CHANGFENG ENERGY INC.

Management's Discussion and Analysis
For the year ended December 31, 2016

Dated March 31st, 2017

Advisory

This Management's Discussion and Analysis ("MD&A") provides an analysis to enable readers to understand the financial position and operations of Changfeng Energy Inc. ("Changfeng" or the "Company") as at and for the year ended December 31, 2016. This information should be read in conjunction with the accompanying audited Consolidated Financial Statements of the Company and the notes thereto for the year ended December 31, 2016. "Changfeng" includes Changfeng Energy Inc. and its subsidiaries, unless otherwise indicated. Additional information related to Changfeng is available on SEDAR at www.sedar.com or on its website at www.changfengenergy.com.

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRS or GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting period. Changfeng bases its estimates on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

This MD&A contains certain non-IFRS financial measures to assist users in assessing its performance. Non-IFRS financial measures do not have any standard meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. These measures are identified and described under the section "Non-IFRS Financial Measures".

Amounts are stated in Chinese Renminbi (RMB) and Canadian dollars unless otherwise indicated.

Caution Regarding Forward-Looking Information

Certain statements in this MD&A may constitute "forward looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiaries, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this report, the words "estimate", "believe", "anticipate", "intend", "expect", "plan", "may", "should", "will", the negative thereof or other variations thereon or comparable terminology are intended to identify forward looking statements. Such forward looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward looking statements, such as significant changes in market conditions, the inability of the Company to realize sales and the inability of the Company to attract sufficient financing and the risk factors summarized below under the heading "Risk Factors". New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward looking statements as a prediction of actual results. Although the forward looking statements contained in this MD&A are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. The forward looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.

Overview

Changfeng is a Canadian public company currently trading on the TSX Venture Exchange ("TSX-V") under the stock symbol "CFY". Changfeng is a natural gas distributor in the People's Republic of China ("the PRC" or "China").

Currently the Company has four projects in operation: two piped natural gas distribution projects, and two compressed natural gas ("CNG") vehicle refueling stations. Changfeng has a 30 year concession right to operate gas distribution business in Sanya City, Hainan Province, and a 50 year operating right for gas distribution business in Xiangdong District, Pingxiang City, Jiangxi Province. Its customer base and exclusive operation provide recurring revenue and operating cash flows to the Company and allow the Company to pursue future expansion of operations.

Changfeng has been actively exploring market opportunities brought by PetroChina's Second West-East Pipeline ("WEP II"). Changfeng has grown with responsible development and reliable operation of natural gas distribution pipelines and associated facilities in China. Projects currently in operation include:

- **In Sanya City, Hainan Province, China**
  - 30-year exclusive concession rights (2007-2037) in Sanya City with wholly-owned gas distribution pipeline networks and associated facilities;
  - Secured gas supply through its annual gas quota of approximately 25 million cubic meters (m^3) (883 million cubic feet (ft^3)) until December 31, 2016 at a favorable price;
  - Secured gas supply through its additional gas quota of 9 million cubic meters (m^3) (318 million cubic feet (ft^3)) until December 31, 2016;
  - Serving more than 199,834 residential and 897 commercial customers (primarily hotels and restaurants);
  - Serving 17 hotels in Haitang Bay area, Sanya City;
  - Operating a new CNG/LNG refueling retail station in Sanya City.

- **In Xiangdong District, Pingxiang City, Jiangxi Province, China (Xiangdong Project)**
  - 50-year operation rights (2010-2060) in the administrative region of Xiangdong District, including the Pingxiang Industrial Ceramic Production Park (the "Park");
  - Sale of natural gas to 55 commercial customers in the Park;
  - Continuing to grow its residential customer base in the gated community.

- **In Changsha City, Hunan Province, China**
  - Managing to maintain its customer base;
  - Operating a CNG/LNG refueling retail station in Changsha City.

In addition to the operations above, Changfeng will continue to implement its long-term growth strategies for the pipelined gas project in the Western Guangdong Area of the Guangdong Province and for the integrated energy system program and energy comprehensive utilization with EDF Group in Sanya City. The Company believes that its ongoing projects will add value, generate revenues and leverage its strength to create long-term sustainable value for its shareholders and clients.

Vision

Changfeng is committed to contributing to a cleaner China and improving the quality of life by providing clean and safe energy to its customers.

Its vision is to become one of the predominant natural gas service providers in China.

