CHANGFENG ENERGY INC.

Report and Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

CHANGFENG ENERGY INC.

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

CONTENTS

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CHANGFENG ENERGY INC.
(incorporated in the Ontario, Canada with limited liability)

We have audited the accompanying consolidated financial statements of Changfeng Energy Inc. and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and January 1, 2015, and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CHANGFENG ENERGY INC. - continued
(incorporated in the Ontario, Canada with limited liability)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2016, December 31, 2015 and January 1, 2015, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte Touche Tohmatsu (Signed)
Certified Public Accountants
Hong Kong
March 31, 2017

CHANGFENG ENERGY INC.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	NOTES	2016 RMB'000	2015 RMB'000 (restated)
Revenue	7	354,449	305,445
Cost of sales		(204,416)	(161,858)
Gross profit		150,033	143,587
Other income	8	681	590
Other gains and losses	9	(2,740)	1,991
Selling and marketing expenses		(17,841)	(17,252)
General and administrative expenses		(70,208)	(63,934)
Stock-based compensation	35	-	(821)
Finance costs	10	(7,874)	(7,410)
Share of loss of an associate	18	(7)	(7)
Share of loss of a joint venture	19	(3,516)	(399)
Loss on disposal of a joint venture	19	(3,114)	-
Profit before tax		45,414	56,345
Income tax expense	11	(24,088)	(19,993)
Profit for the year	12	21,326	36,352
Other comprehensive expense:			
Items that may be reclassified subsequently to profit or loss:			
Fair value loss on			
- Available-for-sale financial assets		(74)	-
Total comprehensive income		21,252	36,352
Profit for the year attributable to			
- Owners of the Company		19,886	34,146
- Non-controlling interests		1,440	2,206
		21,326	36,352
Total comprehensive income attributable to			
- Owners of the Company		19,812	34,146
- Non-controlling interests		1,440	2,206
		21,252	36,352
		RMB	RMB
Earnings per share			
- Basic	14	0.32	0.54
- Diluted	14	0.32	0.54

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AT DECEMBER 31, 2016 AND 2015, AND JANUARY 1, 2015

	NOTES	At December 31, 2016 RMB'000	At December 31, 2015 RMB'000 (restated)	At January 1, 2015 RMB'000 (restated)
NON-CURRENT ASSETS				
Property and equipment	15	385,654	352,439	340,009
Long-term lease prepayments	16	16,225	9,841	10,318
Intangible assets	17	3,504	1,942	7,624
Interest in an associate	18	4,657	4,664	4,671
Interest in a joint venture	19	-	19,601	-
Available-for-sale financial assets	24	726	-	-
Long-term deposits and advances	23	7,785	10,710	5,477
		418,551	399,197	368,099
CURRENT ASSETS				
Current portion of long-term lease prepayments	16	1,271	262	268
Inventories	20	4,765	5,877	5,398
Amounts due from customers for contract work	21	17,827	25,928	14,121
Trade receivables	22	16,254	14,340	14,469
Other receivables, prepaid expenses and deposits	23	25,010	19,175	8,915
Pledged bank deposits	25	1,005	10,008	-
Bank balances and cash	25	142,377	66,558	64,847
		208,509	142,148	108,018
CURRENT LIABILITIES				
Trade and other payables	26	62,084	57,559	44,088
Amount due to an ultimate controlling shareholder	27	40,000	40,000	40,000
Amounts due to related parties	28	4,249	6,304	7,326
Receipts in advance from customers	29	64,656	57,977	33,131
Amounts due to customers for contract work	21	37,138	29,616	38,582
Income tax payable		12,671	9,008	9,981
Short-term bank borrowings	30	40,435	39,742	19,310
Current portion of long-term debts	31	28,000	19,000	18,000
		289,233	259,206	210,418
NET CURRENT LIABILITIES		(80,724)	(117,058)	(102,400)
TOTAL ASSETS LESS CURRENT LIABILITIES		337,827	282,139	265,699
NON-CURRENT LIABILITIES				
Long-term debts	31	132,518	99,237	118,104
Deferred income - government grants	32	5,154	5,224	5,465
Deferred tax liabilities	33	8,145	7,009	6,689
		145,817	111,470	130,258
NET ASSETS		192,010	170,669	135,441

	NOTES	At December 31, 2016 RMB'000	At December 31, 2015 RMB'000 (restated)	At January 1, 2015 RMB'000 (restated)
CAPITAL AND RESERVES				
Share capital	34	60,277	59,340	61,260
Contributed surplus		13,765	15,002	15,769
Statutory surplus reserves		32,957	25,171	20,654
Investment revaluation reserves		(129)	-	-
Retained earnings		76,537	63,993	32,801
Equity attributable to owners of the Company		183,407	163,506	130,484
Non-controlling interests		8,603	7,163	4,957
TOTAL EQUITY		192,010	170,669	135,441

The consolidated financial statements on pages 3 to 60 were approved and authorized for issue by the Board of Directors on March 31, 2017 and are signed on its behalf by:

YONGBIAO DING
DIRECTOR

WENCHENG ZHANG
DIRECTOR

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Attributable to owners of the Company							
	Share capital RMB'000	Contributed surplus RMB'000 (Note a)	Statutory surplus reserves RMB'000 (Note b)	Investment revaluation reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
As at January 1, 2015 (restated)	61,260	15,769	20,654	-	32,801	130,484	4,957	135,441
Profit for the year	-	-	-	-	34,146	34,146	2,206	36,352
Total comprehensive income for the year	-	-	-	-	34,146	34,146	2,206	36,352
Share repurchase (note 35)	(2,002)	-	-	-	-	(2,002)	-	(2,002)
Option exercised (note 35)	82	(25)	-	-	-	57	-	57
Options expired/forfeited (note 35)	-	(1,563)	-	-	1,563	-	-	-
Stock-based compensation (note 35)	-	821	-	-	-	821	-	821
Transfer	-	-	4,517	-	(4,517)	-	-	-
As at December 31, 2015 (restated)	59,340	15,002	25,171	-	63,993	163,506	7,163	170,669
Profit for the year	-	-	-	-	19,886	19,886	1,440	21,326
Fair value loss on available-for-sale financial assets	-	-	-	(74)	-	(74)	-	(74)
Total comprehensive income for the year	-	-	-	(74)	19,886	19,812	1,440	21,252
Share repurchase (note 35)	(1,086)	-	-	-	-	(1,086)	-	(1,086)
Option exercised (note 35)	2,023	(793)	-	-	-	1,230	-	1,230
Options expired/forfeited (note 35)	-	(444)	-	-	444	-	-	-
Transfer	-	-	7,786	-	(7,786)	-	-	-
Reclassification upon disposal of Available-for-sale financial assets	-	-	-	(55)	-	(55)	-	(55)
As at December 31, 2016	60,277	13,765	32,957	(129)	76,537	183,407	8,603	192,010

Notes:

(a) Contributed surplus comprises capital contribution from shareholders and share-based compensation reserve.

(b) Statutory surplus reserves represent the statutory reserve fund attributable to the Group set up by the subsidiaries in the People's Republic of China (the "PRC"). According to the relevant PRC regulations, the subsidiaries in the PRC are required to appropriate 10% of net profit as reported in the statutory financial statements to the statutory surplus reserve fund, and the statutory surplus reserve may be used for making up losses, if any, and increasing capital. The maximum amount appropriate to the statutory reserve fund is 50% of the registered capital of the respective PRC subsidiaries.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016 RMB'000	2015 RMB'000 (restated)
OPERATING ACTIVITIES		
Profit before taxation	45,414	56,345
Adjustments for:		
Interest income	(445)	(545)
Interest expenses	7,874	7,410
Depreciation of property and equipment	16,932	16,024
(Reversal of) allowance for doubtful debt for trade receivables	427	(58)
Allowance for impairment of amounts due from customers for contract work	1,589	1,062
Amortization of government grants	(70)	(241)
Amortization of long-term lease prepayments	440	483
Amortization of intangible assets	139	5,762
Inventory written off	-	171
Share of loss of an associate	7	7
Share of loss of a joint venture	3,516	399
Share-based payment compensation	-	821
Loss on disposal of property and equipment	45	9
Gain on disposal of available-for-sale financial assets	(55)	-
Loss of disposal of the joint venture	3,114	-
Unrealized exchange loss (gain) on monetary items	1,151	(2,995)
Operating cash flows before movements in working capital	80,078	84,654
Decrease (increase) in inventories	1,112	(650)
Increase in trade receivables	(2,341)	187
(Increase) decrease in other receivables, prepaid expenses and deposits	(5,772)	9,541
Increase in long-term deposits and advances	(509)	(1,157)
(Increase) decrease in amounts due from (to) customers for contract work	(29,024)	21,223
Increase in trade and other payables	4,389	15,551
Increase (decrease) in receipts in advance from customers	49,737	(18,212)
Decrease in amounts due to related parties	(333)	(730)
Cash generated from operations	97,337	110,407
Interest paid	(8,991)	(9,315)
Interest income received	445	545
Income tax paid	(19,289)	(20,646)
NET CASH FROM OPERATING ACTIVITIES	69,502	80,991

