in Note 9. The senior notes repurchased in 2015 and 2016 were cancelled on 16 December 2016.

The principle amount of 2021 Senior Notes remaining outstanding was USD365,543,000 as at 31 December 2017 and 2016.

43. CONVERTIBLE BONDS AT FVTPL

On 26 February 2013, the Company issued zero coupon USD denominated convertible bonds with the aggregate principal amount of USD500 million (approximately RMB3,141 million) (the "Convertible Bonds"). Each bond will, at the option of the holder, be convertible into fully paid ordinary shares with a par value of HK$0.10 each in the issued and paid up capital of the Company at an initial conversion price of HK$48.62 per share. The conversion price is subject to adjustments in the manner set out in the Convertible Bonds agreement. Conversion may occur at any time on or after 8 April 2013 and up to 16 February 2018. If the Convertible Bonds have not been converted, they will be redeemed on 26 February 2018 at 102.53 per cent of their principal amount.

In accordance with the terms and conditions of the Convertible Bonds, the holder of each Convertible Bond will have the right, at such holder's option, to require the Company to redeem all or only some of the Convertible Bonds of such holder on 26 February 2016 (the "Put Option Date") at 101.51 per cent of their principal amount. And the Company (i) may at any time after Put Option Date and prior to the maturity date redeem in whole, but not in part, the Convertible Bonds for the time being outstanding at the early redemption amount, provided that (a) the closing price of the shares (translated into USD at the prevailing rate defined in the terms and conditions of the Convertible Bonds) for each of any 20 trading days within a period of 30 consecutive trading days, the last of which occurs not more than five trading days prior to the date upon which notice of such redemption is published, was at least 130 per cent of the early redemption amount divided by the then prevailing conversion ratio (as defined in the terms and conditions of the Convertible Bonds agreement) and (b) the applicable redemption date does not fall within a closed period; or (ii) may at any time prior to the maturity date of the Convertible Bonds redeem in whole, but not in part, the Convertible Bonds for the time being outstanding at the early redemption amount provided that prior to the date of such notice at least 90 per cent in principal amount of the Convertible Bonds originally issued has already been converted, redeemed or purchased and cancelled.

The Convertible Bonds, which were listed on SGX-ST and dealt in over-the-counter market through a financial institution as the principal agent, were designated as financial instrument at fair value through profit or loss and the over-the-counter market price represents the fair value of the Convertible Bonds.

The Company had repurchased in aggregate principal amount of USD20,000,000 Convertible Bonds at the market price in over-the-counter market on 13 December 2017. The consideration paid by the Company was USD24 million (equivalent to approximately RMB156 million).

In December 2017, the Company, through its conversion agent, had received conversion notices from the holders in respect of their exercise of conversion rights attaching to the Convertible Bonds in an aggregate principal amount of USD750,000. The Company had exercised its cash settlement option to satisfy the conversion rights thereof. The consideration paid by the Company was approximately USD875,000 (equivalent to approximately RMB6 million). As a result, a loss on repurchase and redemption of RMB4 million was recognised and included in other gains and losses as set out in Note 9.

The Convertible Bonds repurchased were cancelled by the Company on 21 December 2017, thus the principal amount of the Convertible Bonds remaining outstanding was USD479,250,000 as of 31 December 2017.

As at 31 December 2017, the over-the-counter market price of the Convertible Bonds was USD556 million (2016: USD507 million) (approximately RMB3,635 million (2016: RMB3,515 million)). A fair value loss of approximately RMB278 million (2016: fair value gain of approximately RMB41 million) is recognised during the year ended 31 December 2017.

During the period from 1 January 2018 to 13 February 2018, the Company, through its conversion agent, had received conversion notices from the holders in respect of their exercise of conversion rights attaching to the Convertible Bonds in the aggregate principal amount of USD479,250,000, representing all of the remaining outstanding Convertible Bonds as at 31 December 2017. The Company had exercised its cash settlement option to satisfy the conversion rights of the Convertible Bonds in aggregate principal amount of USD469,250,000 and satisfied the conversion rights of the Converted Bonds in aggregate principal amount of USD10,000,000 by delivery of the Company's ordinary shares of 1,625,327, in each case pursuant to the terms and conditions governing the Convertible Bonds. All of the outstanding Convertible Bonds were delisted on SGX-ST on 20 February 2018.

44. UNSECURED BONDS

On 23 October 2014, the Company issued 3.25% bonds with an aggregate nominal value of USD400 million (equivalent to approximately RMB2,460 million) (the "2019 Unsecured Bonds"). The net proceeds after discounting and deducting the issuance costs amounted to USD395 million (equivalent to approximately RMB2,429 million). The 2019 Unsecured Bonds is unsecured and will mature on 23 October 2019. The 2019 Unsecured Bonds are listed on the Stock Exchange and dealt in over-the-counter market through a financial institution as the principal agent.

On 24 July 2017, the Company issued 3.25% bonds with an aggregate nominal value of USD600 million (equivalent to approximately RMB4,066 million) (the "2022 Unsecured Bonds"). The net proceeds after discounting and deducting the issuance costs amounted to USD596 million (equivalent to approximately RMB4,037 million). The 2022 Unsecured Bonds are unsecured and will mature on 24 July 2022. The 2022 Unsecured Bonds are listed on the Stock Exchange and dealt in over-the-counter market through a financial institution as the principal agent.

According to the terms and conditions of the 2019 Unsecured Bonds and 2022 Unsecured Bonds (the "Unsecured Bonds"), the Company may at any time and from time to time, on giving not less than 30 nor more than 60 days' notice to the holders of the Unsecured Bonds, redeem the Unsecured Bonds, in whole but not in part, at a make whole price as of, with an accrued and unpaid interest, if any, to (but excluding), the redemption date. The make whole price means, with respect to a bond at the option redemption date, the amount calculated by the quotation agent that is the greater of (1) the present value of the principal amount of the Unsecured Bonds, assuming a scheduled repayment thereof on the maturity date plus all required remaining scheduled interest repayments due on such bond through the maturity date (but excluding accrued and unpaid interest to the option redemption date), computed using a discount rate equaled to the adjusted treasury rate plus 50 basis points, and (2) the principal amount of such bonds.

The estimated fair value of the early redemption right is insignificant at initial recognition and at the end of the reporting periods. The effective interest rate is approximately 3.56% per annum after deducting the adjustment for transaction costs for 2019 Unsecured Bonds and approximately 3.44% for 2022 Unsecured Bonds.

The Unsecured Bonds recognised in the consolidated statement of financial position are calculated cumulatively as follows:

	2017	**2016**
	RMB million	*RMB million*
Nominal value of Unsecured Bonds	6,526	2,460
Discount cost	(17)	(12)
Issue costs	(43)	(19)
Fair value at date of issuance	6,466	2,429
Repurchased and cancelled in 2015	(2,107)	(2,107)
Effective interest recognised	179	104
Interest paid/payable	(169)	(97)
Exchange (gain) loss	(53)	117
Carrying amount at 31 December	4,316	446

45. SHARE OPTIONS

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

The purpose of the share option schemes is to provide incentives for participants to perform their best in achieving the goals of the Group and allow them to enjoy the results of the Company attained through their efforts and contribution. Pursuant to the share option schemes, the Directors may, at its absolute discretion, invite any employee or executive director or any member of the Group, or any employee, partner or director of any business consultant, joint venture partner, financial adviser and legal adviser of and to any member of the Group, to take up options at HK$1 on each grant to subscribe for shares at an exercise price equal to at least the highest of (a) the closing price of the shares on the Stock Exchange on the date of grant; (b) the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant; and (c) the nominal value of a share.

The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 30% of the issued share capital of the Company from time to time. Unless approved by shareholders of the Company, the total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue. Where any further grant of options to a participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

a. Scheme 2012

On 9 December 2015, the Company granted share options to the Directors and certain employees ("Grantees") to subscribe for a total of 12,000,000 ordinary shares of HK$0.1 each in the share capital of the Company under the share option scheme adopted by the Company on 26 June 2012, subject to acceptance by the Grantees.

Among the share options granted above, 2,659,000 share options were granted to the Directors to subscribe for a total of 2,659,000 shares in the Company and 9,341,000 share options were granted to certain employees of the Group to subscribe for 9,341,000 shares in the Company. Vesting of the share options is conditional upon the fulfilment of certain vesting conditions as set out in the respective offer letters of the Grantees, which may involve fulfilment of performance rating.

The following tables disclose details of the Company's share options held by the employees (including the Directors) and movements in such holdings under the share option schemes during the year:

						Number of options			
	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1.2017	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2017
Tranche 1	09.12.2015	09.12.2015 to 01.04.2017	01.04.2017 to 08.12.2025	HK$40.34	2,828,250	–	(1,124,500)	(492,500)	1,211,250
Tranche 2	09.12.2015	09.12.2015 to 01.04.2018	01.04.2018 to 08.12.2025	HK$40.34	2,828,250	–	–	(269,500)	2,558,750
Tranche 3	09.12.2015	09.12.2015 to 01.04.2019	01.04.2019 to 08.12.2025	HK$40.34	2,828,250	–	–	(269,500)	2,558,750
Tranche 4	09.12.2015	09.12.2015 to 01.04.2020	01.04.2020 to 08.12.2025	HK$40.34	2,828,250	–	–	(269,500)	2,558,750
					11,313,000	–	(1,124,500)	(1,301,000)	8,887,500
Exercisable at the end of the year									1,211,250
Weighted average exercise price					HK$40.34				HK$40.34

	Date of grant	Exercise period	Exercise price	Number of options Outstanding at 1.1.2017	Exercised during the year *(note)*	Reclassified during the year	Forfeited during the year	Outstanding at 31.12.2017
Directors	09.12.2015	01.04.2017 to 08.12.2025	HK$40.34	574,250	(308,000)	(35,500)	–	230,750
	09.12.2015	01.04.2018 to 08.12.2025	HK$40.34	574,250	–	(35,500)	–	538,750
	09.12.2015	01.04.2019 to 08.12.2025	HK$40.34	574,250	–	(35,500)	–	538,750
	09.12.2015	01.04.2020 to 08.12.2025	HK$40.34	574,250	–	(35,500)	–	538,750
Employees	09.12.2015	01.04.2017 to 08.12.2025	HK$40.34	2,254,000	(816,500)	35,500	(492,500)	980,500
	09.12.2015	01.04.2018 to 08.12.2025	HK$40.34	2,254,000	–	35,500	(269,500)	2,020,000
	09.12.2015	01.04.2019 to 08.12.2025	HK$40.34	2,254,000	–	35,500	(269,500)	2,020,000
	09.12.2015	01.04.2020 to 08.12.2025	HK$40.34	2,254,000	–	35,500	(269,500)	2,020,000
				11,313,000	(1,124,500)	–	(1,301,000)	8,887,500
Exercisable at the end of the year								1,211,250
Weighted average exercise price				HK$40.34				HK$40.34

Note: Mr. Jin Yongsheng retired from office as non-executive director of the Company on 21 March 2017. The outstanding 142,000 share options granted to him were reclassified to employees.