History

Changfeng was founded in 1995 as a privately-owned natural gas utility serving residential, commercial and industrial customers in Sanya City. In 2007, 30-year exclusive concession rights were granted to Changfeng by the local government to operate pipeline construction and gas distribution operations in the city.

Since 2003, Changfeng has been building an extensive pipeline network in the main district of Sanya City. In December 2010, Changfeng completed the extension of a 26.6 km of high-to-medium pressure pipeline linking Sanya City with the Haitang Bay region together with 21.2 km of low-pressure pipeline, and commenced the supply of gas to this newly- developed district of Sanya City. The company is continuing expanding its pipeline network in Haitang Bay region and currently is serving 17 hotels.

Since 2010, the Company completed the construction of its first CNG filling station in Changsha City and commenced its operations. In 2012, the Company upgraded its CNG retail station's capacity to meet the increasing demand.

The Company completed the construction of a CNG/LNG refueling retail station in Sanya City, Hainan Province, China in May 2016 and started the operation.

As of the end of 2016, the Company is selling natural gas to 25 industrial customers in the Park and completed the installation of the main and service pipeline connecting to a gated community for its Xiangdong project. The company is continuing expanding its pipeline network in the Park and administrative region of Xiangdong District.

Growth Strategy

Changfeng's corporate strategy is to maximize operating cash flow of its existing operations, and to pursue long-term growth opportunities that add long-term shareholder value while focusing on its core operations in the natural gas business in China. The following initiatives are central to Changfeng`s growth strategy:

- Maximize operating cash flow from its Pipeline Gas Distribution in Sanya through securing additional gas quotas and from its pipeline connection service by increasing its customer base; and
- Focus on commercial and industrial-intensive, underdeveloped markets in medium and small cities in mainland China.

It is critical to successfully execute its growth strategies in order to achieve its vision. Below and throughout this MD&A, Changfeng will discuss the execution of its business strategy for 2017 and beyond.

Maximize operating cash flow from its Pipeline Gas Distribution in Sanya through securing additional gas quotas and from its pipeline connection service by increasing its customer base

The Company's strategy is to continue to grow its business in the Sanya Region where Changfeng has strong secular growth trends in tourism and real estate development. However, ever since 2010, demand for natural gas in this region has greatly exceeded its annual quota gas ("Quota Gas") due to both urban expansion and rapid development of coastal tourism.

Changfeng anticipates that the gas shortage situation in Sanya Region will not be significantly mitigated when CNOOC completes construction and commences operation of its LNG receiver terminal that is currently under construction in Hainan Island. As a result, in 2017, its strategy is to maximize the profits and operating cash flows from its Sanya's operation through the gas supply management, which aims to maintain the reasonable gross margin on gas sales.

At the same time, Changfeng has been working closely with the municipal government to find solutions to mitigate the negative effects of the gas shortage and higher gas pricing for other gas. Some practical measures to address the problem include a sales price increase to commercial and industrial customers, apply government subsidy, and apply extra gas quota.

Changfeng's strategy is also to continue to grow its customer base for its pipeline connection services in the Sanya Region. With the strong growth trends in tourism and real estate development, the Company has connected various hotels, restaurants, hospitals and gated communities and generated continuingly increasing cash flow from these pipeline connection services.

Focus on commercial and industrial-intensive, underdeveloped markets in medium and small cities along the WEP II in mainland China

Changfeng will continue to explore and develop gas distribution business opportunities in the emerging markets in mainland China, especially along WEP II. As a major national project of the China's 11th Five-Year Plan, construction of WEP II started on February 22, 2008. The trunk pipeline of WEP II has been completed and commenced the supply of gas in June 2011, and is to bring additional 30 billion m^3 gas annually to China over the next 30 years. As a result, there is a significant need for natural gas distribution utilities to provide a distribution solution to take new gas from national pipelines and deliver it to end users.

The Company's focus continues to be on commercial and industrial-intensive, underdeveloped markets in medium and small cities in these regions. Changfeng believes that this focused growth strategy enables us to grow its business rapidly, but at the same time, to minimize its capital expenditure requirements by limiting the potential size and length of gas pipelines through directly connecting the vast natural gas users such as industrial companies and gas-fired plants to the existing and/or planned national or provincial gas pipelines.