	2016 RMB'000	2015 RMB'000 (restated)
INVESTING ACTIVITIES		
Deposit paid for acquisition of property and equipment	(1,272)	(4,076)
Acquisition of property and equipment	(44,088)	(45,848)
Acquisition of intangible assets	(1,701)	(80)
Investment in a joint venture	-	(20,000)
Proceed on disposal of a joint venture	12,971	-
Placement of pledged bank deposits	-	(10,008)
Withdrawal of pledged bank deposits	9,003	-
Investment in available-for-sale financial assets	(1,888)	-
Proceed from disposal of available-for-sale financial assets	1,088	-
Payment for long-term lease prepayments	(7,833)	-
NET CASH USED IN INVESTING ACTIVITIES	(33,720)	(80,012)
FINANCING ACTIVITIES		
Repurchase of shares	(1,086)	(2,002)
Proceeds on exercised options	1,230	57
Repayment to short-term bank borrowings	(30,000)	(30,000)
New short-term bank borrowings raised	30,000	50,000
Repayment of long-term debts	(18,000)	(18,000)
New long-term debts raised	60,000	-
Decrease in amounts due to related parties	(1,826)	-
NET CASH FROM FINANCING ACTIVITIES	40,318	55
INCREASE IN CASH AND CASH EQUIVALENTS	76,100	1,034
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	66,558	64,847
Effect of foreign exchange rate changes	(281)	677
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR, REPRESENTING BANK BALANCES AND CASH	142,377	66,558

1. GENERAL

Changfeng Energy Inc. is a public limited company incorporated under the Canada Business Corporations Act on May 4, 2006 and its shares are listed on the TSX Venture Exchange. The registered office of the Company is located at Suite 2036&2038-32 South Unionville Ave, Markham, Ontario, L3R 9S6, and the principal operations of its business are in China. Its ultimate controlling party is Mr. Huajun Lin ("Mr. Lin"), who is also an officer and director of the Company.

Changfeng Energy Inc. is an investment holding company and the principal activities of its subsidiaries are engaged in the distribution of natural gas for industrial, commercial and residential users in the Peoples Republic of China ("PRC").

The functional currency and presentation currency of the Company had been changed from Canadian dollar ("CAD") to Renminbi ("RMB") as detailed in note 2.

2. CHANGE IN FUNCTIONAL AND PRESENTATION CURRENCY OF THE COMPANY

In prior years, the Company's functional currency was determined as CAD by applying the provisions of paragraph 10 of International Accounting Standard ("IAS") 21 *The Effects of Changes in Foreign Exchange Rates*.

In the current year, the Directors re-assessed the accounting policy in determining the functional currency of the Company and considered paragraph 9 of IAS 21 together with the other factors set out in paragraph 10 of IAS 21. The Directors have determined that RMB better reflects the economic substance of the Company and its business activity as an investment holding company primarily holding natural gas distribution business in the PRC in light of the currency of its primary sources of revenue. Accordingly, the functional currency was retrospectively changed from CAD to RMB. The retrospective change of functional currency of the Company has no material effects on the financial positions of the Group as at December 31, 2016, December 31, 2015 and January 1, 2015 and the results of the Group for the years ended December 31, 2016 and December 31, 2015. The consolidated financial statements is also presented in the functional currency, i.e. RMB.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2016, the Group's current liabilities exceeded its current assets by RMB80,724,000. In view of these circumstances, management of the Group has given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. Management is satisfied that the Group will have sufficient financial resources to meet its financial obligations including the capital commitments and other commitments as disclosed in Note 41. Taking into account the Group's cash flow projection, including the term facility, unutilized bank facilities, the Group's ability to renew or refinance the banking facilities upon maturity and the Group's future capital expenditure in respect of its non-cancellable capital commitments, management considers that it has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the consolidated financial statements have been prepared on a going concern basis.

4. APPLICATION OF NEW AND AMENDMENTS INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in current year:

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

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

Amendments to IAS 1 *Disclosure Initiative*

The Group has applied the amendments to IAS 1 *Disclosure Initiative* for the first time in the current year. The amendments to IAS 1 clarify that an entity need not provide a specific disclosure required by an IFRS standard if the information resulting from that disclosure is not material, and give guidance on the basis of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

4. APPLICATION OF NEW AND AMENDMENTS INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

Amendments to IAS 1 *Disclosure Initiative* - continued

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to the statement of profit or loss; and (ii) will be reclassified subsequently to the statement of profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The Group has applied these amendments retrospectively. Specifically, amounts due from and due to customers for contract work previously included in trade receivables and receipts in advance were presented as separate line items. The grouping and ordering of consolidated statements of profit or loss and other comprehensive income and consolidated statements of financial position have been revised to give prominence to the areas of the Group's activities that management considers to be most relevant to an understanding of the Group's financial performance and financial position. Furthermore, information to financial instruments was reordered to note 37 while information in relation to segment was reordered to note 7.

Other than the above presentation and disclosure changes, the application of the amendments to IAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new, amendments and interpretation to IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRSs Standards 2014 - 2016 Cycle[5]

4. APPLICATION OF NEW AND AMENDMENTS INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

New and amendments to IFRSs in issue but not yet effective - continued

[1] Effective for annual periods beginning on or after January 1, 2018.
[2] Effective for annual periods beginning on or after January 1, 2019.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after January 1, 2017.
[5] Effective for annual periods beginning on or after January 1, 2017 or January 1, 2018, as appropriate.

Except as described below, the management of the company consider that the application of the above new and amendments to IFRSs will have no significant impact on the Group's consolidated financial statements in coming year.

IFRS 9 *Financial Instruments*

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general accounting and impairments for financial assets.

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

- All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized 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 amortized cost at the end of each subsequent reporting period. 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 debt investments and equity investments are measured at their fair value at the end of each subsequent reporting period. In addition, under IFRS 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 recognized in the statement of profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 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 recognized.

Based on the Group's financial instruments and risk management policies as at December 31, 2016, the application of IFRS 9 in the future may have an impact on the classification a measurement of the Group's financial assets. The Group's available-for-sale financial assets, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). Specifically, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortized cost. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group performs a detail review.

4. APPLICATION OF NEW AND AMENDMENTS INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize 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: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes 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 IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

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

The management of the Company is in the process of assessing the potential impacts of IFRS 15 in respect of the Group contracts with customers, in particular, the identification of performance obligations under IFRS 15 and the allocation of total consideration (including connection fee received from the customers for the construction of the gas pipelines) to the respective performance obligations that will be based on relative fair values. For example, for gas connection contracts with a commitment to provide access to gas supply, the considerations will be allocated over both gas connection service and the obligation to supply gas based on their relative fair values, which may affect the timing and amounts of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review. In addition, the application of IFRS 15 in the future may result in more disclosures in the consolidated financial statements.

4. APPLICATION OF NEW AND AMENDMENTS INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

IFRS 16 *Leases*

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

IFRS 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 recognized 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 while other operating lease payments are presented as operating cash flows. Under IFRS 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.

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

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

Furthermore, extensive disclosures are required by IFRS 16.

As at December 31, 2016, the Group has non-cancellable operating lease commitments of RMB14,705,000 as disclosed in Note 40. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the management of the company complete a detailed review.

4. APPLICATION OF NEW AND AMENDMENTS INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

Amendments to IAS 7 *Disclosure Initiative*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities 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.

The amendments apply prospectively for annual periods beginning on or after January 1, 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statements of financial position for liabilities arising from financing activities.

5. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that 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 IFRS 2 *Share-based payment,* leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets.*

5. SIGNIFICANT ACCOUNTING POLICIES - continued

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

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES - continued

Investments in associates and joint ventures

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

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. 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 recognized in the consolidated statements of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or 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 recognizing its share of further losses. Additional losses are recognized 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 recognized 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 recognized immediately in the statement of profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize 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 is tested for impairment (including goodwill) in accordance with IAS 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 recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 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 recognized in the statement of profit or loss.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized 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.

5. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable from the supply of gas and from installation and connection of natural gas pipelines for end users in the normal course of business.

Revenue is recognized 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 is derived from the supply of natural gas and from the installation and connection of natural gas pipelines for end users.

The Group recognizes revenue from the supply of natural gas when it has been delivered and is recorded on the basis of regular meter readings and estimates of usage since the last meter reading to the end of the reporting year. The majority of revenue is recorded using fixed prices approved by the provincial government. Prepayments received from customers are deferred and recognized as a liability until gas is actually consumed.

The Group's policy for the recognition of revenue from construction services is described in the accounting policy for gas connection contracts 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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Gas connection contracts

Where the outcome of a gas connection contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the progress as estimated by the independent surveyor.

Where the outcome of a gas connection contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized 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 recognized as an expense immediately.

Where contract costs incurred to date plus recognized profits less recognized 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 recognized profits less recognized 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 receipts in advance from customers. Amounts billed for work performed but not yet paid by the customers are included in the consolidated statement of financial position under trade and other receivables.

5. SIGNIFICANT ACCOUNTING POLICIES - continued

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 lessee

Operating lease payments, including the payments made for land held under operating leases, are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. 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 recognized in the statement of profit or loss in the period in which they arise.

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.

All other borrowing costs are recognized in the statement of profit or loss in the period in which they are incurred.

Government grants

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

Government grants are recognized in the statement of profit or loss on a systematic basis over the periods in which the Group recognizes 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 recognized in the consolidated statements of financial position and transferred to the statement of 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 recognized in the statement of profit or loss in the period in which they become receivable.

5. SIGNIFICANT ACCOUNTING POLICIES - continued

Retirement benefit costs

Payments to the state-managed retirement benefit schemes are recognized as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

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

A liability is recognized for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognized 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 recognized in the statement of profit or loss except to the extent that another IFRS requires or permits their inclusion in the cost of an asset.

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees of the Group

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 determined at the grant date of the equity-settled share-based payments 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 (contributed surplus). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the contributed surplus. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to the statement of profit or loss.