The following tables disclose details of the Company's share options held by the employees (including the Directors) and movements in such holdings under the share options scheme during the prior year:

	Date of grant	Vesting period	Exercise period	Exercise price	Number of options Outstanding at 1.1.2016	Granted during t he year	Forfeited during the year	Outstanding at 31.12.2016
Tranche 1	09.12.2015	09.12.2015 to 01.04.2017	01.04.2017 to 08.12.2025	HK$40.34	3,000,000	–	(171,750)	2,828,250
Tranche 2	09.12.2015	09.12.2015 to 01.04.2018	01.04.2018 to 08.12.2025	HK$40.34	3,000,000	–	(171,750)	2,828,250
Tranche 3	09.12.2015	09.12.2015 to 01.04.2019	01.04.2019 to 08.12.2025	HK$40.34	3,000,000	–	(171,750)	2,828,250
Tranche 4	09.12.2015	09.12.2015 to 01.04.2020	01.04.2020 to 08.12.2025	HK$40.34	3,000,000	–	(171,750)	2,828,250
					12,000,000	–	(687,000)	11,313,000
Exercisable at the end of the year								–
Weighted average exercise price					HK$40.34			HK$40.34

	Date of grant	Exercise period	Exercise price	Number of options Outstanding at 1.1.2016	Reclassified during the year (note)	Forfeited during the year	Outstanding at 31.12.2016
Directors	09.12.2015	01.04.2017 to 08.12.2025	HK$40.34	664,750	(75,500)	(15,000)	574,250
	09.12.2015	01.04.2018 to 08.12.2025	HK$40.34	664,750	(75,500)	(15,000)	574,250
	09.12.2015	01.04.2019 to 08.12.2025	HK$40.34	664,750	(75,500)	(15,000)	574,250
	09.12.2015	01.04.2020 to 08.12.2025	HK$40.34	664,750	(75,500)	(15,000)	574,250
Employees	09.12.2015	01.04.2017 to 08.12.2025	HK$40.34	2,335,250	75,500	(156,750)	2,254,000
	09.12.2015	01.04.2018 to 08.12.2025	HK$40.34	2,335,250	75,500	(156,750)	2,254,000
	09.12.2015	01.04.2019 to 08.12.2025	HK$40.34	2,335,250	75,500	(156,750)	2,254,000
	09.12.2015	01.04.2020 to 08.12.2025	HK$40.34	2,335,250	75,500	(156,750)	2,254,000
				12,000,000	–	(687,000)	11,313,000
Exercisable at the end of the year							–
Weighted average exercise price				HK$40.34			HK$40.34

Note: Mr. Yu Jianchao and Mr. Lim Haw Kuang retired from office as executive director of the Company during the year ended 31 December 2016. The outstanding 75,500 share options granted to them were reclassified to employees.

Exercise price of the share options granted is HK$40.34 per share, which represents the highest of (i) the closing price of HK$39.00 per share as stated in the daily quotations sheet of the Stock Exchange on 9 December 2015, being the date of grant; (ii) the average closing price of HK$40.34 per share as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the share.

During the year, 1,301,000 (2016: 687,000) share options were forfeited. As at 31 December 2017, the number of outstanding share options is 8,887,500 (2016: 11,313,000), among which 7,676,250 share options have not yet vested and hence not exercisable until fulfilment of vesting condition. During the year the Group recognised share-based payment expenses of RMB34 million (2016: RMB51 million).

The total fair value of the options calculated by using the binomial model was HK$194 million. The following assumptions were used to calculate the fair value of share options:

	Directors	**Employees**
Spot price	HK$39.00	HK$39.00
Exercise price	HK$40.34	HK$40.34
Risk free rate	1.555%	1.555%
Expected volatility	43.12%	43.12%
Expected dividend yield	1.08%	1.08%
Early exercise behaviour	280% of the exercise price	220% of the exercise price

The Binomial model has been used to estimate the fair value of the options. The expected volatility was determined by referencing to the historical volatility of the Company's share option price over the previous 10 years. The other variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

At the end of each reporting date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to the share options reserve.

b. Scheme 2002

On 14 June 2010, the Company granted share options to the Directors and certain employees ("Grantees") to subscribe for a total of 33,490,000 ordinary shares of HK$0.1 each in the share capital of the Company under the share option scheme adopted by the Company on 21 May 2002, subject to acceptance by the Grantees.

Among the share options granted above, 14,810,000 share options were granted to the Directors to subscribe for a total of 14,810,000 shares in the Company and 18,680,000 share options were granted to certain employees of the Group to subscribe for 18,680,000 shares in the Company.

As at the end of the reporting period, the number of outstanding share options granted to the Directors is nil (2016: nil) and the number of outstanding share options granted to certain employees of the Group is 200,000 (2016: 200,000).

The following tables disclose details of the Company's share options held by the employees (including the Directors) and movements in such holdings under the share option scheme during the year:

					Number of options			
	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1.2017	Granted during the year	Exercised during the year	Outstanding at 31.12.2017
Tranche 1	14.06.2010	14.06.2010 to 13.12.2010	14.12.2010 to 13.06.2020	HK$16.26	–	–	–	–
Tranche 2	14.06.2010	14.06.2010 to 13.06.2012	14.06.2012 to 13.06.2020	HK$16.26	200,000	–	–	200,000
					200,000	–	–	200,000
Exercisable at the end of the year								200,000
Weighted average exercise price					HK$16.26			HK$16.26

The following tables disclose details of the Company's share options held by the employees (including the Directors) and movements in such holdings under the share option scheme during the prior year:

					Number of options			
	Date of grant	Vesting period	Exercise period	Exercise price	Outstanding at 1.1.2016	Granted during the year	Exercised during the year	Outstanding at 31.12.2016
Tranche 1	14.06.2010	14.06.2010 to 13.12.2010	14.12.2010 to 13.06.2020	HK$16.26	–	–	–	–
Tranche 2	14.06.2010	14.06.2010 to 13.06.2012	14.06.2012 to 13.06.2020	HK$16.26	400,000	–	(200,000)	200,000
					400,000	–	(200,000)	200,000
Exercisable at the end of the year								200,000
Weighted average exercise price					HK$16.26			HK$16.26

Exercise price of the share options granted is HK$16.26 per share, which represents the highest of (i) the closing price of HK$16.26 per share as stated in the daily quotations sheet of the Stock Exchange on 14 June 2010, being the date of grant; (ii) the average closing price of HK$15.04 per share as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the Date of Grant; and (iii) the nominal value of the share.

During the current and prior year, the Group recognised no share-based payment expenses.

46. RETIREMENT BENEFITS SCHEME

	2017 *RMB million*	**2016** *RMB million*
Retirement benefit scheme contribution made during the year	166	155

According to the relevant laws and regulations in the PRC, the PRC subsidiaries of the Group are required to contribute a certain percentage of the payrolls of their employees to the retirement benefits scheme to fund the retirement benefits of their employees. The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the MPF Scheme, contribution of which is matched by employees. The maximum monthly amount of contribution is limited to HK$1,500 per employee.

47. ACQUISITION OF BUSINESSES

a. Acquisition of businesses during the year ended 31 December 2017

On 8 November 2017, the Group acquired 60% of the registered capital of 山東魯鴻天然氣有限公司 ("Luhong") at a consideration of RMB35 million. Luhong is engaged in sales of piped gas. Luhong was acquired with the objective of expansion in market coverage of business of the Group.

On 26 December 2017, the Group acquired 60% of the registered capital of 萍鄉長豐燃氣有限公司 ("Pingxiang") at a consideration of RMB84 million. Pingxiang is engaged in sales of piped gas. Pingxiang was acquired with the objective of expansion in market coverage of business of the Group.

On 27 December 2017, the Group disposed of its 11.96% equity interest in 湖南新奧清潔能源有限公司 ("Hunan Clean Energy", a former wholly-owned subsidiary of the Group) to other shareholders of 湖南三湘新奧清潔能源有限公司 ("Sanxiang") in exchange for the entire businesses held and operated by Sanxiang. Prior to this transaction, the Group held 43.35% equity interest in Sanxiang and accounted for it as an associate. Sanxiang is engaged in sales of piped gas. Sanxiang was acquired with the objective of expansion of business of the Group. Subsequent to the completion of the transaction, Sanxiang was dissolved and its businesses was merged into Hunan Clean Energy.

The provisional amounts of fair value of the assets and liabilities of Luhong, Pingxiang and Sanxiang at the date of acquisition are as follows:

	Luhong	Pingxiang	Sanxiang
	RMB million	*RMB million*	*RMB million*
Non-current assets			
Property, plant and equipment	72	84	58
Prepaid lease payment	5	2	–
Intangible assets – right of operation	15	85	–
Interests in joint ventures	–	–	30
Interests in an associate	9	–	–
Current assets			
Inventories	5	4	–
Trade and other receivables	25	5	9
Cash and cash equivalents	4	5	6
Current liabilities			
Trade and other payables	(48)	(89)	(20)
Bank and other loans – due within one year	(25)	–	–
Non-current liabilities			
Deferred tax liabilities	(4)	(21)	(14)
Bank and other loans – due after one year	–	(6)	–
Net assets acquired	58	69	69
Capital injection by the Group	–	50	–
Net assets acquired including capital injection by the Group	58	119	69
Goodwill arising on acquisition (determined on a provisional basis)			
Total consideration	35	84	31
Add: Non-controlling interests	23	48	8
Add: Fair value of 43.35% equity interest of Sanxiang previously held by the Group	–	–	30
Less: Fair value of identified net assets acquired including capital injection by the Group	(58)	(119)	(69)
Goodwill arising on acquisition	–	13	–

	Luhong *RMB million*	Pingxiang *RMB million*	Sanxiang *RMB million*
Total consideration satisfied by:			
Cash	27	31	–
Consideration payables (included in other payables)	8	3	–
Fair value of 11.96% equity interest of Hunan Clean Energy disposed by the Group	–	–	31
Capital injection by the Group in Pingxiang	–	50	–
	35	84	31
Net cash (outflow) inflow arising on acquisition:			
Cash consideration paid	(27)	(31)	–
Less: Cash and cash equivalents acquired	4	5	6
	(23)	(26)	6

Impact of acquisition on the results of the Group

The fair value of property, plant and equipment and intangible assets at the date of acquisition is provisional and pending for the valuation by an independent professional valuer.

Included in the profit for the year ended 31 December 2017 is RMB1 million of loss attributable to the additional businesses generated by Luhong, Pingxiang and Sanxiang. Revenue for the year ended 31 December 2017 includes RMB19 million generated from Luhong, Pingxiang and Sanxiang.