Currently, three of the projects are in commercial operation, which are the CNG refueling stations in Changsha City and Sanya City, and Piped Gas Distribution in Xiangdong district, Pingxiang City. The Company is also pursuing a potential gas distribution opportunity in the Western Guangdong Area of Guangdong Province, China.

2016 Accomplishments

On March 31, 2016, the Company signed a new gas supply contract with China National Offshore Oil Corporation ('CNOOC'). CNOOC is committed to supplying up to approximately 25 million m^3 of natural gas annually until December 31, 2016 with a fixed contractual price and same terms stated in original contract. The price under the 2016 contract with approximately 25 million m^3, while higher than under the previous 24 million m^3 gas quota, remains favorable compared with the market price.

On April 27, 2016, shareholder loans in the aggregate amount of RMB40.0 million (December 31, 2015 - RMB40.0 million) to the Company, through a subsidiary controlled by the controlling shareholder of the Company, were renewed for one year with the same terms and conditions.

On May 12, 2016, the Company announced that the construction of a new CNG/LNG refueling retail station ("Sanya CNG/LNG Station") in Sanya City, Hainan Province has now been completed and it has commenced operation. Sanya CNG/LNG Station is designed to have a daily capacity of 30,000 m^3 and mainly supplies gas to public buses and taxis owned by Sanya Public Transit Group.

On May 31, 2016, the Company announced that one of its wholly owned subsidiaries has entered into a Statement of Intent for Cooperation (the "Statement of Intent I") with EDF (China) Holding Ltd., a subsidiary of Electricité de France (the "EDF Group") to jointly pursue energy utilization and low carbon energy projects in Haitang Bay area ("Haitang Bay") of Sanya City, China. Based on Statement of Intent I, the Company and EDF Group will further discuss the feasibility to establish a joint venture company (the "Joint Venture") and jointly invest and operate in energy utilization projects in Sanya City. The Company and EDF Group will respectively own 50% of the Joint Venture. Statement of Intent I creates no legal obligations for the Company or the EDF Group.

On August 4, 2016, the Company announced that, one of its wholly-owned subsidiaries, further to its previously announced Statement of Intent Idated on May 31, 2016 for Cooperation with EDF (China) Holding Ltd., a subsidiary of EDF Group, has entered into a Statement of Intent for Cooperation (the "Statement of Intent II") with the Sanya Municipal Government and EDF Group to jointly pursue the integrated energy system program in Sanya City, Hainan Province. According to the Statement of Intent II, the Sanya Municipal Government, EDF Group and Changfeng, will cooperatively develop the integrated energy system projects in order to promote a low carbon and energy intelligent urban city. The Sanya Municipal Government is also in support of an integrated energy project in Haitang Bay Area of Sanya City as proposed by EDF Group and Changfeng. Changfeng and EDF Group will further discuss the feasibility of establishing the Joint Venture and jointly invest and operate in the integrated energy program in Sanya City. The Statement of Intent II creates no legal obligations for any of the three parties.

On October 28, 2016, Changfeng entered into a natural gas purchase and sale agreement with Hainan Fuel Chemical Co., Ltd., a subsidiary of CNOOC to purchase 9.0 million m^3 of natural gas during the remainder of 2016 (the "Additional Gas Quota"). Any unused gas supply of the Additional Gas Quota is non-cumulative and not eligible to be carried forward to 2017. The Company will be billed exclusively on the actual volume of natural gas received until December 31, 2016. The Additional Gas Quota will enable the Company to better supply its operation in Sanya region and to enhance its gross margin by reducing purchases of relatively expensive CNG and LNG.

On December 5, 2016, Changfeng's wholly-owned subsidiary, Pingxiang Changfeng Natural Gas Co., Ltd. ("Pingxiang CF"), has completed an approximate 8-kilometre (5 miles) pipeline extension, connecting Pingxiang Industrial Ceramic Park (the "Park") and Luqian Industrial Area ("Luqian") in Xiangdong District, Pingxiang City, Jiangxi Province, China. Luqian is located in the center of Xiangdong District and is dominated by petrochemical and ceramic industrial companies some of which are suppliers for PetroChina Company Limited ("PetroChina") and China Petroleum and Chemical Corporation ("SinoPec"). This extension will help Changfeng to increase its sales of natural gas in Xiangdong District in 2017.

Changfeng Sold Its Stake in Caofeidian Evergrowth Energy Co. Ltd.