When the share options are exercised, the amount previously recognized in contributed surplus will be transferred to share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in contributed surplus will be transferred to retained earnings.

5. SIGNIFICANT ACCOUNTING POLICIES - continued

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 statements 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 each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized 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.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and interests in an associate and a joint venture, 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 recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize 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 each 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 which the liability is settled or the asset is realized, 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 amount of its assets and liabilities.

Current and deferred tax are recognized in the statement of profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. When current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

5. SIGNIFICANT ACCOUNTING POLICIES - continued

Property and equipment

Property and equipment 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 statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Property and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Construction in progress is classified to the appropriate categories of property 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 recognized so as to write off the cost of items of assets other than properties under construction in progress 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.

An item of property and equipment is derecognized 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 and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of profit or loss.

Long-term lease prepayments

Long-term lease prepayments represent payments for obtaining land use right and is amortized to the statement of profit or loss on a straight-line basis over the lease terms as stated in the relevant land use right certificate granted for usage by the Group in the PRC. Long-term lease prepayments which is to be amortized to profit or loss in the next twelve months is classified as current assets.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization 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. (see accounting policy in respect of impairment losses on tangible and intangible assets below).

5. SIGNIFICANT ACCOUNTING POLICIES - continued

Intangible assets - continued

Intangible assets acquired separately - continued

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

Impairment of tangible and intangible assets

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 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 cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flow 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 estimated of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the assets (or a cash-generating unit) 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 measurable), 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 recognized immediately in the statement of profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimated 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 recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the statement of profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories are determined on a weighted average cost method. Net realizable value represents the estimated selling price for inventories less costs necessary to make the sale.

5. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments

Financial assets and financial liabilities are recognized 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 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 at FVTPL are recognized immediately in the statement of profit or loss.

Financial assets

Financial assets are classified as financial assets at available-for-sale 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 recognized and derecognized 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 amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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 debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

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 securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method, and changes in foreign exchange rates, if applicable are recognized in profit or loss. Dividends on AFS equity instruments are recognized 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 recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

5. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, deposits and other receivables, pledged bank deposits and bank balances and cash) are measured at amortized cost using the effective interest method, less any impairment (see accounting policy in respect of impairment loss on financial assets below).

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

Impairment of financial assets

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

For all financial assets other than financial assets at FVTPL, 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-organization; or
- disappearance of an active market for that financial asset because of financial difficulties.

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of profit or loss. When trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the statement of profit or loss.

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

5. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

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 losses was recognized, the previously recognized impairment loss is reversed through the statement of 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 amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified either as 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 recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in the statement of 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 amortized cost of a financial liability and of allocating interest expense over the relevant period. 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 recognized on an effective interest basis.

Financial liabilities at amortized cost

Financial liabilities at amortized cost including trade and other payables, amounts due to an ultimate controlling shareholder and related parties, short-term borrowings and long-term debts are subsequently measured at amortized cost, using the effective interest method.

5. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

The Group derecognizes 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 derecognized and the consideration paid and payable is recognized in the statement of profit or loss.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, which are described in note 5, the management of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated 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 on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future 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 twelve months from the end of each reporting period.

Revenue recognition

Revenue from gas connection contracts is recognized using the percentage-of-completion method, measured by reference to the value of work carried out during the relevant period. When it is probable that total contract costs will exceed contract revenue, the expected loss is recognized as an expense in the period in which the expected loss is identified. Revenue recognition from gas connection contracts is dependent upon estimating the stages of completion and the outcome of the contracts. For the year ended December 31, 2016, gas connection contract revenue is RMB134,809,000 (2015: RMB123,162,000).

6. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Key sources of estimation uncertainty - continued

Useful lives and impairment of property and equipment

The Group's property and equipment are depreciated over their estimated useful economic lives on a straight-line basis. Useful lives are based upon management's estimates of the length of time that property and equipment will generate revenue, which is reviewed at least annually for appropriateness. Changes to these estimates can result in variations in the amounts charged for depreciation and in the carrying amounts of the property and equipment.

The Group assesses the carrying value of property and equipment for indications of impairment when events or circumstances indicate that the carrying amounts may not be recoverable from estimated future cash flows. Estimating future cash flows requires assumptions about future business conditions and technological developments. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

As at 31 December 2016, the carrying amount of property and equipment is amounting to RMB385,654,000 (2015: RMB352,439,000) and no impairment loss has been recognized. Details of the property and equipment are disclosed in note 15.

Estimated impairment of trade receivables and amounts due from customers for contract work

In assessing the impairment of trade receivables and amounts due from customers for contract work, the Group assesses for impairment indicator at the end of each reporting period.

When there is objective evidence of impairment loss of the trade receivables and amounts due from customers for contract work, the Group takes into consideration the estimation of future cash flows of the trade receivables and amounts due from customers for contract work. The amount of the impairment loss of trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition, where applicable). Where the actual future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise. For the impairment loss of amounts due from customers on contract work, the management of the Company reviews the net realisable value of the productions work in progress on the gas connection construction project by project basis at the end of the reporting period and makes allowances for amounts due from customers for contract work whenever estimated selling price less the estimated cost of completion and the estimated cost necessary to make the sale is lower than the cost. In case there are changes in the estimation of the selling price and estimated cost, additional allowances might be required.

As at December 31, 2016, the carrying amount of trade receivables is RMB16,993,000 (net of allowance for doubtful debts of RMB739,000) (2015: carrying amount of RMB14,652,000, net of allowance for doubtful debts of RMB312,000), and the carrying amount of amounts due from customers for contract work is RMB20,549,000 (net of allowance for doubtful debts of RMB2,722,000) (2015: carrying amount of RMB27,061,000, net of allowance for doubtful debts of RMB1,133,000).

7. REVENUE AND SEGMENT INFORMATION

An analysis of the Group's revenue for the year is as follows:

	Year ended December 31, 2016 RMB'000	Year ended December 31, 2015 RMB'000 (restated)
Gas distribution utility		
- Gas sales	170,444	139,053
- Pipeline installation and connection	134,809	123,162
CNG refuelling station	49,196	43,230
	354,449	305,445

There were no significant intragroup transactions between segments. No single customer accounted for more than 10% of the Group's sales in both years or trade and other receivables at December 31, 2016 and 2015.

Information reported to the Chief Executive Officer of the Group, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance.

The CODM reviews operating results and financial information for each sub-group of operating companies separately. Accordingly, each sub-group of operating companies in the PRC is identified as an operating segment. Those operating segments are aggregated into gas distribution utility segment and CNG vehicles refuelling segment respectively for segment reporting purpose after taking into account that those operating segments are operating in similar business model with similar target group of customers, similar products and services and similar methods used to distribute their products and under the similar regulatory environment.

Specifically, the Group's reportable segments under IFRS 8 *Operating Segments* are as follows:

(a) Gas distribution utility which includes gas sales and pipeline installation and connection; and

(b) CNG vehicle refuelling.

The gas distribution utility segment provides gas pipeline connection services and delivers natural gas to commercial, industrial and residential customers through its pipeline networks and associated facilities in Sanya City, Hainan Province and Pingxiang City, Jiangxi Province in the PRC. The Group's other segment is a CNG vehicle refuelling in PRC, which primarily supply gas for taxicabs and public transportation vehicles.

7. REVENUE AND SEGMENT INFORMATION - continued

During the year, the Group changed its internal reporting structure and subsequent to this change, corporate expense and income are no longer allocated to the segments. Comparative segment information was restated accordingly. Additionally, segment information relating to assets and liabilities were no longer regularly provided to the CODM since April 2016. Accordingly, the Group has not included information about assets and liabilities as part of segment information as set out in this note.

Summarized financial information concerning the reportable segments is shown in the following tables:

For the year ended December 31, 2016

	Gas distribution utility RMB'000	CNG vehicles refuelling RMB'000	Consolidated RMB'000
Segment revenue	305,253	49,196	354,449
Segment profit	65,521	9,256	74,777
Share of loss of an associate			(7)
Share of loss of a joint venture			(3,516)
Loss on disposal of a joint venture			(3,114)
Unallocated income			85
Unallocated expenses			(22,811)
Profit before tax			45,414

For the year ended December 31, 2015 (restated)

	Gas distribution utility RMB'000	CNG vehicles refuelling RMB'000	Consolidated RMB'000
Segment revenue	262,215	43,230	305,445
Segment profit	61,839	7,699	69,538
Share of loss of an associate			(7)
Share of loss of a joint venture			(399)
Unallocated income			205
Unallocated expenses			(12,992)
Profit before tax			56,345

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 5. Segment profit represents the profit earned by each segment without allocation of share of loss of an associate and a joint venture, unallocated income and unallocated expenses. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

7. REVENUE AND SEGMENT INFORMATION - continued

Geographic information

The Group's operations are substantially based in the PRC and significantly all non-current assets of the Group are located in the PRC. Therefore, no further analysis of geographical information is presented.

8. OTHER INCOME

	2016 RMB'000	2015 RMB'000 (restated)
Interest income from bank deposits	445	545
Others	236	45
	681	590

9. OTHER GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000 (restated)
Impairment losses recognized on trade receivables	(427)	58
Impairment losses recognized on amount due from customers	(1,589)	(1,062)
Unrealized exchange (loss) gain (Note)	(1,151)	2,995
Gain reclassified from equity to profit or loss on available-for-sale financial assets	55	-
Loss on disposal of property and equipment	(45)	(9)
Others	417	9
	(2,740)	1,991

Note:

Due to the change in functional currency of the Company as detailed in Note 2, unrealized exchange differences arose from the translation in bank balances and cash, short-term bank borrowing and inter-company current accounts which are denominated in a currency other than RMB is recognised in profit or loss for the years ended December 31, 2016 and 2015.