Had the acquisitions of Luhong, Pingxiang and Sanxiang been effected on 1 January 2017, the revenue of the Group for the year ended 31 December 2017 would have been approximately RMB48,366 million, and the profit for the year would have been approximately RMB3,659 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisitions been completed on 1 January 2017, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group, had Luhong, Pingxiang and Sanxiang been acquired on 1 January 2017, the Directors have calculated the depreciation and amortisation of property, plant and equipment and intangible asset acquired on the basis of the fair values rather than the carrying amounts recognised in the pre-acquisition financial statements.

b. Acquisition of businesses during the year ended 31 December 2016

On 12 May 2016, the Group acquired 70% of the registered capital of 昌樂新奧燃氣有限公司 ("Changle") at a cash consideration of RMB43 million. Changle is engaged in sales of piped gas. Changle was acquired with the objective of expansion in market coverage of business of the Group.

The amounts of fair value of the assets and liabilities of Changle at the date of acquisition are as follows:

	RMB million
Non-current assets	
Property, plant and equipment	29
Intangible assets – right of operation	51
Current liabilities	
Trade and other payables	(6)
Non-current liabilities	
Deferred tax liabilities	(13)
Net assets acquired	61
Goodwill arising on acquisition	
Total consideration	43
Add: Non-controlling interests (30% in Changle)	18
Less: Fair value of identified net assets acquired	(61)
Goodwill arising on acquisition	–
Total consideration satisfied by:	
Deposits paid in the prior year	4
Cash	35
Consideration payables (included in other payables)	4
	43
Net cash outflow arising on acquisition:	
Cash consideration paid	(35)
Less: Cash and cash equivalents acquired	–
	(35)

48. ACQUISITION OF ASSETS THROUGH ACQUISITIONS OF SUBSIDIARIES

a. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2017

To facilitate the Group's overall business, the Group will from time to time liaise with the local PRC governments and potential vendors to acquire the gas connection and integrated energy related assets. During the year ended 31 December 2017, the Group has acquired assets through the acquisitions of the following subsidiaries:

On 6 April 2017, the Group acquired 93.41% of the equity interest of 炎陵新奧燃氣有限公司 ("Yanling") at a consideration of RMB32 million.

On 5 June 2017, the Group acquired 100% of the equity interest of 株洲新奧淥口燃氣有限公司 ("Lukou") at a consideration of RMB25 million.

On 16 October 2017, the Group acquired 100% of the equity interest of 亳州皖華燃氣有限公司 ("Bozhou") at a consideration of RMB53 million.

On 31 December 2017, the Group acquired 100% of the equity interest of 15 electricity wholesale companies at a consideration of RMB21 million from a company controlled by Mr. Wang.

The transactions were accounted for as acquisition of assets through acquisition of subsidiaries and the fair value of the considerations allocated to the assets and liabilities acquired are as follows:

	RMB million
Non-current assets	
Property, plant and equipment	35
Prepaid lease payment	10
Intangible assets – right of operation	57
Current assets	
Trade and other receivables	5
Cash and cash equivalents	44
Current liabilities	
Trade and other payables	(18)
Net assets acquired	133
Less: Non-controlling interests	(2)
Total consideration	131
Total consideration satisfied by:	
Cash	92
Deposit paid in the prior year	18
Consideration payables (included in other payables and amount due to related parties)	21
	131
Net cash outflow arising on acquisition:	
Cash consideration paid	(92)
Less: Cash and cash equivalents acquired	44
	(48)

b. Acquisition of assets through acquisitions of subsidiaries during the year ended 31 December 2016

To facilitate the Group's overall business strategy, the Group will from time to time liaise with the local PRC governments and potential vendors to acquire the gas connection and related assets. During the year ended 31 December 2016, the Group has acquired assets through the acquisitions of the following subsidiaries:

On 5 May 2016, the Group acquired 100% of the equity interest of 好買氣電子商務有限公司 ("Haomaiqi") at a consideration of RMB20 million from a company controlled by Mr. Wang.

On 18 July 2016, the Group acquired 60% of the registered capital of 日照新奥中泰能源有限公司 ("Rizhao Zhongtai") at a cash consideration of RMB14 million.

On 16 December 2016, the Group acquired 51% of the registered capital of 株洲新奥雲龍燃氣有限公司 ("Yunlong") at a cash consideration of RMB10 million.

The transaction was accounted for as acquisition of assets through acquisition of subsidiaries and the fair value of the considerations allocated to the assets and liabilities acquired are as follows:

	RMB million
Non-current assets	
Property, plant and equipment	70
Intangible assets – rights of operation	52
Current assets	
Inventories	9
Trade and other receivables	1
Cash and cash equivalents	7
Current liabilities	
Trade and other payables	(75)
Net assets acquired	64
Less: Non-controlling interests	(20)
Total consideration	44
Total consideration satisfied by:	
Cash	21
Consideration payables (included in other payables and amount due to related parties)	23
	44
Net cash outflow arising on acquisition:	
Cash consideration paid	(21)
Less: Cash and cash equivalents acquired	7
	(14)

49. DISPOSAL OF SUBSIDIARIES AND A BUSINESS

a. Disposal of a subsidiary during the year ended 31 December 2017

On 30 June 2017, the Group disposed of 100% equity interest in ENN Clean Fuels B.V. ("ENN Clean Fuels") at a cash consideration of EUR 1.25 million (approximately RMB9 million) to an independent third party.

The net consideration from the transaction is summarised as follow:

	RMB million
Cash consideration	9

The net assets at the date of disposal were as follow:

	RMB million
Non-current assets	
Property, plant and equipment	12
Current assets	
Trade and other receivables	1
Cash and cash equivalents	1
Current liabilities	
Trade and other payables	(1)
Net assets disposed of	13

The loss on disposal of ENN Clean Fuels recognised in profit or loss was calculated as below:

	RMB million
Cash consideration received	9
Less: Goodwill disposed of	(9)
Less: Net assets disposed of	(13)
Loss on disposal of a subsidiary	(13)

Net cash inflow arising on disposal:

	RMB million
Cash consideration received	9
Less: Cash and cash equivalents disposed of	(1)
	8

b. Disposal of subsidiaries during the year ended 31 December 2016

On 13 December 2016, the Group disposed of 100% equity interest in ENN Clean Energy UK Limited ("ENNUK") at a cash consideration of GBP2 million (approximately RMB16 million) to an independent third party.

On 16 December 2016, the Group transferred 90% equity interest in 長沙新奧熱力有限公司 ("Changsha Heating") at a cash consideration of RMB31 million to a joint venture of the Group. As a result, the Group lost control on Changsha Heating.

The net consideration received from the transactions are summarised as follow:

Consideration:

	ENNUK	**Changsha Heating**
	RMB million	*RMB million*
Cash consideration received	16	25
Deferred cash consideration	–	6
Total consideration	16	31

The net assets of ENNUK and Changsha Heating at the date of disposal were as follow:

	ENNUK	**Changsha Heating**
	RMB million	*RMB million*
Non-current assets		
Property, plant and equipment	10	143
Prepaid lease payment	–	22
Current assets		
Inventories	–	2
Trade and other receivables	3	23
Cash and cash equivalents	3	20
Current liabilities		
Trade and other payables	(1)	(163)
Taxation payables	(1)	–
Deferred income	(4)	(30)
Net assets	10	17
Less: Non-controlling interests	–	(3)
Net assets attributable to owners of the Company disposed of	10	14

The gain on disposal of ENNUK and Changsha Heating recognised in profit or loss was calculated as below:

	ENNUK	**Changsha Heating**
	RMB million	*RMB million*
Consideration received and receivable	16	31
Less: Goodwill disposed of	–	(3)
Less: Net assets disposed of	(10)	(14)
Gain on disposal of subsidiaries	6	14

Net cash inflow arising on disposal:

	ENNUK	**Changsha Heating**
	RMB million	*RMB million*
Cash consideration received	16	25
Less: Cash and cash equivalents disposed of	(3)	(20)
	13	5

c. Disposal of a business during the year ended 31 December 2016

To create strategic alliance with another major competitor in Shantou for further development in gas distribution business in Shantou city, the Group disposed of the business in 汕頭新奧燃氣有限公司 ("Shantou Xinao") as capital injection to 汕頭市潤新燃氣有限公司, an associate of the Group controlled by the competitor, on 30 June 2016. As a result, the Group lost control of Shantou Xinao through this non-cash transaction.

The net consideration received from this transaction was summarised as follow:

Consideration:

	RMB million
Cash	23
Interests in associates	118
Total consideration	141

The net assets of Shantou Xinao at the date of disposal were as follow:

	RMB million
Non-current assets	
Property, plant and equipment	105
Prepaid lease payments	13
Current assets	
Inventories	2
Trade and other receivables	16
Current liabilities	
Trade and other payables	(21)
Net assets disposed of	115

The gain on disposal of Shantou Xinao recognised in profit or loss was calculated as below:

	RMB million
Consideration received and receivable	141
Less: Net assets disposed of	(115)
Gain on disposal of a business	26

Net cash inflow arising on disposal:

	RMB million
Cash consideration received	–
Less: Cash and cash equivalents disposed of	–
	–

50. COMMITMENTS

a. Capital commitments

	2017	2016
	RMB million	*RMB million*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	643	251
Capital commitments in respect of		
– investments in joint ventures	207	177
– investments in associates	86	17
– other equity investments	86	68

b. Other commitments

As at 31 December 2017, the Group has commitments to acquire 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.

51. LEASE COMMITMENTS

The Group as lessee

	2017	2016
	RMB million	*RMB million*
Minimum lease payments paid under operating leases during the year:		
Premises	111	104
Other assets	10	7
	121	111

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2017	2016
	RMB million	*RMB million*
Within one year	96	75
In the second to fifth year inclusive	203	183
Over five years	221	203
	520	461

Leases are negotiated for an average term of four years and rentals are fixed for an average of one year.

The Group as lessor

The Group's investment properties are held for rental purposes. Property rental income earned during the year was RMB15 million (2016: RMB12 million). All of the properties held have committed tenants for terms ranging from one to twenty years.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2017	2016
	RMB million	*RMB million*
Within one year	14	7
In the second to fifth year inclusive	24	15
Over five years	26	20
	64	42

52. PLEDGE OF ASSETS

At the end of the reporting period, the Group pledged certain assets as securities for bank and other loans, bill facilities and contracts granted to the Group, associates and joint ventures as follows:

	2017	2016
	RMB million	*RMB million*
Carrying amount of:		
Property, plant and equipment	–	11
Restricted bank deposits	254	374
Prepaid lease payments	5	–
Bills receivable	719	463

In addition to the above, the Group has also pledged its rights to receive gas connection and gas supply fee income of certain subsidiaries in favour of banks to secure banking facilities amounting to RMB1,320 million (2016: RMB1,020 million) granted to the Group, of which RMB395 million (2016: RMB609 million) has been utilised up to 31 December 2017.

53. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

a. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern, to maintain the confidence of creditors, to sustain future development of the entities and to maximise the return to the equity holders of the entities. The capital structure of the Group consists of net debt (borrowings disclosed in Notes 40, 41, 42, 43 and 44, net of cash and cash equivalents) and total equity of the Group.