Changfeng, through its wholly-owned subsidiary, Sanya Changfeng Offshore Natural Gas Distribution Co., Ltd., sold its indirect interest in Caofeidian Evergrowth Energy Co., Ltd. ("Evergrowth"), which was established by Changfeng and Tangshan Caofeidian Development Investment Group Co., Ltd. ("CFD Group") in July 2015, to China Overseas Smart City Co., Ltd. ("COMC") on October 17, 2016, pursuant to an agreement dated September 29, 2016 between COMC and Changfeng's wholly-owned subsidiary, Sanya Changfeng Offshore Natural Gas Distribution Co., Ltd. (the "Agreement").

CFD Group has also agreed to sell its interest in Evergrowth to COMC. The purchase price for Evergrowth was satisfied by a cash payment of approximately RMB13.0 million by COMC to Changfeng, with the purchase price having been based on the assessment of the net asset value of Evergrowth as at August 31, 2016 by an independent valuator appointed by COMC. The registered capital of Evergrowth is currently RMB200.0 million. Changfeng and CFD Group each owned 50% of Evergrowth. RMB40.0 million of the registered capital had previously been contributed to Evergrowth by Changfeng and CFD Group. The remaining RMB160.0 million of registered capital is required to be contributed within 10 years of incorporation. Pursuant to the Agreement, COMC agreed to assume the responsibilities of Changfeng and CFD Group for the remaining RMB160.0 million of uncontributed registered capital.

Changfeng has recognized an investment loss and share of loss of approximately RMB3.1 million and RMB3.5 million respectively on Evergrowth in 2016.

Event after the reporting period

On January 17, 2017, Changfeng announced that its Board of Directors has approved the adoption of a dividend policy under which dividends will be paid to each holder of Changfeng's common shares (the "Common Shares"). A total of approximately RMB6.0 million, which is approximately CAD1.1 million based on the prevailing exchange rate between CAD and RMB, has been contemplated for payment annually under Changfeng's dividend policy, which will be paid in equal semi-annual instalments. The first semi-annual dividend is contemplated to be payable in July 2017. The specifics of the initial dividend will be announced after it is declared closer to the expected payment date. This is the first dividend to be paid to shareholders in Changfeng's history.

On January 23, 2017, Changfeng announced that the special resolution to approve the continuation of the Company into British Columbia (the "Resolution") was approved unanimously at a meeting of shareholders of the Company held today (the "Meeting"). The Meeting was called to approve a proposed continuation of the Company into the provincial jurisdiction of British Columbia in order to facilitate the application of the Company for listing on The Stock Exchange of Hong Kong Limited that the Company intends to pursue, and to provide the Company with greater flexibility in corporate governance and administrative matters and corporate structure generally afforded by the Business Corporations Act (British Columbia).

Business Segments

Changfeng's businesses are currently organized into two segments: Natural Gas Distribution Utility and CNG Refueling Retail Station.

Natural Gas Distribution Utility

The Natural Gas Distribution Utility consists of gas pipeline installation and connection and piped gas sales, which is currently in its primary operation.

Changfeng operates by installing and connecting gas pipelines and selling gas through its pipeline networks to the end users. Changfeng currently derives the majority of its revenue from installing and connecting services and distribution of natural gas through its pipeline networks in Sanya City, Hainan Province, China.

Since 2003, Changfeng has been building extensive pipeline networks in the main district of Sanya City. Over the last four years, Changfeng has committed significant resources to extend its gas pipeline networks from the main district of Sanya City to the Haitang Bay area, a newly developing, high growth tourist district in Sanya City. The rapid growth of the Haitang Bay district is mainly attributable to the commitment made by the China Central Government in late 2009 to build Hainan Province into an international tourism destination by 2020.

Since 2008, in order to add incremental value to its existing business, Changfeng has been actively pursuing its gas connections and pipeline gas business in selected cities in Jiangxi and Guangdong provinces in mainland China. These provinces represent potentially large, rapidly growing emerging-markets for Changfeng as a result of the full operation of the eight sub-lines of WEP II in 2012. Please refer to the Expansion Project section in this MD&A for further discussion of these projects.

CNG Refueling Retail Station

CNG Refueling Retail Station serves mainly for public transportation vehicles like buses and taxis. Currently two stations are running in mainland China, one in Changsha City, Hunan Province, and the other in Sanya City, Hainan Province.