10. FINANCE COSTS

	2016 RMB'000	2015 RMB'000 (restated)
Interest expense on short-term bank borrowings and long-term debts	9,272	9,635
Less: amounts capitalized in the cost of property and equipment	(1,398)	(2,225)
	7,874	7,410

11. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000 (restated)
Current tax:		
PRC Enterprise Income Tax ("EIT")	19,725	18,509
PRC withholding EIT	3,227	1,164
Deferred tax (note 33)	1,136	320
	24,088	19,993

The Company was incorporated in Canada and subject to Canadian federal and Ontario statutory income tax at a rate of 26.5% (2015: 26.5%) on assessable profits in Canada during the reporting period.

A subsidiary, Hainan Energy Ltd., was incorporated in the British Virgin Islands and tax exempted under the laws of the British Virgin Islands.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% during the reporting period (2015: 25%).

The income tax expense for the year can be reconciled to the profit before tax as follows:

	2016 RMB'000	2015 RMB'000 (restated)
Profit before tax	45,414	56,345
Tax at Canadian federal and Ontario statutory income tax rate of 26.5%	12,035	14,931
Tax effect of expenses not deductible for tax purposes	2,031	1,545
Effect of difference tax rates of entities operating in other jurisdiction	(1,032)	(1,915)
Tax effect of tax losses and deductible temporary differences not recognized	6,990	4,848
PRC withholding EIT	3,227	1,164
Deferred tax on undistributed earnings in PRC	556	-
Other	281	(580)
Income tax expense for the year	24,088	19,993

12. PROFIT FOR THE YEAR

	2016 RMB'000	2015 RMB'000 (restated)
Profit for the year has been arrived at after charging (crediting) the following:		
Directors' remuneration	419	484
Other staff costs	28,237	26,778
Staff retirement benefit scheme contribution	5,779	4,426
Total remuneration	34,435	31,688
Release of long-term lease prepayments	440	483
Cost of inventories recognized as expense in cost of sales	112,120	78,455
Contract cost recognize as expense in cost of sales	36,290	30,450
Depreciation of property and equipment	16,932	16,024
Amortization of intangible assets (included in cost of sales)	139	5,762
Auditors' remuneration	2,480	2,028

13. DIVIDENDS

No dividend has been paid or proposed by the Company during 2016, nor has any dividend been proposed since the end of the reporting period (2015: nil).

14. EARNINGS PER SHARE

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

	2016 RMB'000	2015 RMB'000 (restated)
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	19,886	34,146

	2016	2015
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	61,976,208	62,692,717
Effect of dilutive potential shares:		
Share options issued by the Company	224,556	646,416
Weighted average number of ordinary shares for the purpose of diluted earnings per share	62,200,764	63,339,133
Basic earnings per share (Note)	RMB0.32	RMB0.54
	CAD0.06	CAD0.11
Diluted earnings per share (Note)	RMB0.32	RMB0.54
	CAD0.06	CAD0.11

14. EARNINGS PER SHARE - continued

Note: The CAD figures presented above are shown for reference only and have been arrived at based on the exchange rate for RMB1.0000 to CAD0.1996 for 2016 and RMB1.0000 to CAD0.2034 for 2015, being the average exchange rate that prevailed during the respective years.

The computation of diluted earnings per share for the year ended December 31, 2016 did not assume the exercise of 3,358,740 share options (2015: 3,865,918) issued by the Company because the exercise price of those options was higher than the average market price for both 2016 and 2015.

15. PROPERTY AND EQUIPMENT

	Buildings	Pipelines	Motor vehicles	Furniture and equipment	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At January 1, 2015 (restated)	33,766	303,664	14,814	43,365	3,973	39,433	439,015
Additions	219	760	1,480	695	-	44,919	48,073
Disposals (Note a)	(7,929)	-	(130)	(192)	-	-	(8,251)
Deemed disposals (Note b)	-	(11,681)	-	-	-	-	(11,681)
Transfer	-	6,518	-	-	-	(6,518)	-
At December 31, 2015 (restated)	26,056	299,261	16,164	43,868	3,973	77,834	467,156
Additions	981	2,156	700	1,308	-	45,047	50,192
Disposals	-	-	(335)	(440)	-	-	(775)
Transfer	7,617	38,942	-	3,796	-	(50,355)	-
At December 31, 2016	34,654	340,359	16,529	48,532	3,973	72,526	516,573
DEPRECIATION							
At January 1, 2015 (restated)	1,823	73,178	7,540	15,511	954	-	99,006
Depreciation	792	9,361	1,697	3,891	283	-	16,024
Disposals	-	-	(126)	(187)	-	-	(313)
At December 31, 2015 (restated)	2,615	82,539	9,111	19,215	1,237	-	114,717
Depreciation	896	9,977	1,580	4,189	290	-	16,932
Disposals	-	-	(317)	(413)	-	-	(730)
At December 31, 2016	3,511	92,516	10,374	22,991	1,527	-	130,919
NET BOOK VALUE							
At December 31, 2016	31,143	247,843	6,155	25,541	2,446	72,526	385,654
At December 31, 2015 (restated)	23,441	216,722	7,053	24,653	2,736	77,834	352,439

The above items of property and equipment, other than construction in progress, after taking into account their estimated residual value, are depreciated on a straight-line basis at the following useful life:

Buildings	30 - 35 years
Pipelines	30 - 35 years
Motor vehicles	3 - 10 years
Furniture and fixtures	3 - 20 years
Leasehold improvements	Over the shorter of 5 years and the lease term of 20 years

The Group has pledged pipelines and motor vehicles with a net book value of approximately RMB56,829,000 (2015: nil) to secure the RMB60,000,000 (2015: nil) bank loan of the Group.

15. PROPERTY AND EQUIPMENT- continued

Notes:

a. During the year ended December 31, 2015, RMB7,929,000 was reversed out from buildings to other receivables, prepaid expenses and deposits as the Group expected the amount incurred previously would be refunded by the local government (note 23).

b. Due to the change in city planning, pipelines amounted to RMB11,681,000 have been impaired as at December 31, 2015. The costs spent on the relocation and construction of new pipelines classified as construction in progress amounted to RMB11,681,000 has been recognized for the year ended December 31, 2015. These relocation costs would be refunded by the local government (note 23).

16. LONG-TERM LEASE PREPAYMENTS

The Group's prepaid lease payments comprise leasehold land in the PRC and are analyzed for reporting purposes as follows:

	2016 RMB'000	2015 RMB'000 (restated)
Current assets	1,271	262
Non-current assets	16,225	9,841
	17,496	10,103

The long-term lease prepayments represent the land use rights and are amortized on a straight-line basis over lease terms of 5 to 50 years as stated in the relevant land use right certificates granted for usage by the Group in the PRC.

17. INTANGIBLE ASSETS

	Gas purchase contract and supply rights RMB'000	Software RMB'000	Total RMB'000
COST			
At January 1, 2015 (restated)	13,120	929	14,049
Additions	-	80	80
At December 31, 2015 (restated)	13,120	1,009	14,129
Additions	-	1,701	1,701
Write-off (Note)	(10,970)	-	(10,970)
At December 31, 2016	2,150	2,710	4,860
AMORTIZATION			
At January 1, 2015 (restated)	6,180	245	6,425
Amortization	5,597	165	5,762
At December 31, 2015 (restated)	11,777	410	12,187
Amortization	114	25	139
Write-off (Note)	(10,970)	-	(10,970)
At December 31, 2016	921	435	1,356
NET BOOK VALUE			
At December 31, 2016	1,229	2,275	3,504
At December 31, 2015 (restated)	1,343	599	1,942

The above intangible assets have finite useful lives. Such intangible assets are amortized on a straight-line basis over the following periods:

Gas purchase contract and supply rights	Over the contractual useful life of 2 to 17.5 years commencing from the initial delivery of gas
Software	10 years

Note: On February 22, 2012, the Company entered into Gas and Electricity Exchange Program (the "Program") with the Local Power Bureau and China National Offshore Oil Yacheng Operation Co., Ltd., which the Group secured an additional annual supply of natural gas totalling approximately 5 million cubic meters until 2015. As of December 2015, this intangible asset has been fully amortized and the cost and accumulated amortization of the Program of RMB10,970,000 are written off during the year ended December 31, 2016.

Included in the balance as at December 31, 2016 represented the amount of another gas purchase contract and supply rights which are amortized for 17.5 years with a net book value of RMB1,229,000 (2015: RMB1,343,000).

18. INTEREST IN AN ASSOCIATE

	2016 RMB'000	2015 RMB'000 (restated)
Cost of investment in an associate - unlisted	5,000	5,000
Share of post-acquisition losses and other comprehensive expense	(343)	(336)
	4,657	4,664

Details of the Group's associates as at December 31, 2016 and 2015 is as follows:

Name of entity	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group	Proportion of voting rights held by the Group	Principal activity
Xiangtan Shin-Ko Energy Co., Ltd.* 湘潭市长丰深冷能源有限公司 ("Shin-Ko Energy")	The PRC	The PRC	50% (note)	50% (note)	Operating liquefied natural gas ("LNG") storage facility

* The English name of the associate is for identification purpose only.

Note: The Group holds 50% of the issued share capital of Shin-Ko Energy. However, under the shareholders' agreement, the other shareholders control the composition of the board of directors of Shin-Ko and has the control over Shin-Ko. Management of the Company consider that the Group has significant influence over Shin-Ko through its representation in the board of Director and it is therefore classified as an associate of the Group.