The Group manages its capital base through net gearing ratio. The Directors review the capital structure on a semi-annual basis. The Group has a target of net gearing ratio below 100% and will maintain the ratio within target by issue of new debts, repayment of debts, issue of new shares, repurchase of shares or payment of dividends. The Group's overall strategy remains unchanged from prior year. During the years ended 31 December 2017 and 2016, the Group repurchased and redeemed certain convertible bonds and senior notes in order to better manage its risk exposure to foreign currencies. The net gearing ratio at the end of the reporting period was as follows:

	2017	**2016**
	RMB million	*RMB million*
Bank and other loans	2,260	4,141
Corporate bonds	5,490	5,482
Senior notes	2,366	2,507
Medium-term notes	–	700
Convertible bonds at FVTPL	3,635	3,515
Unsecured bonds	4,316	446
	18,067	16,791
Less: Cash and cash equivalents	(7,972)	(7,163)
Net debt	10,095	9,628
Total equity	20,217	17,854

	2017	**2016**
	%	%
Net debt to total equity ratio	49.9	53.9

The entities comprising the Group are not subject to externally imposed capital requirements.

b. Categories of financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of the reporting period are set out as follows:

	2017	**2016**
	RMB million	*RMB million*
Financial assets		
AFS financial assets	5,106	4,882
Financial assets at FVTPL	9	170
Loans and receivables (including cash and cash equivalents)	16,510	12,333
Financial liabilities		
Financial liabilities at FVTPL	3,733	3,515
Financial liabilities at amortised cost	21,719	18,478
Financial guarantee liability	5	22

c. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, AFS financial assets, financial assets/liabilities at FVTPL, amounts due from/to associates, joint ventures and related companies, cash and cash equivalents, restricted bank deposits, trade and other payables, bank and other loans, corporate bonds, senior notes, convertible bonds at FVTPL, unsecured bonds and financial guarantee liability. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

Foreign currency risk management

Except that the functional currency of the Group's entities established in the Europe, United States and Canada is the European Dollar, United States Dollar and Canadian Dollar, respectively, the functional currency of the Group's other entities is RMB in which most of the transactions are denominated. However, certain loans, senior notes, unsecured bonds and convertible bonds issued by the Group and certain bank balances kept by the Group are denominated in foreign currencies.

To mitigate the foreign exchange exposure, the Group entered into various Foreign Currency Derivatives with certain financial institutions during the current and prior year as set out in Note 24.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2017	**2016**	**2017**	**2016**
	RMB million	*RMB million*	*RMB million*	*RMB million*
Foreign currency:				
USD	1,988	300	10,579	7,745
HK$	116	17	–	347

The following table details the Group's sensitivity to a reasonable possible change in exchange rate of each foreign currency against RMB, while all other variables are held constant. The sensitivity analysis includes only outstanding monetary items denominated in foreign currency without considering the impact of the Foreign Currency Derivatives and adjusts their translations at the end of the reporting period for a change in foreign currency exchange rate as set out below:

	USD		HK$	
	2017	**2016**	**2017**	**2016**
	%	*%*	*%*	*%*
Possible change in exchange rate	5	5	5	5

	2017	**2016**	**2017**	**2016**
	RMB million	*RMB million*	*RMB million*	*RMB million*
(Decrease) increase in profit after taxation for the year:				
– if RMB weakens against foreign currencies	(439)	(372)	6	(17)
– if RMB strengthens against foreign currencies	439	372	(6)	17

In the opinion of the Directors, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure and does not reflect the exposure during the year, and some of the Group's foreign currency exposure has been reduced due to the offset effect of the Foreign Currency Derivatives.

Interest rate risk management

The Group does not have any specific interest rate policy except that the Group would regularly review the market interest rates to capture the potential opportunities to reduce the cost of borrowings. Accordingly, the Group will enter into interest rate swap arrangement to mitigate the interest rate risks if appropriate.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to non-current amounts due from associates and joint ventures, and fixed-rate bank and other loans, corporate bonds, senior notes, medium-term notes and unsecured bonds (see Notes 27, 28, 40, 41, 42 and 44 for details of these amounts, loans, bonds and notes respectively).

The fair value interest rate risk on bank balance and deposits is insignificant as the terms of the fixed deposits are relatively short.

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to floating-rate bank loans (see Note 40 for details of these amounts). The Directors consider that the Group is not exposed to significant cash flow interest rate risk relating to bank deposits, which are primarily short term in nature and basically carried at stable market interest rates.

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure to interest rates for the floating-rate bank loans. The analysis is prepared assuming that the amount of liabilities outstanding at the end of the reporting period was outstanding for the whole year and excluding the interest expected to be capitalised.

	2017	**2016**
	%	*%*
Reasonably possible change in interest rate	50 basis points	25 basis points

	2017	**2016**
	RMB million	*RMB million*
(Decrease) increase in profit after taxation for the year		
– as a result of increase in interest rate	(4)	(2)
– as a result of decrease in interest rate	4	2

The possible change in the interest rate does not affect the equity of the Group in both years.

Other price risk

The Group is mainly exposed to price risk through the convertible bonds designated as financial liabilities at FVTPL and investments classified as AFS financial assets. The Directors do not implement specific measurements to mitigate the price risk.

The convertible bonds will be ultimately redeemed or converted into the shares of the Company. If the market price of the convertible bonds increased or decreased by 5%, the Group would recognise additional losses or gains of RMB182 million (2016: RMB176 million) respectively in profit or loss.

If the market price of the AFS excluding those measured at cost less impairment increased or decreased by 5%, the Group would recognise additional gains or losses of RMB45 million (2016: RMB36 million) respectively in other comprehensive income or expense.

Credit risk management

As at 31 December 2017, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of contingent liabilities in relation to financial guarantees provided by the Group is disclosed in Note 39.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other debt, advances to associate, joint venture and related party semi-annually to ensure that adequate impairment losses are recognised at irrecoverable amounts. In respect of the risk arising from the provision of financial guarantee, the management of the Group continuously monitors the credit quality and financial conditions of the guaranteed parties to which the Group issued financial guarantee contracts in favour of to ensure that the Group will not suffer significant credit losses as a result of the failure of the guaranteed parties on the repayment of the relevant loans. In this regard, the Directors consider that the Group's credit risk has been significantly reduced.

The credit risk on liquid funds is limited because the counterparties are reputational international and PRC banks and other financial institutions with high credit-ratings assigned by international credit-rating agencies or regulated by PRC government.

The Group has no significant concentration of credit risk to certain counterparties as the exposures spread over a number of counterparties and customers.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for over 90% of the trade receivables at 31 December 2017 and 2016.

Liquidity risk management

To manage the liquidity risk, the Group reviews the level of cash and cash equivalents to ensure their adequacy to finance the Group's operations, capital expansion plans and mitigate the effects of fluctuation in cash flows. The Group also reviews the utilisation of borrowings and ensures the compliance of loan covenants.

The Group relies on various bonds and bank and other loans as a significant source of liquidity, detail of which are set out in Notes 40, 41, 42, 43 and 44. As at 31 December 2017, the Group has available unutilised credit facilities of approximately RMB9,051 million (2016: RMB7,277 million) to manage its net current liabilities position as set out in Note 2.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are carried at floating rate, the undiscounted amount is derived from interest rate existed at the end of the reporting period.

At 31 December 2017

	Weighted average interest rate	Repayable on demand or within one year	Within the second year	Within the third year	Within the fourth year	Within the fifth year	Over five years	Total undiscounted cash flow	Carrying amount at end of the reporting period
	%	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Non-derivative financial liabilities									
Trade and other payables		4,648	–	–	–	–	–	4,648	4,648
Amounts due to associates	0.35	283	–	–	–	–	–	283	282
Amounts due to joint ventures	4.35	1,710	–	–	–	–	–	1,710	1,677
Amounts due to related companies		642	–	–	–	–	–	642	642
Bank and other loans									
– fixed rate	4.36	1,034	203	–	–	–	–	1,237	1,225
– variable rate	4.62	755	74	97	66	46	82	1,120	1,035
Corporate bonds	3.55–6.45	3,213	2,589	–	–	–	–	5,802	5,490
Senior notes	6.00	143	143	143	2,460	–	–	2,889	2,366
Unsecured bonds	3.25	141	564	127	127	3,793	–	4,752	4,316
Convertible bonds at FVTPL		3,592	–	–	–	–	–	3,592	3,635
Financial guarantee contracts		126	–	–	–	–	–	126	5
		16,287	3,573	367	2,653	3,839	82	26,801	25,321
Derivatives									
– inflow		2,741	129	130	128	4,048	–	7,176	
– outflow		2,804	185	184	184	4,201	–	7,558	
Net settlement		63	56	54	56	153	–	382	89

At 31 December 2016

	Weighted average interest rate	Repayable on demand or within one year	Within the second year	Within the third year	Within the fourth year	Within the fifth year	Over five years	Total undiscounted cash flow	Carrying amount at end of the reporting period
	%	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Non-derivative financial liabilities									
Trade and other payables		2,969	–	–	–	–	–	2,969	2,969
Amounts due to associates	0.35	217	–	–	–	–	–	217	216
Amounts due to joint ventures	3.92–6.15	1,614	–	–	–	–	–	1,614	1,601
Amounts due to related companies		416	–	–	–	–	–	416	416
Bank and other loans									
– fixed rate	3.22	3,268	–	–	–	–	–	3,268	3,235
– variable rate	5.45	726	95	60	54	–	–	935	906
Medium-term notes	5.55	739	–	–	–	–	–	739	700
Corporate bonds	3.55–6.45	213	3,213	2,656	–	–	–	6,082	5,482
Senior notes	6.00	152	152	152	152	2,612	–	3,220	2,507
Unsecured bonds	3.25	15	15	464	–	–	–	494	446
Convertible bonds		–	3,556	–	–	–	–	3,556	3,515
Financial guarantee contracts		230	–	–	–	–	–	230	22
		10,559	7,031	3,332	206	2,612	–	23,740	22,015
Derivatives									
– inflow		1,322	3,469	–	–	–	–	4,791	
– outflow		1,349	3,297	–	–	–	–	4,646	
Net settlement		27	(172)	–	–	–	–	(145)	(170)

The above amounts for the 2015 Corporate Bonds are the payments to be made by the Group assuming these bonds to be redeemed when the bondholders' put options are exercised in December 2018. However, the Group has the right to adjust the coupon rate and not of all of the bondholder of the 2015 Corporate Bonds may exercise their option to redeem the bonds in December 2018.

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on the expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, these estimates are subject to change depending on the probability of the counterparties claiming under the guarantee in case that the financial receivables held by the counterparty suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The contractual expiry periods of financial guarantee contracts at the end of the reporting period are as follows:

	2017		2016	
	RMB million	*Expiry period*	*RMB million*	*Expiry period*
Guarantees issued to banks to secure loan facilities granted to an associate and joint ventures	126	2020	230	2020

d. Fair value measurement of financial instruments

The Group measures its following financial instruments at fair value at the end of the reporting period on a recurring basis:

	Fair value as at 31 December		**Fair value hierarchy**	**Valuation technique and key input**
	2017	**2016**		
	RMB million	*RMB million*		
Financial assets				
Financial assets at FVTPL	9	170	Level 2	Discounted cash flow. Future cash flows are estimated based on forward commodity price and forward exchange rates at settlement date, contracted strike rate, cap rate and premium payment, discounted at the swap curves expected by various counterparties
Listed equity securities, 4.45% equity interest in Shanghai Utilities	367	413	Level 1	Fair values are derived from quoted bid prices in an active market
Unlisted wealth management products	528	300	Level 2	Discounted cash flow. Future cash flows are estimated based on the recoverable amount expected, discounted at a rate that reflects the credit risk of the counterparty

	Fair value as at 31 December 2017	2016	Fair value hierarchy	Valuation technique and key input
	RMB million	*RMB million*		
Financial liabilities				
Convertible bonds at FVTPL	3,635	3,515	Level 2	Fair values are derived from quoted prices in an over-the-counter market
Financial liabilities at FVTPL	98	–	Level 2	Discounted cash flow. Future cash flows are estimated based on forward commodity price and forward exchange rates at settlement date, contracted strike rate, cap rate and premium payment, discounted at the swap curves expected by various counterparties

The credit risk of the Group did not result in significant change of the fair value of convertible bonds designated as financial liabilities at FVTPL since the Group manage the own credit risk by maintaining a sound financial position and steadying the credit rating.

Except as detailed in the following table, the Directors consider that the carrying amounts of financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values:

	2017		2016	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	RMB million	*RMB million*	*RMB million*	*RMB million*
Fixed-rate bank loans	1,225	1,215	3,235	3,191
Senior notes	2,366	2,757	2,507	2,803
Unsecured bonds	4,316	4,322	446	453
Medium-term notes	–	–	700	713
Corporate bonds	5,490	5,509	5,482	5,507

In the above table, other than the fair values of bank loans disclosed which are under the fair value hierarchy of Level 3, the rest of the fair values disclosed are under the fair value hierarchy of Level 2. The fair values of the senior notes and unsecured bonds are derived from the quoted prices in an over-the-counter market, and the fair values of the medium-term notes and corporate bonds are derived from the inactive quoted prices in the Shanghai Stock Exchange. The fair values of the rest of the financial liabilities at amortised cost are derived from discount cash flow technique by reference to the market interest rate of the loans with comparable maturity and credit risk of the respective group entities at the end of the reporting period.

54. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank and other loans *RMB million* *(Note 40)*	Convertible bonds *RMB million* *(Note 43)*	Corporate bonds *RMB million* *(Note 41)*	Medium-term notes *RMB million*	Unsecured bonds *RMB million* *(Note 44)*	Senior notes *RMB million* *(Note 42)*	Others *RMB million* *(note)*	Total *RMB million*
At 1 January 2017	4,141	3,515	5,482	700	446	2,507	1,760	18,551
Financing cash flows	(1,890)	(158)	–	(700)	4,037	–	(519)	770
Acquisition of a subsidiary	31	–	–	–	–	–	–	31
Fair value adjustments	–	278	–	–	–	–	–	278
Foreign exchange translation	(22)	–	–	–	(170)	(146)	–	(338)
Interest expenses	–	–	8	–	3	5	464	480
At 31 December 2017	2,260	3,635	5,490	–	4,316	2,366	1,705	19,772

Note: The amounts include the interest payables, non-trade payables due to joint ventures, associates and related parties.

55. RELATED PARTY TRANSACTIONS

Apart from the related party balances as stated in Notes 27, 28 and 29, the financial guarantee as stated in Note 39 and the equity transactions as stated in Notes 48 and 49, the Group had the following transactions with certain related parties:

	2017 *RMB million*	2016 *RMB million*
Nature of transaction		
Associates:		
– Sales of gas to	355	274
– Sales of materials to	288	49
– Purchase of gas from	235	183
– Purchase of equipment from	1	–
– Loan interest received from	10	6
– Provision of gas transportation services to	3	3
– Provision of gas transportation services from	14	7
– Provision of gas connection services to	–	17
– Deposit interest paid to	2	1
– Provision of supporting services by	1	5
– Provision of supporting services to	1	1

	2017 *RMB million*	2016 *RMB million*
Joint ventures:		
– Sales of gas to	1,234	778
– Sales of materials to	125	83
– Sales of property to	–	174
– Purchase of gas from	2,454	1,716
– Provision of gas transportation services to	362	204
– Loan interest received from	63	23
– Loan interest paid to	40	13
– Provision of gas connection services to	80	68
– Provision of supporting services to	7	14
– Purchase of equipment from	4	2
– Deposit interest paid to	9	5
– Provision of proprietary services to	30	–
– Provision of construction services by	33	34
– Provision of gas transportation services by	1	2
– Provision of supporting services by	1	1
– Lease of premises from	1	1
– Lease of vehicles to	2	–

	2017 *RMB million*	2016 *RMB million*
Companies controlled by Mr. Wang:		
– Provision of energy efficiency technology services by	218	61
– Sales of gas to	8	9
– Purchase of equipment from	26	2
– Sales of materials to	31	29
– Provision of gas connection service to	11	6
– Provision of construction service by	861	597
– Provision of property management services by	16	15
– Provision of property management services to	1	1
– Lease of premises to	4	1
– Lease of premises from	4	4
– Provision of supporting services by	64	52
– Provision of supporting services to	3	1
– Provision of information technology services by	256	60
– Purchase of outsourcing services from	31	31
– Purchase of LNG from	12	107
– Provision of electronic business services to	1	–
– Provision of technology services to	4	–
– Purchase of property from	23	–

Compensation of key management personnel

The remuneration of the Directors who are also the members of key management personnel during the years ended 31 December 2017 and 2016 was disclosed in Note 12.

56. PARTICULAR OF PRINCIPAL SUBSIDIARIES

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest/voting power held by Group 2017	2016	Principal activities
ENN Gas Investment Group Limited (“ENN Gas”)	British Virgin Island	USD1,000	100.00%	100.00%	Investment holding
北京新奧華鼎貿易有限公司 Beijing Xinao Huading Trading Company Limited#	PRC	USD23,800,000	100.00%	100.00%	Retail of gas pipelines, related materials and equipment
長沙新奧燃氣有限公司 Changsha Xinao Gas Company Limited*	PRC	RMB120,000,000	55.00%	55.00%	Investment in gas pipeline infrastructure and sales of piped gas
常州新奧燃氣發展有限公司 Changzhou Xinao Gas Development Company Limited*	PRC	USD600,000	60.00%	60.00%	Sales of piped gas
常州新奧燃氣工程有限公 Changzhou Xinao Gas Engineering Company Limited*	PRC	USD5,000,000	60.00%	60.00%	Investment in gas pipeline infrastructure
滁州新奧燃氣有限公司 Chuzhou Xinao Gas Company Limited*	PRC	USD7,100,000	90.00%	90.00%	Sales of piped gas
泉州市燃氣有限公司 Quanzhou City Gas Company Limited (“Quanzhou City Gas”)	PRC	RMB450,000,000	60.00%	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
晉江新奧燃氣有限公司 Jinjiang Xinao Gas Company Limited	PRC	RMB60,000,000	60.00%	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
洛陽新奧華油燃氣有限公司 Luoyang Xinao Huayou Gas Company Limited*	PRC	RMB160,000,000	70.00%	70.00%	Investment in gas pipeline infrastructure and sales of piped gas
石家莊新奧燃氣有限公司 Shijiazhuang Xinao Gas Company Limited* (“Shijiazhuang Xinao”)	PRC	RMB300,000,000	60.00%	60.00%	Investment in gas pipeline infrastructure and sales of piped gas
肇慶新奧燃氣有限公司 Zhaoqing Xinao Gas Company Limited#	PRC	RMB52,700,000	100.00%	100.00%	Investment in gas pipeline infrastructure and sales of piped gas
株洲新奧燃氣有限公司 Zhuzhou Xinao Gas Company Limited*	PRC	RMB135,000,000	55.00%	55.00%	Investment in gas pipeline infrastructure

Name of Company	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of ownership interest/voting power held by Group 2017	2016	Principal activities
湘潭新奧燃氣有限公司 Xiangtan Xinao Gas Company Limited*	PRC	RMB70,000,000	85.00%	85.00%	Investment in gas pipeline infrastructure
蚌埠新奧燃氣有限公司 Bengbu Xinao Gas Company Limited*	PRC	RMB110,000,000	70.00%	70.00%	Investment in gas pipeline infrastructure
蚌埠新奧燃氣發展有限公司 Bengbu Xinao Gas Development Company Limited*	PRC	USD600,000	70.00%	70.00%	Sales of piped gas
葫蘆島新奧燃氣發展有限公司 Huludao Xinao Gas Development Company Limited*	PRC	USD1,200,000	90.00%	90.00%	Investment in gas pipeline infrastructure
青島新奧新城燃氣有限公司 Qingdao Xinao Xincheng Gas Company Limited*	PRC	USD839,000,000	90.00%	90.00%	Sales of piped gas
新奧能源物流有限公司 Xinao Energy Logistics Company Limited#	PRC	USD22,230,000	100.00%	100.00%	Transportation of oil products and gas
新奧能源貿易有限公司 Xinao Energy Sales Company Limited#	PRC	USD30,200,000	100.00%	100.00%	Wholesale and retail of LNG and CNG, piped gas facilities, gas equipment, appliances and others
新奧財務有限責任公司 ENN Finance	PRC	RMB2,000,000,000	95.50%	91.00%	Provision of financial services
新奧燃氣發展有限公司 Xinao Gas Development Company Limited#	PRC	USD23,000,000	100.00%	100.00%	Sourcing of compressed pipeline gas and investment in gas pipeline infrastructure and sales of piped gas
新奧燃氣工程有限公司 Xinao Gas Engineering Company Limited#	PRC	USD7,000,000	100.00%	100.00%	Investment in gas pipeline infrastructure
新奧(中國)燃氣投資有限公司 Xinao (China)#	PRC	USD231,778,124	100.00%	100.00%	Investment holding

* Sino-foreign equity joint venture

\# Wholly-owned foreign enterprise

All of the above subsidiaries, except for ENN Gas and Xinao (China), are indirectly held by the Company.

Certain subsidiaries mentioned above have names in Chinese only, and the English names used here are for reference only.

All of the above subsidiaries operate principally in the places of their incorporation/establishment respectively, except that ENN Gas operates principally in Hong Kong. The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or net assets of the Group. Giving the details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries issued any debt securities as at 31 December 2017 or at any time during the year except for Xinao (China) which has issued the following debt securities.

	2017	**2016**
	RMB million	*RMB million*
Corporate bonds	5,490	5,482
Medium-term notes	–	700
	5,490	6,182

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	**Incorporation/ establishment/ registration and operation**	**Proportion ownership interest held by non-controlling interests**		**Profit allocated to non-controlling interests**		**Accumulated non-controlling interests**	
		2017	**2016**	**2017**	**2016**	**2017**	**2016**
		%	*%*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Quanzhou City Gas*	PRC	40	40	115	83	263	245
Shijiazhuang Xinao	PRC	40	40	104	101	228	217

* excluding non-controlling interests of Quanzhou City Gas's subsidiaries.