19. INTEREST IN A JOINT VENTURE

	2016 RMB'000	2015 RMB'000 (restated)
Cost of investment in a joint venture - unlisted	-	20,000
Share of post-acquisition losses and other comprehensive expenses	-	(399)
	-	19,601

Details of the Group's investments in joint venture from the date of establishment July 21, 2015 and as at December 31, 2016 and 2015 is as follows:

Name of entity	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group 2016	Proportion of ownership interest held by the Group 2015	Proportion of voting rights held by the Group 2016	Proportion of voting rights held by the Group 2015	Principal activities
Caofeidian Evergrowth Energy Co., Ltd.* 恒泰曹妃甸能源有限公司 ("Evergrowth")	The PRC	The PRC	-	50%	-	50%	Natural gas distribution, trading LNG and related infrastructure construction

* The English name of the joint venture is for identification purpose only.

19. INTEREST IN A JOINT VENTURE - continued

	2016 RMB'000
Proceeds of disposal	12,971
Less: Carrying amount of the investment on the date of loss of disposal	(16,085)
Loss of disposal of a joint venture	(3,114)

On September 29, 2016, the Group entered into an agreement with the joint venture partner of Evergrowth to dispose of all equity interest in Evergrowth for an aggregate cash consideration of RMB12,971,000. The transaction was completed on September 29, 2016 and resulted in loss of disposal of approximately RMB3,114,000 during the year.

Summarized financial information of joint venture

Summarized financial information in respect of the Group's joint venture is set out below. The summarized financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRSs.

The joint venture is accounted for using the equity method in these consolidated financial statements.

	2016 RMB'000	2015 RMB'000 (restated)
Current assets	N/A	36,336
Non-current assets	N/A	2,955
Current liabilities	N/A	(89)
Non-current liabilities	N/A	-
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	N/A	35,737
Current financial liabilities (exclude trade and other receivables)	N/A	-
Non-current financial liabilities (exclude trade and other receivables)	N/A	-

19. INTEREST IN A JOINT VENTURE - continued

Summarized financial information of joint venture - continued

	January 1, 2016 to September 29, 2016 RMB'000	January 1, 2015 to December 31, 2015 RMB'000 (restated)
Revenue	-	-
Loss and total comprehensive expense for the year	7,032	797
Other comprehensive expense for the year	-	-
Total comprehensive expense for the year	7,032	797
Dividend received from Evergrowth during the year	-	-

The above loss for the year includes the following:

Amortization	52	192
Interest income	(416)	(94)
Interest expense	-	-
Income tax expense	-	-

Reconciliation of the above summarized financial information to the carrying amount of the interest in the joint venture recognized in the consolidated financial statements:

	2016 RMB'000	2015 RMB'000 (restated)
Net assets of Evergrowth	N/A	39,202
Proportion of the Group's ownership interest in Evergrowth	N/A	50%
Carrying amount of the Group's interest in Evergrowth	N/A	19,601

20. INVENTORIES

	2016 RMB'000	2015 RMB'000 (restated)
Construction materials	4,059	3,254
Gas appliances, meters and spare parts	390	756
Natural gas	316	1,867
	4,765	5,877

At December 31, 2016, no inventories (2015: RMB171,000) were written down to lower of cost and net realizable value. No reversal of any write down were recorded during the year ended December 31, 2016 (2015: nil).

21. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2016 RMB'000	2015 RMB'000 (restated)
Contract costs incurred plus recognized profits less recognized losses and progress billings	(19,311)	(3,688)

Analyzed for reporting purposes as:

	2016 RMB'000	2015 RMB'000 (restated)
Amounts due from customers for contract work	17,827	25,928
Amounts due to customers for contract work	(37,138)	(29,616)
	(19,311)	(3,688)

Amounts due from customers for contract work represents unbilled revenue from pipeline installation and connection recognized based on the percentage of completion of work performed. The payment terms in relation to pipeline installation and connections are generally by installments, with the initial installment payable upon commencement of the services, installments payable during the installation and connection process depending on the payment milestone and the final installation payable upon completion of gas connection.

	2016 RMB'000	2015 RMB'000 (restated)
Amounts due from customers for contract work	20,549	27,061
Less: allowance of impairment loss recognized	(2,722)	(1,133)
Balance at end of the year	17,827	25,928

21. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK - continued

No credit period granted by the Group to customers for installation and connection of natural gas pipeline as in accordance to the payment terms stated in the contract, amount is due immediately when billings were made.

Recoverability of amounts due from customers for contract work is reviewed on a case-by-case basis when there is objective evidence that a customer will default. Management takes into consideration the customer's payment history, the credit worthiness and the current economic environment in which the customer operates to assess the amount of impairment.

Movement in the allowance of impairment:

	2016 RMB'000	2015 RMB'000 (restated)
Balance at beginning of the year	1,133	71
Allowance of impairment loss recognized	1,589	1,062
Balance at end of the year	2,722	1,133

For the year ended December 31, 2016, the Group identified amounts due from customers of RMB1,589,000 (2015: RMB1,062,000) that were impaired due to difficulties and delay in collecting the outstanding balances.

22. TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000 (restated)
Trade receivables	16,993	14,652
Less: Allowance for doubtful debts	(739)	(312)
	16,254	14,340

Before accepting any new customer, the Group assesses the potential customer's credit quality. Management considers the customers neither past due nor impaired are of good credit quality based on repayment history of respective customers.

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of RMB562,000 which are past due as at December 31, 2015 for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances. The average age of these receivables is 26 days for year ended December 31, 2016 (2015: 29 days).

Credit period granted by the Group to customers for supply of natural gas is usually 30 days from the date of demand note.

22. TRADE RECEIVABLES - continued

Ageing of trade receivables which are past due but not impaired:

	2016 RMB'000	2015 RMB'000 (restated)
31 days to 60 days	-	169
61 days to 90 days	-	27
91 days to 1 year	-	189
Over 1 year	-	177
	-	562

Movement in the allowance for doubtful debts:

	2016 RMB'000	2015 RMB'000 (restated)
Balance at beginning of the year	312	370
Impairment losses (reversal) recognized on trade receivables	427	(58)
Balance at end of the year	739	312

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB739,000 for the year ended December 31, 2016 (2015: RMB312,000) which are either under late payment or subject to finalize the completion report of the pipeline construction under dispute.

23. OTHER RECEIVABLES, PREPAID EXPENSES AND DEPOSITS

	2016 RMB'000	2015 RMB'000 (restated)
Demolition compensation payment on behalf of local government (Note a)	7,929	7,929
Pipeline relocation receivables (Note b)	10,038	11,681
Deposits paid for acquisition of property and equipment	1,272	4,076
Prepayments for gas purchase	1,558	957
Rental prepayment	906	537
Deposit for land rental payment (Note c)	289	1,030
VAT recoverable	3,393	-
Other receivables from a former joint venture	2,000	-
Other tax recoverable	1,630	1,199
Other prepayments and deposits	3,780	2,476
	32,795	29,885
Analyzed for reporting purposes as follows:		
- Current assets	25,010	19,175
- Non-current assets	7,785	10,710
	32,795	29,885

23. OTHER RECEIVABLES, PREPAID EXPENSES AND DEPOSITS - continued

Notes:

(a) In 2012, for the purpose of construction of certain gas distribution facilities, the Group paid demolition compensation to local inhabitants of approximately RMB7,929,000. The payment amounts were capitalized as part of the cost of the gas pipeline facilities in equipment as there was no agreed time-table and mechanism for reimbursements of such payments. In 2015, the Group submitted further detailed applications to the local government authority, and in March 2016, the local government has approved the application reimbursement and confirmed to the Group about its acceptance of the amount paid. Accordingly, the Group has adjusted the carrying amount of the gas pipeline assets and has recognized the amount confirmed by the government as other receivables. Subsequent to the year ended December 31, 2016, RMB7,517,000 was refunded by the local government.

(b) During 2015, due to the change in city planning, local government notified the Group to relocate its gas pipelines for complying with the revised city plan and agreed that it would compensate part of the costs incurred by the Group as a result of the notified relocation. At December 31, 2016, the balances are approximately RMB10,038,000 (2015: RMB11,681,000) on construction of new pipelines as a result of the relocation notice. The Group expected RMB4,041,000 (2015: RMB5,685,000) would be refunded by the local government in 2017 with the remaining balance of RMB5,997,000 (2015: RMB5,996,000) to be refunded beyond 2017.

(c) In 2015, the Group made deposits of RMB1,030,000 for a long-term land use right at ZhaoQing, the PRC. The Group obtained the long-term land use right in February 2016.

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 RMB'000	2015 RMB'000 (restated)
Listed investments		
- Equity securities listed in Toronto and New York Stock Exchange	726	-

Financial assets	Fair value as at 12.31.2016	Fair value as at 12.31.2015	Fair value hierarchy	Value technique(s) and key input(s)
Available-for-sale Financial assets	Listed equity securities in Toronto and New York: - RMB726,000	N/A	Level 1	Quote bid prices in an active market

25. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

Bank balances and pledged bank deposits carried a market interest rates which ranged from 0.30% to 1.55% per annum as at December 31, 2016 (2015: 0.3% to 2.95%).

26. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000 (restated)
Trade payables	44,892	40,082
Deposit received from customers for natural gas supplies	4,598	4,398
Accrued wages and staff benefits	7,439	7,529
Other tax payables	2,649	2,951
Other payables	2,506	2,599
	62,084	57,559

The average credit period on purchase of natural gas and construction payable to construct pipeline ranges from 5 to 30 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

27. AMOUNT DUE TO AN ULTIMATE CONTROLLING SHAREHOLDER

The amount is unsecured, non-interest bearing, subordinated to the claims of all other creditors, including unsecured creditors of the Group and were due on demand only after April 27, 2017. In 2007, Mr. Lin, advanced loans in the aggregate amount of RMB40,000,000 to the Company, in accordance with a Subordination and Forbearance Agreement dated April 27, 2007, Consignment Loan Agreements dated May 23, 2007 and June 26, 2007, and other ancillary documentation. Pursuant to the Subordination and Forbearance Agreement, the lenders agreed to take no steps to demand or recover payment under the loans for a period of three years, and to enter into an agreement with the Group with the same terms and conditions as the Subordination and Forbearance Agreement every three years in perpetuity.

On April 27, 2010, these loans were renewed for another three years with the same terms and conditions. On April 27, 2013, these loans were renewed for another two years with the same terms and conditions. On April 27, 2015, these loans were renewed for another year with the same terms and conditions. On April 27, 2016, these loans have been renewed for one year with the same terms and conditions.

28. AMOUNTS DUE TO RELATED PARTIES

Name of related	Relationship parties	Terms	2016 RMB'000	2015 RMB'000 (restated)
Shin-Ko Energy	Associate	Non-trade, unsecured, non-interest bearing and repayable on demand	(4,249)	(4,249)
Mr. Huajun Lin	Ultimate controlling shareholder	Non-trade, unsecured, non-interest bearing and repayable on demand for unpaid salary	-	(1,722)
Other directors	Executive directors	Outstanding directors' fees, unsecured, non-interest bearing and repayable on demand	-	(333)
			(4,249)	(6,304)

As at December 31, 2016, the Company has fully settled Mr. Lin's unpaid salary and director's fees outstanding at December 31, 2015.

29. RECEIPTS IN ADVANCE FROM CUSTOMERS

	2016 RMB'000	2015 RMB'000 (restated)
Receipts in advance from customers		
- Natural gas sales	11,872	10,135
- Pipeline installation and connection projects	52,784	47,842
	64,656	57,977

30. SHORT-TERM BANK BORROWINGS

The Group's short-term bank borrowings comprise:

Lender	Secured/unsecured	Contractual interest rate	Effective interest rate 2016	Effective interest rate 2015	Carrying amount 2016 RMB'000	Carrying amount 2015 RMB'000 (restated)	Note
Bank of China, Sanya	Secured	Fixed interest rate at 4.4%	4.4%	4.5%	-	10,000	(a)
Bank of China (Canada)	Secured	Six-month LIBOR plus 250 basis point	2.3%	2.9%	10,435	9,742	(b)
China Minsheng Bank, Sanya	Unsecured	Fixed interest rate at 5.4%	5.4%	5.4%	-	20,000	(c)
China Everbright Bank, Haikou	Unsecured	Fixed interest rate at 4.4%	4.4%	N/A	30,000	-	(d)
Total short-term bank borrowings					40,435	39,742	

30. SHORT-TERM BANK BORROWINGS - continued

Notes:

a. The short-term loan from Bank of China, Sanya is secured by 60% of the equity interest in Sanya Changfeng Offshore Natural Gas Distribution Co., Ltd. ("CF China"), the gas connection and gas supply rights of CF China and the trade receivables from 2012 to 2022 of CF China and Sanya Changfeng Offshore Natural Gas Engineering Construction Co., Ltd. ("CF Engineering"). The amount has been fully repaid in the current year.

b. The 1-year term loan from Bank of China (Canada) is denominated in United States dollars ("USD") with a principal amount of USD1,500,000 and is secured by a pledged bank deposit to of RMB1,005,000 (2015: RMB10,008,000).

c. At December 31, 2015, the short-term loan from China Minsheng Bank, Sanya was guaranteed by Mr. Lin, with a maximum guarantee amount of RMB20,000,000. The amount has been fully repaid in the current year.

d. In 2016, the Group entered into 1-year facility line of credit with China Everbright Bank Haikou with an aggregate amount of RMB50,000,000. RMB30,000,000 is withdrawn by the Group during the year ended December 31, 2016. The credit line is guaranteed by Mr. Lin, with a maximum guarantee amount of RMB50,000,000.

As at December 31, 2016 and 2015, the Group was in compliance with all of its debt covenants.

31. LONG-TERM DEBTS

	2016 RMB'000	2015 RMB'000 (restated)
Bank borrowings		
- Secured, with variable rate	148,663	104,534
- Unsecured, with variable rate	11,000	14,000
	159,663	118,534
The carrying amounts of the above borrowings are repayable:*		
Within one year	28,000	19,000
Within a period of more than one year, but not exceeding two years	27,000	27,000
Within a period of more than two years, but not exceeding five years	52,000	49,000
Within a period of more than five years	54,000	24,000
	161,000	119,000
Less: Unamortized transaction costs	(482)	(763)
	160,518	118,237
Less: Amounts due within one year shown under current liabilities	(28,000)	(19,000)
Amounts shown under non-current liabilities	132,518	99,237

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

31. LONG-TERM DEBTS - continued

The Group's long-term debts comprise:

Lender	Secured/ unsecured	Contractual interest rate	Effective interest rate 2016	Effective interest rate 2015	Carrying amount 2016 RMB'000	Carrying amount 2015 RMB'000 (restated)	Note
Bank of China, Sanya	Secured	5-year People's Bank of China ("PBOC") benchmark borrowing rate, repricing every 6 months	4.9%	5.8%	59,518	69,237	(a)
Bank of China, Sanya	Secured	110% of 5-year PBOC benchmark borrowing rate, repricing every 6 months	5.4%	5.9%	30,000	35,000	(b)
Bank of China, Sanya	Secured	10-year PBOC benchmark borrowing rate, repricing every 12 months	4.9%	N/A	60,000	-	(c)
Bank of China, Pingxiang	Unsecured	120% of 5-year PBOC benchmark borrowing rate, repricing every 3 months	5.9%	5.9%	11,000	14,000	(d)
Total long-term debts					160,518	118,237	

Notes:

a. The term loan from Bank of China, Sanya with an original principal amount of RMB100,000,000 was drawn upon in 2010. The loan is secured by 60% of the equity interest in CF China together with the gas connection and gas supply rights of CF China. The loan is repayable semi-annually by instalments and will be fully repaid in 2019.

b. In 2013, the Group entered into an agreement with Bank of China, Sanya to secure a bank loan facility in the amount of RMB40,000,000. The bank loan facility was used to fund continued construction of pipeline and associated facilities of the Haitang Bay project in Sanya City, the PRC. The loan is secured by 60% of the equity interest in CF China together with the gas connection and gas supply rights of CF China and the trade receivables from 2012 to 2022 of CF China and CF Engineering. The loan is repayable semi-annually by instalments and will be fully repaid in 2023.

c. In 2016, the Group entered into an agreement with Bank of China, Sanya to secure a bank loan facility in the amount of RMB80,000,000. The bank loan facility was used to fund continued construction of pipeline and associated facilities of the Haitang Bay project in Sanya City, the PRC. During the year ended December 31, 2016, the Group has withdrawn RMB60,000,000 from the facility. The loan has a 10-year term from the date of the first initial withdrawal. The loan is secured by the gas connection and gas supply rights of CF China, the trade receivables of CF China and CF Engineering and certain property and equipment with an aggregate amount of RMB56,829,000. The loan will begin repayment from 2019 and will be fully repaid in 2025.

d. In 2012, the Group entered into a term loan with the Bank of China, Pingxiang for RMB20,000,000, maturing six years from the date of the first withdrawal. The proceeds from the loan would be used to fund the construction of pipelines and related property and equipment in the Xiangdong district, Pingxiang city, Jiangxi province, the PRC. The loan is repayable by four instalments annually and will be fully repaid in 2018.

32. DEFERRED INCOME - GOVERNMENT GRANTS

Amounts represented government grants. The company received RMB5,269,000 in government grants to fund the construction of certain items of property and equipment for the Group's operation in Sanya City in 2012. These government grants were recognized as a long-term liability and will be recognized in the statement of profit or loss over the expected useful lives of these property and equipment when these property and equipment are ready for use. As of December 31, 2016, part of the property and equipment are ready for use and RMB70,000 (2015: RMB45,000) is recognized as other income. As at December 31, 2016, the government grants of RMB5,154,000 was recognized as non-current liability (2015: RMB5,224,000).

33. DEFERRED TAX LIABILITIES

	2016 RMB'000	2015 RMB'000 (restated)
Deferred tax liabilities	8,145	7,009

The following are the major deferred tax assets (liabilities) recognized and movements thereon during the current and prior year:

	Property and equipment RMB'000	Accrued receivables on gas sales RMB'000	Receipts in advance on gas sales and deferred income - government grants RMB'000	Withholding tax on undistributed earnings RMB'000	Total RMB'000
At January 1, 2015 (restated)	(6,307)	(1,100)	986	(268)	(6,689)
Credit (charge) to profit or loss	(1,680)	154	938	268	(320)
At December 31, 2015 (restated) and January 1, 2016	(7,987)	(946)	1,924	-	(7,009)
Credit (charge) to profit or loss	(1,184)	(112)	716	(555)	(1,136)
At December 31, 2016	(9,171)	(1,058)	2,640	(555)	(8,145)

Under the EIT law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to RMB210,443,000 at December 31, 2016 (2015: RMB162,354,000), 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.