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Quanzhou City Gas	**2017**	**2016**
	RMB million	*RMB million*
Non-current assets	1,010	982
Current assets	506	496
Current liabilities	857	866
Revenue	3,219	2,435
Profit and total comprehensive income for the year *(note)*	287	207
Dividends paid to non-controlling interests	96	68
Net cash inflow from operating activities	292	448
Net cash outflow from investing activities	(58)	(80)
Net cash outflow from financing activities	(250)	(188)
Net cash (outflow) inflow	(16)	180

Note: Included in the amount for the year ended 31 December 2017 is dividends income from Quanzhou City Gas's subsidiaries and joint venture of RMB189 million (2016: RMB122 million).

Shijiazhuang Xinao	**2017**	**2016**
	RMB million	*RMB million*
Non-current assets	1,526	1,146
Current assets	709	550
Non-current liabilities	12	–
Current liabilities	1,653	1,155
Revenue	1,933	1,670
Profit and total comprehensive income for the year	260	252
Dividends paid to non-controlling interests	92	74
Net cash inflow from operating activities	681	352
Net cash outflow from investing activities	(429)	(123)
Net cash outflow from financing activities	(56)	(206)
Net cash inflow	196	23

57. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017	2016
	RMB million	*RMB million*
Non-current Assets		
Property, plant and equipment	1	1
Investment in subsidiaries	4,801	4,801
Investment in an associate	44	44
Financial assets at FVTPL	–	154
Amounts due from subsidiaries	4,361	5,269
	9,207	10,269
Current Assets		
Financial assets at FVTPL	4	16
Other receivables	–	3
Amounts due from subsidiaries	2,655	3,325
Cash and cash equivalents	1,741	63
	4,400	3,407
Current Liabilities		
Other payables and accrued expenses	82	35
Taxation payables	126	86
Amounts due to subsidiaries	1,572	871
Bank loans – due within one year	–	2,628
Convertible bonds at FVTPL	3,635	–
Financial liabilities at FVTPL	17	–
	5,432	3,620
Net Current Liabilities	(1,032)	(213)
Total Assets less Current Liabilities	8,175	10,056
Capital and Reserves		
Share capital	112	112
Reserves	1,303	3,475
Total Equity	1,415	3,587
Non-current Liabilities		
Unsecured bonds	4,316	447
Senior notes	2,366	2,507
Financial liabilities at FVTPL	78	–
Convertible bonds at FVTPL	–	3,515
	6,760	6,469
	8,175	10,056

The statement of changes in equity is as follow:

	Share capital *RMB million*	**Share premium** *RMB million*	**Share options reserve** *RMB million*	**Retained earnings** *RMB million*	**Total** *RMB million*
At 1 January 2016	113	44	4	3,195	3,356
Profit and total comprehensive income for the year	–	–	–	911	911
Recognition of equity-settled share-based payment *(Note 45)*	–	–	51	–	51
Issue of ordinary shares upon exercise of share options *(Note 45)*	–	4	(1)	–	3
Share repurchase *(Note 38)*	(1)	(28)	–	–	(29)
Dividends appropriation *(Note 14)*	–	–	–	(705)	(705)
At 31 December 2016	112	20	54	3,401	3,587
Loss and total comprehensive loss for the year	–	–	–	(1,469)	(1,469)
Recognition of equity-settled share-based payment *(Note 45)*	–	–	34	–	34
Issue of ordinary shares upon exercise of share options *(Note 45)*	–	52	(14)	–	38
Share repurchase *(Note 38)*	–	–	–	–	–
Dividends appropriation *(Note 14)*	–	–	–	(775)	(775)
At 31 December 2017	112	72	74	1,157	1,415

3. STATEMENT OF INDEBTEDNESS

As at the close of business on July 13, 2018, being the Latest Practicable Date prior to the printing of this circular for the purpose of this indebtedness statement, the Group had secured and/or guaranteed indebtedness in the amount of approximately RMB360 million, being secured or guaranteed bank and other loans bearing interest at 4.28% to 4.99% per annum, and unsecured and unguaranteed indebtedness in the amount of approximately RMB19.5 billion, comprising:

(a) unsecured and unguaranteed bank and other loans with outstanding carrying amount of approximately RMB6.2 billion bearing interest at 2.69% to 7.83% per annum;

(b) unsecured and unguaranteed corporate bonds with outstanding carrying amount of approximately RMB5 billion bearing interest at 3.55% to 3.68% per annum;

(c) unsecured and unguaranteed senior notes with carrying amount of approximately RMB2.4 billion bearing interest at 6% per annum;

(d) unsecured and unguaranteed bonds with carrying amount of approximately RMB4.4 billion bearing interest at 3.25% per annum; and

(e) unsecured and unguaranteed loans from associated companies of the Group of approximately RMB1.5 billion bearing interest at 2.61% to 8% per annum.

In addition, the Group did not have any contingent liabilities (including both material and immaterial contingent liabilities) as at the Latest Practicable Date.

Moreover, the Group had outstanding guarantees issued to banks to secure loan facilities granted to a joint venture to the extent of approximately RMB37 million for loans with maturity from two to three years, of which the amounts have been utilised as at the Last Practicable Date.

Save as aforesaid or as otherwise disclosed herein, and apart from normal trade and bills payables, the Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

4. NO MATERIAL CHANGE

The Directors confirmed that there has been no material change in the financial or trading position or outlook of the Group since December 31, 2017, being the date to which the latest published audited consolidated financial statements of the Company were made up, and up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular (other than that relating to Mr. Wang Concert Group and the Target Group) is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

This circular includes particulars given in compliance with the Takeovers Code. The Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular (other than those relating to Mr. Wang Concert Group and the Target Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed (other than those expressed by Mr. Wang Concert Group and the Target Group) in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors and the ultimate beneficial owners of the Vendor jointly and severally accept full responsibility for the accuracy of the information relating to Mr. Wang Concert Group contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed by Mr. Wang Concert Group in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The directors and the ultimate beneficial owners of ENN Ubiquitous Energy Network jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than that relating to the Group and Mr. Wang Concert Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Directors and Mr. Wang Concert Group) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL AND SHARE OPTIONS

(a) Share Capital

The authorized and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) immediately following Completion will be as follows:

(i) As at the Latest Practicable Date

Authorized:		*HK$*
3,000,000,000	Shares of HK$0.10 each	300,000,000.00
Issued and fully paid or credited as fully paid:		*HK$*
1,085,227,224	Shares of HK$0.10 each	108,522,722.40

(ii) Immediately following the Completion

Authorized:		*HK$*
3,000,000,000	Shares of HK$0.10 each	300,000,000.00
Issued and fully paid or credited as fully paid:		*HK$*
1,085,227,224	Shares as at the Latest Practicable Date	108,522,722.40
39,926,534	Consideration Shares to be allotted and issued under the SPA	3,992,653.40
1,125,153,758	Shares in issue upon Completion	112,515,375.80

All the issued Shares rank equally with each other in all respects including the rights in respect of capital, dividend and voting.

When issued and fully paid, the Consideration Shares will rank *pari passu* in all respects with the Shares then in issue. Holders of the fully-paid Consideration Shares will be entitled to receive all dividends and distributions which are declared, made or paid after the date of allotment of the Consideration Shares in their fully-paid form.

The Company has issued 757,000 Shares pursuant to exercise of share options granted under the share option schemes by employees of the Company, credited as fully paid, since December 31, 2017 (the date to which the latest published audited consolidated financial statements of the Company were made up) to the Latest Practicable Date, for an aggregate consideration of HK$30,537,380. In addition, a total of 1,625,327 Shares has been allotted and issued on February 15, 2018 with the proceeds of HK$77,576,857.71, to satisfy the conversion rights attached to the zero coupon convertible bonds that were issued on January 29, 2013. No Shares were repurchased or cancelled by the Company since December 31, 2017 to the Latest Practicable Date. Save as disclosed, the Company has not issued nor agreed to issue any new Shares (other than under the SPA).

The Shares are listed and traded on the Main Board of the Stock Exchange. No Shares are listed on or dealt in, nor is any listing of or permission to deal in the Shares being, or proposed to be, sought on any other stock exchange.

(b) Share Option Schemes

As at the Latest Practicable Date, the Company had outstanding share options granted under the share option schemes entitling the holders thereof to subscribe for an aggregate of 7,208,750 Shares, the details of which are set out below:

Holders of outstanding share options	As at Latest Practicable Date	Date of grant	Exercise period	Exercise price *(HK$ per Share)*
Directors				
Mr. Wang	145,000	Dec 9, 2015	Apr 1, 2017 to Dec 8, 2025	40.34
	145,000	Dec 9, 2015	Apr 1, 2018 to Dec 8, 2025	40.34
	145,000	Dec 9, 2015	Apr 1, 2019 to Dec 8, 2025	40.34
	145,000	Dec 9, 2015	Apr 1, 2020 to Dec 8, 2025	40.34
Cheung Yip Sang	133,000	Dec 9, 2015	Apr 1, 2018 to Dec 8, 2025	40.34
	133,000	Dec 9, 2015	Apr 1, 2019 to Dec 8, 2025	40.34
	133,000	Dec 9, 2015	Apr 1, 2020 to Dec 8, 2025	40.34
Wang Zizheng	15,000	Dec 9, 2015	Apr 1, 2017 to Dec 8, 2025	40.34
	15,000	Dec 9, 2015	Apr 1, 2018 to Dec 8, 2025	40.34
	15,000	Dec 9, 2015	Apr 1, 2019 to Dec 8, 2025	40.34
	15,000	Dec 9, 2015	Apr 1, 2020 to Dec 8, 2025	40.34
Han Jishen	250	Dec 9, 2015	Apr 1, 2017 to Dec 8, 2025	40.34
	105,250	Dec 9, 2015	Apr 1, 2018 to Dec 8, 2025	40.34
	105,250	Dec 9, 2015	Apr 1, 2019 to Dec 8, 2025	40.34
	105,250	Dec 9, 2015	Apr 1, 2020 to Dec 8, 2025	40.34
Wang Dongzhi	40,500	Dec 9, 2015	Apr 1, 2017 to Dec 8, 2025	40.34
	95,500	Dec 9, 2015	Apr 1, 2018 to Dec 8, 2025	40.34
	95,500	Dec 9, 2015	Apr 1, 2019 to Dec 8, 2025	40.34
	95,500	Dec 9, 2015	Apr 1, 2020 to Dec 8, 2025	40.34
Ma Zhixiang	15,000	Dec 9, 2015	Apr 1, 2018 to Dec 8, 2025	40.34
	15,000	Dec 9, 2015	Apr 1, 2019 to Dec 8, 2025	40.34
	15,000	Dec 9, 2015	Apr 1, 2020 to Dec 8, 2025	40.34
Yuen Po Kwong	15,000	Dec 9, 2015	Apr 1, 2017 to Dec 8, 2025	40.34
	15,000	Dec 9, 2015	Apr 1, 2018 to Dec 8, 2025	40.34
	15,000	Dec 9, 2015	Apr 1, 2019 to Dec 8, 2025	40.34
	15,000	Dec 9, 2015	Apr 1, 2020 to Dec 8, 2025	40.34
Law Yee Kwan, Quinn	15,000	Dec 9, 2015	Apr 1, 2017 to Dec 8, 2025	40.34
	15,000	Dec 9, 2015	Apr 1, 2018 to Dec 8, 2025	40.34
	15,000	Dec 9, 2015	Apr 1, 2019 to Dec 8, 2025	40.34
	15,000	Dec 9, 2015	Apr 1, 2020 to Dec 8, 2025	40.34
Subtotal	1,847,000			
Employees of the Group	100,000	Jun 14, 2010	Dec 14, 2010 to Jun 13, 2020	16.26
	100,000	Jun 14, 2010	Jun 14, 2012 to Jun 13, 2020	16.26
	488,800	Dec 9, 2015	Apr 1, 2017 to Dec 8, 2025	40.34
	1,217,450	Dec 9, 2015	Apr 1, 2018 to Dec 8, 2025	40.34
	1,727,750	Dec 9, 2015	Apr 1, 2019 to Dec 8, 2025	40.34
	1,727,750	Dec 9, 2015	Apr 1, 2020 to Dec 8, 2025	40.34
Subtotal	5,361,750			
Total	**7,208,750**			

As at the Latest Practicable Date, save for the above outstanding share options and the proposed allotment and issue of the Consideration Shares under the Acquisition, the Company had no outstanding convertible securities, options, warrants or other derivatives in issue which are convertible or exchangeable into Shares.

3. DISCLOSURE OF INTEREST

(a) Directors and chief executive of the Company

As at the Latest Practicable Date, the interests or short position of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long position

Name of Director	Nature of interest	Number of Shares	Number of Underlying Shares	Approximate percentage of shareholding
Mr. Wang	Beneficial owner and interest of controlled corporation *(Note 1)*	329,249,000	580,000	30.39%
Cheung Yip Sang	Beneficial owner	–	399,000	0.04%
Wang Zizheng	Beneficial owner	–	60,000	0.01%
Han Jishen	Beneficial owner	–	316,000	0.03%
Wang Dongzhi	Beneficial owner	–	327,000	0.03%
Yuen Po Kwong	Beneficial owner	–	60,000	0.01%
Ma Zhixiang	Beneficial owner	–	45,000	0.00%
Law Yee Kwan, Quinn	Beneficial owner	–	60,000	0.01%

Note:

1. All of these Shares are held by EGII, which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO to be entered into the register referred to therein; or (c) pursuant to the Model Code of Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders

As at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company 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 under section 336 of the SFO:

Long position

Name of substantial Shareholder	Nature of interest	Number of Shares	Approximate percentage of shareholding
Ms. Zhao	Interest of controlled corporation and interest of spouse	329,829,000 *(Note 1, 2)*	30.39%
EGII	Beneficial owner	329,249,000 *(Note 1)*	30.34%
The Capital Group Companies, Inc.	Interest of controlled corporation	141,345,028 *(Note 3)*	13.02%
Capital Research and Management Company	Investment manager	141,345,028	13.02%
Commonwealth Bank of Australia	Interest of controlled corporation	72,439,717	6.68%
JP Morgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/ approved lending agent	54,208,902	5.00%

Notes:

1. The two references to 329,249,000 Shares relate to the same block of Shares. Such Shares are held by EGII, which is beneficially owned as to 50% by Mr. Wang and 50% by Ms. Zhao, the spouse of Mr. Wang.

2. Of these Shares, 580,000 share options are held by Mr. Wang. Ms. Zhao is deemed to have this interest.

3. Of these Shares, 141,345,028 Shares are held by Capital Research and Management Company (a company which is wholly owned by The Capital Group Companies, Inc.)

Save as disclosed above, as at the Latest Practicable Date, there was no other person (other than a Director or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company 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 under section 336 of the SFO.

(c) Mr. Wang Concert Group

Save for the entering into the SPA, Mr. Wang Concert Group has not dealt for value in any Shares or any other convertible securities, warrants, options or derivatives in respect of the Shares during the Relevant Period.

As at the Latest Practicable Date, Mr. Wang Concert Group owned an aggregate of 329,249,000 Shares, all of which were directly held by EGII, which is in turn held as to 50% by Mr. Wang and 50% by Ms. Zhao. In addition, as at the Latest Practicable Date, share options entitling the holders thereof to subscribe for an aggregate of 640,000 Shares are held by certain members of Mr. Wang Concert Group, being Mr. Wang and Mr. Wang Zizheng are also the directors of the Vendor. Other than the Consideration Shares and the interests in the Shares held by members of Mr. Wang Concert Group as disclosed in the paragraph headed and "2. Disclosure of Interests – (a) Directors and chief executive of the Company and (b) Substantial Shareholders" in this appendix, Mr. Wang Concert Group did not own or control any Shares or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company as at the Latest Practicable Date.

4. ADDITIONAL DISCLOSURE UNDER TAKEOVERS CODE

(a) There is no agreement, arrangement or understanding to transfer, charge or pledge any voting rights over the Consideration Shares.

(b) As at the Latest Practicable Date, no person had irrevocably committed themselves to vote for or against the resolutions to be proposed at the EGM to approve the Transactions.

(c) As at the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between Mr. Wang Concert Group and any other person.

(d) As at the Latest Practicable Date, no agreement, arrangement or understanding (including any compensation arrangement) existed between Mr. Wang Concert Group and any Director, recent director, Shareholder or recent shareholder of the Company having any connection with or dependence upon the Transactions.

(e) As at the Latest Practicable Date, there were no agreements or arrangements to which Mr. Wang Concert Group is a party which relate to the circumstances in which any of them may or may not invoke or seek to invoke a pre-condition or a condition to the Transactions.

(f) As at the Latest Practicable Date, the Company did not have any interest in the securities, options, warrants, convertible securities and derivatives of any member of Mr. Wang Concert Group (where such entity is a company) and had no dealings in such securities, options, warrants, convertible securities and derivatives during the Relevant Period.

(g) As at the Latest Practicable Date, save for the interests disclosed in the section headed "3. Disclosure of Interest" in this appendix, none of the Directors had any interest in the securities, options, warrants, convertible securities and derivatives of the Vendor or any other member of Mr. Wang Concert Group (where such entity is a company) or had any dealings in such securities, options, warrants, convertible securities and derivatives during the Relevant Period.

(h) Save for the SPA, none of the Directors had dealt for value in the securities, options, warrants, convertible securities and derivatives of the Company or the Vendor or any member of Mr. Wang Concert Group (where such entity is a company) during the Relevant Period.

(i) As at the Latest Practicable Date, none of (i) the subsidiaries of the Company; (ii) the pension fund of the Company or of any of its subsidiaries; nor (iii) any adviser to the Company (as specified in class (2) of the definition of "associate" under the Takeovers Code), had any interest in the securities, options, warrants, convertible securities and derivatives of the Company and/or had dealt in the securities, options, warrants, convertible securities and derivatives of the Company during the Relevant Period.

(j) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

(k) As at the Latest Practicable Date, no securities, options, warrants, convertible securities and derivatives of the Company were managed on a discretionary basis by any fund managers connected with the Company, nor did any such fund managers deal in any securities, options, warrants, convertible securities and derivatives of the Company during the Relevant Period.

(l) As at the Latest Practicable Date, save for the interests disclosed in the sections "2. Share Capital and Share Options" and "3. Disclosure of Interest" in this appendix, none of the Directors held Shares of the Company. Except for Mr. Wang and Mr. Wang

Zizheng, who will abstain from voting on the relevant resolutions to be proposed at the EGM to approve the Transactions, none of the Directors will have voting rights at the EGM to accept or reject the resolutions with respect to the Transactions.

(m) As at the Latest Practicable Date and during the Relevant Period, no securities, options, warrants, convertible securities and derivatives of the Company had been borrowed or lent by any Director, the Company or Mr. Wang Concert Group.

(n) As at the Latest Practicable Date, there was no agreement or arrangement between any Director and any other person which was conditional or dependent upon the outcome of the Transactions or otherwise connected with the Transactions.

(o) As at the Latest Practicable Date, no benefit had been given or will be given to any Director as compensation for loss of office or otherwise in connection with the Transactions.

5. SERVICE CONTRACTS

(a) Mr. Wang Zizheng, an executive Director and Executive Chairman of the Company, entered into a new service agreement on May 11, 2018 with the Company and was appointed as an executive Director and Executive Chairman of the Company for a term of three years commencing from May 11, 2018 and expiring on May 10, 2021. Mr. Wang Zizheng is entitled to a fixed monthly salary of RMB125,000 and a discretionary performance bonus with reference to his duties and responsibilities with the Company, the remuneration policy of the Company, his performance, the Company's performance and profitability, as well as the market benchmark; and

(b) Mr. Liu Min, an executive Director and President of the Company, entered into a service agreement on January 12, 2018 with the Company and was appointed as an executive Director and President of the Company for a term of three years commencing from January 12, 2018 and expiring on January 11, 2021. Mr. Liu Min is entitled to a fixed monthly salary of RMB233,333.33 and a discretionary performance bonus with reference to his duties and responsibilities with the Company, the remuneration policy of the Company, his performance, the Company's performance and profitability, as well as the market benchmark.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any member of the Group or any associated company of the Company which (a) (including continuous and fixed term contracts) have been entered into or amended within the Relevant Period; (b) are continuous contracts with a notice period of 12 months or more; (c) are fixed term contracts with more than 12 months to run irrespective of the notice period; or (d) are not determinable by any member of the Group within one year without payment of compensation (other than statutory compensation).

6. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENT SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date:

(a) none of the Directors had any direct or indirect interest in any assets which have, since December 31, 2017 (being the date to which the latest audited financial statements of the Group were made up), been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to any member of the Group;

(b) save for the SPA in which Mr. Wang, who is presumed to be acting in concert with the Vendor as a result of the Vendor being wholly owned by EGII (further details of which are set out in the section headed "Takeovers Code Implications" in the Letter from the Board on page 7 to 27 in this circular), and Mr. Wang Zizheng, being a director of the Vendor, are interested, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement is subsisting as at the date of this circular and which is significant in relation to the business of the Group as a whole; and

(c) save for the SPA and transactions contemplated therein, there was no material contract entered into by Mr. Wang Concert Group in which any Director had a material personal interest.

7. COMPETING INTEREST

As at the Latest Practicable Date, in so far as the Directors are aware, none of the Directors or any of their respective associates had an interest in a business that competes or may compete, either directly or indirectly, with the business of the Group.