At the end of the reporting period, the Group has the following unused tax losses and deductible temporary differences available for offset against future profits:

	2016 RMB'000	2015 RMB'000 (restated)
Loss carried forward	107,179	80,993
Deductible temporary differences	2,047	1,854
	109,226	82,847

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom. Included in unrecognized tax losses are losses of RMB50,736,000 (December 31, 2015: RMB39,259,000) that will fully expire in 2020 and RMB55,828,000 (December 31, 2015: RMB41,178,000) that will fully expire in 2035. Other losses may be carried forward indefinitely.

34. SHARE CAPITAL

Share capital of the Company

	Number of shares	Amount RMB'000
Common shares		
Issued and fully paid:		
At January 1, 2015 (restated)	63,099,200	61,260
Repurchased (Note)	(1,197,500)	(2,002)
Exercised options	50,000	82
At December 31, 2015 (restated)	61,951,700	59,340
Repurchased (Note)	(614,000)	(1,086)
Exercised options	700,000	2,023
At December 31, 2016	62,037,700	60,277

Note: On June 22, 2015, the Group received approval from the TSX-V to make a normal-course issuer bid (the "Bid") to periodically purchase, for cancellation, up to 3,000,000 common shares for the period from June 24, 2015 to June 23, 2016. During the year, the Group purchased 614,000 of the Company's common shares under the Bid for cash consideration of RMB1,086,000 (2015: 1,197,500 common shares for cash consideration of RMB2,002,000), inclusive of transaction costs.

35. STOCK-BASED COMPENSATION

The share option scheme of the Company (the "Option Scheme") were adopted for the primary purpose of providing incentives or rewards to selected participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest. Under the Option Scheme, the board of management of the company may grant options to eligible participants including employees, senior officers and directors (including executive and non-executive directors) of the Company or any of its subsidiaries, and any suppliers, consultants and advisers who will contribute or have contributed to the Group to subscribe for shares in the Company.

Under the Company's Option Scheme, the Company may grant stock options to directors, senior officers, employees and advisors, and is authorized to issue options equal to 10% of the issued and outstanding shares of the Company. The Board of Directors, or such other persons designated by the board, administers the option scheme and determines the vesting and terms of each award.

35. STOCK-BASED COMPENSATION - continued

The following table discloses movement of the Company's share options held by directors and employees during the respective financial year.

For the year ended December 31, 2016

Category of grantees	Date of grant	Vesting conditions	Exercise price per share	Number of share options: Outstanding at 1.1.2016	Granted during the year	Exercised during the year	Expired/ cancelled during the year	Outstanding at 12.31.2016
Directors and Management	September 8, 2011	Immediately	CAD0.23	850,000	-	-	(850,000)	-
Directors and Chinese management	July 12, 2012	Immediately	CAD0.24	1,000,000	-	-	-	1,000,000
Directors, officers and Chinese management	August 26, 2013	Immediately vest for 1/3 grant, first anniversary vest for 1/3 grant and second anniversary vest for 1/3 grant	CAD0.35	3,150,000	-	(650,000)	(10,000)	2,490,000
Directors, officers and Chinese management	July 31, 2015	Immediately	CAD0.36	490,000	-	(50,000)	-	440,000
				5,490,000	-	(700,000)	(860,000)	3,930,000

For the year ended December 31, 2015 (restated)

Category of grantees	Date of grant	Vesting conditions	Exercise price per share	Number of share options: Outstanding at 1.1.2015	Granted during the year	Exercised during the year	Expired/ cancelled during the year	Outstanding at 12.31.2015
Directors and management	May 28, 2010	Immediately	CAD0.60	800,000	-	-	(800,000)	-
Directors and management	September 8, 2011	Immediately	CAD0.23	900,000	-	(50,000)	-	850,000
Directors and Chinese management	July 12, 2012	Immediately	CAD0.24	1,200,000	-	-	(200,000)	1,000,000
Directors, officers and Chinese management	August 26, 2013	Immediately vest for 1/3 grant, first anniversary vest for 1/3 grant and second anniversary vest for 1/3 grant	CAD0.35	3,400,000	-	-	(250,000)	3,150,000
Directors, officers and Chinese management	July 31, 2015	Immediately	CAD0.36	-	490,000	-	-	490,000
				6,300,000	490,000	(50,000)	(1,250,000)	5,490,000

Fair value of share options granted to directors and employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's contributed surplus. No share option expense has been recognized for the year ended December 31, 2016 (2015: RMB821,000).

35. STOCK-BASED COMPENSATION - continued

2015 Option

On July 31, 2015, a total of 490,000 share options were granted to certain employees, officers and management of the Group under the Option Scheme entitling the holders thereof to subscribe for shares of the Company at an exercise price of CAD0.36 per share.

The options granted vested immediately on the grant date of July 31, 2015.

The fair value was calculated using the Black-Scholes model. The inputs into the model were as follows:

	2015
Share price	CAD0.19
Exercise price	CAD0.36
Expected volatility	64%
Expected life	5 years
Risk-free rate	1.45%
Expected dividend yield	0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

36. CAPITAL RISK MANAGEMENT

The Group considers its capital structure to consist of share capital, contributed surplus, retained earnings, short-term bank borrowings and long-term debts. The Group's objectives are to maintain an effective structure that supports its ability to explore strategic business development opportunities on mainland China along the Petro China's Second West-East Pipeline and to maintain a flexible capital structure that optimizes the costs of capital at an acceptable risk level. The Group manages its capital structure and makes adjustments to it, based on the funds available to the Group. The Board of Directors does not establish quantitative return-on-capital criteria for management, but rather is responsible for overseeing the process undertaken by management to sustain future development of its business.

The Group's strategy is to satisfy its liquidity needs using cash on hand, cash flows generated from operating activities and through the credit line. Gas supply revenue, gas connection revenue, available cash balances, draws on the credit line and long-term bank loans are the Group's principal sources of capital used to pay for operating expenses and capital expenditures in its business.

36. CAPITAL RISK MANAGEMENT - continued

The Group reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of its operations, is reasonable. The Group monitors its compliance with all of its capital requirements, including non-financial covenants relating to the credit line. As at December 31, 2016, the Company was in compliance with all of its covenants.

There were no changes in the Group's approach to capital management during the years ended December 31, 2016 and 2015.

During the years ended December 31, 2016 and 2015, no dividends were declared or paid to the shareholders.

37. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016 RMB'000	2015 RMB'000 (restated)
Financial assets		
Available-for-sale financial assets	726	-
Loans and receivables (including cash and cash equivalents)	178,875	136,444
	179,601	136,444
Financial liabilities		
Liabilities measured at amortized cost	288,659	244,365

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale financial assets, trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to an ultimate controlling shareholder and related parties, and short-term bank borrowings and long-term debts. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (foreign exchange risk, commodity price risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

37. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. With the majority of the Group's businesses transacted in RMB, the aforesaid currencies are determined as the functional currencies of the Company and some subsidiaries respectively.

The Company and its subsidiaries have foreign currency: bank balances and cash and short-term bank borrowings, which expose them to foreign currency risk.

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:

	Liabilities		Assets	
	2016	2015	2016	2015
	RMB'000	RMB'000 (restated)	RMB'000	RMB'000 (restated)
United States Dollars ("US$")	(10,435)	(9,742)	380	29
CAD	-	-	2,562	2,683

Sensitivity analysis

The Group is mainly exposed to US$ and CAD. The following table details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in certain functional currencies against the relevant foreign currencies. 5% (2015: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% (2015: 5%) change in foreign currency rate. A positive number below indicates an increase in profit for the year where functional currencies strengthen 5% (2015: 5%) against the relevant foreign currencies. For a 5% (2015: 5%) weakening of functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the profit for the year.

	2016	2015
	RMB'000	RMB'000 (restated)
US$	503	86
CAD	(128)	(134)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

37. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the Group's income or value of or cash flows related to its financial instruments. The Group is exposed to interest rate risk arising from its bank balances, pledged bank deposits, long-term debts and short-term bank borrowings. The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 30 for details of these borrowings). The Group's interest rate on its long-term debt and short-term bank borrowings is based upon the prescribed rate of the People's Bank of China and annual interest of six-month LIBOR rate plus 250 basis points, which is subject to fluctuation, and may result in an increase or decrease in interest expense. The Group does not use derivative instruments to reduce its exposure to interest rate risk.

A 1% increase or decrease in the average interest rate for the year ended December 31, 2016 would have had the following impact on the Group's profit for the year:

	Impact on profit for the year
Interest rate +1%	RMB729,000
Interest rate -1%	RMB729,000

No sensitivity analysis is presented for part of the variable-rate borrowings as they were raised for pipeline construction and any change in interest rate would substantially be capitalized to property and equipment and have no material impact to profit or loss of the Group.

Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The Group's equity price risk is mainly concentrated on equity instruments operating in public utilities quoted in the New York Stock Exchange and in electricity transmission and distribution utility quoted in the Toronto Stock Exchange. In addition, the management regularly monitors the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date.

If the prices of the respective equity instruments had been 5% (2015: nil) higher/lower, investment revaluation reserves would increase/decrease by RMB36,000 (2015:nil) for the Group as a result of the changes in fair value of available-for-sale financial assets.

The Group's sensitivity to available-for-sale financial assets has not changed significantly from the prior year.

37. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Credit risk

As at December 31, 2016, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk. The Group does not have exposure to credit risk which will cause a financial loss to the Group contingent liabilities in relation to financial guarantees provided by the Group.

In order to minimize the credit risk, management of the Group enter into purchase and connection agreements with creditworthy parties and regular review credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debt. In addition, the Group reviews the recoverable amount of trade and other receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the company consider that the Group's credit risk is significantly reduced.

Liquidity risk

In management of the liquidity risk, the Group monitors and maintains levels of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

As at December 31, 2016, the Group had a working capital deficiency of RMB80,724,000 (2015: RMB117,058,000). The Group had a cash balance of RMB142,377,000 (2015: RMB66,558,000) to settle current liabilities of RMB289,233,000 (2015: RMB259,206,000). The Group believes that this deficiency can be funded through projected operating cash flows from operations and through securing additional financing from third-party financial institutions. There are certain assumptions made by management in determining projected operating cash flow, such as temporary natural gas contracts from the government of China and continued growth in its operations.

The contractual maturities of the Group's long-term financial liabilities are described in note 31 and the remaining financial liabilities, consisting of trade payables, amount due to an ultimate shareholder, amounts due to related parties and bank borrowings, are expected to be realized within one year.

37. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Liquidity risk - continued

The following tables detail the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The tables have 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 rates are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

	Weighted average effective interest rate	On demand or less than 3 months	3 months to 1 year	1 - 3 years	>3 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2016							
Non derivative financial liabilities							
Trade payables	-	44,892	-	-	-	44,892	44,892
Amount due to an ultimate controlling shareholder	-	-	40,000	-	-	40,000	40,000
Amounts due to related parties	-	4,249	-	-	-	4,249	4,249
Bank borrowings							
- fixed rate	4.4%	20,326	10,109	-	-	30,435	30,000
- variable rate	4.9%	4,310	41,395	65,730	83,166	194,601	169,518
At December 31, 2016		73,777	91,504	65,730	83,166	314,177	288,659

	Weighted average effective interest rate	On demand or less than 3 months	3 months to 1 year	1 - 3 years	>3 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2015 (restated)							
Non derivative financial liabilities							
Trade payables	-	40,082	-	-	-	40,082	40,082
Amount due to an ultimate controlling shareholder	-	-	40,000	-	-	40,000	40,000
Amounts due to related parties	-	6,304	-	-	-	6,304	6,304
Bank borrowings							
- fixed rate	5.0	10,176	20,722	-	-	30,898	30,000
- variable rate	5.6	12,517	22,284	83,047	28,113	145,961	127,979
At December 31, 2015		69,079	83,006	83,047	28,113	263,245	244,365

(c) Fair value measurements of financial instruments

The fair value of the Group's financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The management of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

38. ECONOMIC DEPENDENCE

One gas field supplies the majority of the Group's natural gas in Sanya City. Interruption of this supply could materially affect the Group's ability to operate. The Group has a contract to purchase up to approximately 25 million cubic metres of gas per year until December 31, 2016 and 9 million cubic metres additional gas for fiscal year 2016 entered into for the Group's own expected sales. This represents less than 1% of the field's total capacity from this supplier.

39. SEASONALITY OF OPERATIONS

Seasonality can impact the Group's natural gas distribution sales. The Group's current operations are primarily located in Sanya City, an international tourist destination in the PRC's only tropical province. Sanya City attracts more tourists from December to February in the subsequent year than the rest of the year.

The Group's natural gas sales are higher during this high tourism season, as a large portion of the Group's natural gas sales are made to hotels and restaurants. Seasonality can also impact the Group's CNG retail station sales due to vehicles being in need of more gas during the peak seasons for air-conditioning.

40. OPERATING LEASES

The Group as lessee

Minimum lease payments paid under operating leases during the reporting period:

	2016 RMB'000	2015 RMB'000 (restated)
Staff quarters and lands	1,199	1,107

At the end of each reporting period, the Group's commitments for future minimum lease payments under non-cancellable operating leases fall due as follows:

	2016 RMB'000	2015 RMB'000 (restated)
Within one year	1,281	1,188
In the second to fifth year inclusive	4,059	3,972
Over five years	9,365	10,307
	14,705	15,467

Operating lease commitments represent rentals payable for certain of its staff quarters and lands. Leases of staff quarters are negotiated for an average term of 1 to 5 years with fixed rental. Leases of lands are negotiated for a term of 20 years with the rental fee fixed for the first 4 or 5 years from signing the lease contracts, and progressively increases by 5% or 10% thereafter.

41. CAPITAL COMMITMENTS

	2016 RMB'000	2015 RMB'000 (restated)
Capital expenditure in respect of the acquisition of property and equipment and the construction of pipelines under development contracted for but not provided in the consolidated financial statements	21,277	21,128

At December 31, 2015, the Group is bounded by agreement to inject RMB80,000,000 funding to Evergrowth within 10 years of establishment of Evergrowth as the capacity of shareholder of Evergrowth. During the year ended December 31, 2016, the Group has disposed of its entire interest in Evergrowth together with this investment commitment.

42. RELATED PARTY DISCLOSURES

Apart from details of the balances with related parties disclosed in the consolidated statement of financial position and other details disclosed elsewhere in the consolidated financial statements, the Group has not entered into any significant transactions with related parties during both years.

Compensation of key management personnel

The remuneration of directors and other members of key management of the Group during the reporting period are as follows:

	2016 RMB'000	2015 RMB'000 (restated)
Short-term benefits	2,354	2,280
Share-based payments	-	821
	2,354	3,101

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals of the Group and market trends.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

43a. General information of subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are set out below.

Name of Subsidiary	Place of incorporation/ operations	Issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company 2016	Proportion ownership interest held by the Company 2015	Proportion of voting power held by the Company 2016	Proportion of voting power held by the Company 2015	Principal activities
Hainan Energy Ltd. ("HEL")	BVI	US$910,001	100%	100%	100%	100%	Investment holding
Indirectly owned by the Company:							
Sanya Changfeng Offshore Natural Gas Distribution Co., Ltd. ("CF China")	The PRC	RMB40,000,002	100%	100%	100%	100%	Gas sales and distribution
Sanya Changfeng Offshore Natural Gas Engineering Construction Co., Ltd. ("CF Engineering")	The PRC	RMB200,000,000	99.4%	99.4%	99.4%	99.4%	Gas pipeline installation and connection
Sanya Changfeng New Energy Investment Co., Ltd. ("Sanya CF NEI")	The PRC	RMB1,000,000,000	100%	100%	100%	100%	Inactive
Sanya Changfeng Offshore Natural Gas Design Co., Ltd. ("CF Design")	The PRC	RMB10,000,000	100%	100%	100%	100%	Pipeline connection design
Hunan Changfeng CNPC Energy Co., Ltd. ("Hunan CF CNPC")	The PRC	RMB5,000,000	58%	58%	58%	58%	CNG refuelling station
Hunan CNPC New Energy Investment Co., Ltd. ("Hunan CNPC NEI")	The PRC	RMB50,000,000	60%	60%	60%	60%	Inactive
Pingxiang Changfeng Natural Gas Co., Ltd. ("Pingxiang CF")	The PRC	RMB20,000,000	90.2%	90.2%	90.2%	90.2%	Gas sales and distribution and pipeline installation and connection
Xiangtan Changfeng Natural Gas Co., Ltd. ("Xiangtan CF")	The PRC	RMB2,000,000	51%	51%	51%	51%	Inactive
Gaoyao Evergrowth Natural Gas Co., Ltd. ("Gaoyao")	The PRC	RMB9,000,000	100%	100%	100%	100%	Gas sales and distribution and pipeline installation and connection
Sanya Changfeng Clean Energy Co., Ltd.	The PRC	RMB10,000,000	100%	N/A[1]	100%	N/A[1]	CNG refueling station
Zhuhai Changfeng Energy Import & Export Co. Ltd.	The PRC	RMB10,000,000	100%	100%	100%	100%	Investment holding
Sanya Changfeng World Entergy Forum Co., Ltd.	The PRC	RMB10,000,000	100%	N/A[1]	100%	N/A[1]	Management service
Sanya Changfeng International Natural Gas Trading Co., Ltd.	The PRC	RMB50,000,000	100%	N/A[1]	100%	N/A[1]	Gas-related technology development
Gaoyao Changfeng New Pearl Energy Co., Ltd.	The PRC	RMB50,000,000	98%	N/A[1]	98%	N/A[1]	Gas and CNG distribution

[1] The subsidiaries are newly set up during the current reporting period.

43b. Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation registration/ operation	Proportion of ownership interests and voting rights held by non-controlling interests 2016	2015	Profits allocated to non-controlling interests 2016 RMB'000	2015 RMB'000 (restated)	Accumulated non-controlling interests 2016 RMB'000	2015 RMB'000 (restated)
Hunan CF CNPC	The PRC	42%	42%	1,858	2,421	9,160	7,302
Individual immaterial subsidiaries with non-controlling interests				(418)	(200)	(557)	(139)
				1,440	2,221	8,603	7,163

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY - continued

43b. Details of non-wholly owned subsidiaries that have material non-controlling interests - continued

Summarized financial information in respect of the Hunan CF CNPC that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup elimination.

	2016 RMB'000	2015 RMB'000 (restated)
Current assets	18,976	13,880
Non-current assets	4,025	5,263
Current liabilities	1,191	1,757
Non-current liabilities	-	-
Equity attributed to the owners of the Hunan CF CNPC	21,810	17,386
Revenue	29,749	43,230
Expenses	25,325	37,465
Profit and total comprehensive income for the year attributable to the owners of Hunan CF CNPC	4,424	5,765

	2016 RMB'000	2015 RMB'000 (restated)
Net cash inflow from operating activities	5,932	8,724
Net cash outflow from investing activities	(544)	(464)
Net cash inflow (outflow) from financing activities	214	(6,828)
Net cash inflow	5,602	1,432