8. MATERIAL CONTRACTS

During the two years immediately preceding the date of the Announcement and up to and including the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group, had been entered into by the Group and are or may be material:

(a) subscription agreement dated July 17, 2017 entered into by the Company and BNP Paribas, BOCI Asia Limited, China Merchants Securities (HK) Co., Limited, Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited, ICBC International Securities Limited, Morgan Stanley & Co. International plc and Nomura International plc, pursuant to which the Company would issue the bonds in the aggregate principal amount of US$600,000,000 which will mature on July 24, 2022;

(b) capital increase agreement dated July 22, 2016 entered into by Xinao (China) Gas Investment Company Limited (the "**ENN (China)**", 新奧（中國）燃氣投資有限公司), Bengbu Xinao Gas Co., Ltd. (the "**Bengbu ENN Gas**", 蚌埠新奧燃氣有限公司), Xinao Energy Logistics Company Limited (the "**ENN Energy Logistics**", 新奧能源物流有限公司), Xinao Gas Engineering Company Limited (the "**ENN Gas Engineering**", 新奧燃氣工程有限公司) and Xinao Energy Sales Company Limited (the "**ENN Energy Trading**", 新奧能源貿易有限公司) (all being subsidiaries of the Company) with ENN Investment Holdings Co., Ltd. (the "**EIH**", 新奧控股投資有限公司) (a connected person of the Company), pursuant to which ENN (China) has agreed to subscribe for the increased registered capital of ENN Finance Co., Ltd. (a non-wholly owned subsidiary of the Company) in the amount of RMB1,000,000,000 in cash, whereas Bengbu ENN Gas, ENN Energy Logistics, ENN Gas Engineering, ENN Energy Trading and EIH waived their respective rights to participate in the capital injection and did not subscribe for any additional registered capital in ENN Finance;

(c) dealer manager agreement dated November 14, 2016 entered into by the Company with Nomura International (Hong Kong) Limited (the "**Nomura**") and the Hong Kong and Shanghai Banking Corporation Limited (the "**HSBC**"), pursuant to which the Company made an offer to repurchase for cash of its U.S.$750,000,000 6.00% senior notes due 2021, and Nomura together with HSBC were appointed as dealer managers by the Company; and

(d) the SPA.

9. MARKET PRICE

The table below sets out the closing prices of the Shares on the Stock Exchange (i) at the end of each of calendar months during the Relevant Period; (ii) on the Last Trading Day; and (iii) on the Latest Practicable Date.

Date	**Closing Price of the Shares** *HK$*
December 29, 2017	55.75
January 31, 2018	60.40
February 28, 2018	60.30
March 29, 2018	70.10
April 30, 2018	73.80
May 31, 2018	80.75
June 22, 2018 (being the Last Trading Day)	81.00
June 29, 2018	77.15
Latest Practicable Date	81.95

The lowest and highest closing market prices of the Shares recorded on the Stock Exchange during the Relevant Period were HK$51.50 on January 10, 2018 and HK$82.65 on the date of the Announcement respectively.

10. MATERIAL LITIGATION

No member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or arbitration of material importance known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

11. EXPERT AND CONSENT

The following are the name and qualification of the expert who has given its opinions or advice which is included in this circular:

Name	Qualification
Platinum Securities Company Limited	Licensed corporation under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities (as defined in the SFO)

As at the Latest Practicable Date, the expert named above:

(a) had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter, opinions and references to its name, logo and advice in the form and context in which they are included;

(b) was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(c) did not have any direct or indirect interest in any assets which had since December 31, 2017 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

12. MISCELLANEOUS INFORMATION

(a) The registered office of the Company is at P.O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman, KY1-1104 Cayman Islands, British West Indies and the principal place of business in Hong Kong is at Rooms 3101–04, 31st Floor, Tower 1, Lippo Centre, No. 89 Queensway, Hong Kong.

(b) The company secretary of the Company is Ms. Wong Chui Lai. Ms. Wong Chui Lai is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Association of Chartered Certified Accountants (ACCA) in England.

(c) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) The auditors of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, is located at 35th Floor One Pacific Place, No. 88 Queensway, Hong Kong.

(e) The registered office of the Vendor is at Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands and its correspondence address in Hong Kong is Rooms 3101–04, 31/F, Tower 1, Lippo Centre, No. 89 Queensway, Hong Kong. It is owned as to 100% by EGII. Mr. Wang and Mr. Wang Zizheng are the directors of the Vendor.

(f) The Independent Financial Adviser is Platinum Securities Company Limited whose address is at 21/F, LHT Tower, 31 Queen's Road Central, Hong Kong.

(g) The Financial Adviser is China International Capital Corporation Hong Kong Securities Limited whose address is at 29th Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours from 9:00 a.m. to 5:00 p.m. on any Business Day at the principal place of business of the Company in Hong Kong at Rooms 3101–04, 31st Floor, Tower 1, Lippo Centre, No. 89 Queensway, Hong Kong, (ii) on the website of the Company (www.ennenergy.com), and (iii) on the website of the SFC (www.sfc.hk), from the date of this circular up to and including the date of the EGM:

(a) the SPA;

(b) the memorandum and articles of association of the Company;

(c) the annual reports of the Company for the financial years ended December 31, 2015, December 31, 2016 and December 31, 2017;

(d) the letter from the Board, the text of which is set out the section headed "Letter from the Board" of this circular;

(e) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;

(f) the letter of advice from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" of this circular;

(g) the material contracts referred to in the paragraph headed "Material contracts" in this appendix;

(h) the service contracts referred to in the paragraph headed "Service contracts" in this appendix;

(i) the written consent from the Financial Adviser that it has given and not withdrawn its consent to the publication of its name in this circular;

(j) the written consent referred to in the paragraph headed "Expert and consent" in this appendix; and

(k) this circular.

14. GENERAL

In the event of any inconsistency, the English language text of this circular and the proxy form shall prevail over the Chinese language text.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting ("**EGM**") of ENN Energy Holdings Limited ("**Company**") will be held at 11:00 a.m. on Wednesday, August 8, 2018 at Tianshan and Lushan Rooms, Level 5, Island Shangri-La Hotel, Two Pacific Place, Supreme Court Road, Central, Hong Kong, or at any adjournment thereof for the purpose of considering and, if thought fit, passing each of the following resolutions, with or without amendments, as an ordinary resolution of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**:

   (a) the sale and purchase agreement dated June 25, 2018 and entered into between the Company, as purchaser, and Essential Investment Holding Company Limited as vendor (the "**SPA**", a copy of which marked "A" and signed by the chairman of the EGM for identification purpose has been tabled at the EGM) and the acquisition of the entire issued share capital (the "**Sale Shares**") of Excellence Award Holding Company Limited by the Company and all other transactions contemplated under the SPA in accordance with the terms and conditions set forth therein be and are hereby approved, confirmed and ratified;

   (b) the board of directors of the Company (the "**Board**") be and are hereby granted a specific mandate (the "**Specific Mandate**") to exercise the powers of the Company to allot and issue 39,926,534 ordinary shares (the "**Shares**") of HK$0.10 each in the share capital of the Company (the "**Consideration Shares**") to settle the consideration for the Sale Shares pursuant to the terms and conditions of the SPA (subject to the fulfilment of the conditions precedent set forth therein); and **THAT** the Consideration Shares, when issued and fully paid, shall rank *pari passu* among themselves in all respects and with all fully paid ordinary shares of the Company in issue as at the date of allotment and issue; and **THAT** the Specific Mandate is in addition to, and shall not prejudice nor revoke any general and/or other specific mandate(s) which has/have been granted or may from time to time be granted to the Board prior to the passing of this resolution;

(c) the Board or a committee thereof be and is hereby specifically authorized to allot and issue the Consideration Shares in accordance with the terms and conditions of the SPA; and

(d) the Board or a committee thereof be and is authorized to do all such acts and things, to sign and execute such documents or agreements or deed on behalf of the Company and to do such other things and to take all such actions as they consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Acquisition (as defined in the circular of the Company dated July 16, 2018 ("**Circular**")) and to agree to such variation, amendments or waiver or matters relating thereto (excluding any variation, amendments or waiver of such documents or any terms thereof, which are fundamentally and materially different from those as provided for in the SPA and which shall be subject to approval of the shareholders of the Company) as are, in the opinion of the Board or a committee thereof, in the interest of the Company and its shareholders as a whole."

2. "**THAT** subject to and conditional upon:

(a) the passing of the resolution numbered 1 in the notice of the EGM; and

(b) the grant of the waiver by the Executive Director of Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director of any obligation on the part of Essential Investment Holding Company Limited ("**Vendor**") to make a mandatory general offer to the holders of securities of the Company to acquire securities of the Company other than those already owned or agreed to be subscribed by the Vendor, Mr. Wang Concert Group (as defined in the Circular), a copy of which marked "B" and signed by the chairman of the EGM for identification purpose has been tabled at the EGM) which would otherwise arise under Rule 26.1 of the Takeovers Code (as defined in the Circular) ("**Whitewash Waiver**") as a result of the allotment and issue of the Consideration Shares to the Vendor under the Acquisition (as defined in the Circular) and the satisfaction of any conditions that may be imposed thereon,

the Whitewash Waiver be and is hereby approved and the Board or a committee thereof be and is hereby authorized to do all such acts and things, to sign and execute such documents or agreements or deed on behalf of the Company and to do such other things and to take all such actions as it considers necessary, appropriate, desirable or expedient for the purposes of giving effect to or to implement the Whitewash Waiver."

On behalf of the Board
ENN Energy Holdings Limited
Wang Yusuo
Chairman

Hong Kong, July 16, 2018

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

Principal place of business in Hong Kong:
Rooms 3101–04, 31st Floor
Tower 1, Lippo Centre
No. 89 Queensway
Hong Kong

Notes:

1. For determining the entitlement of shareholders of the Company to attend and vote at the EGM, the register of members of the Company will be closed from Friday, August 3, 2018 to Wednesday, August 8, 2018 (both days inclusive) during which period no transfer of Shares will be effected. In order to qualify for the entitlement to attend and vote at the EGM, all transfer of shares accompanied by the relevant shares certificates must be lodged with the Company's branch share registrar and transfer office in Computershare Hong Kong Investor Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. (Hong Kong time) on Thursday, August 2, 2018.

2. A member entitled to attend and vote at the EGM convened by the above notice shall be entitled to appoint another person as his/her/its proxy to attend and vote instead of him/her/it. A member who is the holder of two or more shares may appoint more than one proxy to represent him/her/it and vote on his/her/its behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company.

3. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority (if any) under which it is signed, or a certified copy of that power or authority, at the office of the Company's branch share registrar and transfer office in Computershare Hong Kong Investor Limited at 17M Floor Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time for holding the EGM or any adjourned meeting.

4. EGII, being a concert party of the Vendor, which is interested in 329,249,000 Shares as at the date hereof, will abstain from voting on the above ordinary resolutions to be proposed at the EGM to approve Transactions (as defined in the Circular).

5. As required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Code on Takeovers and Mergers, the above resolutions will be decided by way of poll.

6. As of the date of this notice, the executive directors of the Company are Mr. Wang Yusuo, Mr. Cheung Yip Sang, Mr. Wang Zizheng, Mr. Han Jishen, Mr. Liu Min and Mr. Wang Dongzhi; and the independent non-executive directors of the Company are Mr. Ma Zhixiang, Mr. Yuen Po Kwong and Mr. Law Yee Kwan, Quinn.