Changsha CNG refueling retail station was completed and commenced the supply of gas in April 2010. Changsha City is the capital of Hunan Province with a population of approximately 7.4 million (2015), and it is an important commercial and trade center in central-south China. In 2006, the Changsha City municipal government began to encourage taxicab and public bus vehicles to be dual-fuel vehicles (gasoline and natural gas) in order to alleviate serious air pollution problems. Since 2012, the municipal government allowed private owners to switch to natural gas fueled vehicle.

Sanya CNG refueling retail station was completed and commenced the supply of gas in May 2016. It is designed to have a daily capacity of 30,000 m^3 and mainly supplies gas to public buses and taxis owned by Sanya Public Transit Group. The station added a new line of business other than natural gas distribution utility in Sanya City for the Company.

Selected Annual Financial Information

		RMB'000			(For information purposes and unaudited)			
	RMB'000	*RMB'000*	*RMB'000*		*CAD'000*	*CAD'000*	*CAD'000*	
except percentages and per share amounts	2016	2015 (Restated)	Change	%	2016	2015 (Restated)	Change	%
Revenue	354,449	305,445	49,004	16%	70,748	62,128	8,620	14%
Gross profit	150,033	143,587	6,446	4%	29,947	29,206	741	3%
% of revenue	42%	47%	-5%		42%	47%	-5%	
General and administrative	70,208	63,934	6,274	10%	14,014	13,004	1,010	8%
% of revenue	20%	21%	-1%		20%	21%	-1%	
Selling and marketing	17,841	17,252	589	3%	3,561	3,509	52	1%
% of revenue	5%	6%	-1%		5%	6%	-1%	
Stock based compensation	-	821	(821)	-100%	-	167	(167)	-100%
Other losses and (gain)	2,740	(1,991)	4,731	-238%	547	(405)	952	-235%
Total expenses	90,789	80,016	10,773	13%	18,122	16,275	1,847	11%
% of revenue	26%	26%	0%		26%	26%	0%	
Income from operations	59,244	63,571	(4,327)	-7%	11,825	12,930	(1,105)	-9%
% of revenue	17%	21%	-4%		17%	21%	-4%	
Finance costs	7,874	7,410	464	6%	1,572	1,507	65	4%
Interest income	(681)	(590)	(91)	15%	(136)	(120)	(16)	13%
Share of loss of an associate	7	7	-	0%	1	1	-	0%
Share of loss of a joint venture	3,516	399	3,117	781%	702	81	621	767%
Loss on disposal of a joint venture	3,114	-	3,114	100%	622	-	622	100%
Profit before income taxes	45,414	56,345	(10,931)	-19%	9,064	11,461	(2,397)	-21%
% of revenue	13%	18%	-5%		13%	18%	-5%	
Income taxes	24,088	19,993	4,095	20%	4,808	4,067	741	18%
% of revenue	7%	7%	0%		7%	7%	0%	
Profit for the period	21,326	36,352	(15,026)	-41%	4,256	7,394	(3,138)	-42%
% of revenue	6%	12%	-6%		6%	12%	-6%	
EBITDA (1)	76,315	86,178	(9,863)	-11%	15,232	17,529	(2,297)	-13%
% of revenue	22%	28%	-6%		22%	28%	-6%	
Non-controlling interest	1,440	2,206	(766)	-35%	287	449	(162)	-36%
	RMB'000	**RMB'000**	**RMB'000**	**%**	**CAD'000**	**CAD'000**	**CAD'000**	**%**
		(Restated)	**Change**			**(Restated)**	**Change**	
Basic EPS	0.32	0.54	(0.22)	-41%	0.06	0.11	(0.05)	-45%
Diluted EPS	0.32	0.54	(0.22)	-41%	0.06	0.11	(0.05)	-45%

Note: (1) EBITDA is identified and defined under the section "<u>Non-IFRS Financial Measures</u>".

Results of Operations

Revenue

Total Revenue in RMB'000	**2016**	**2015**	**Change**	**%**
Gas distribution utility				
- Gas Sales	170,444	139,053	31,391	23%
- Pipeline Installation and Connection	134,809	123,162	11,647	9%
CNG vehicle refueling	49,196	43,230	5,966	14%
Total Revenue in RMB'000	**354,449**	**305,445**	**49,004**	**16%**
Total Revenue in CAD'000	**70,748**	**62,127**	**8,621**	**14%**

Revenue for the year ended December 31, 2016 was RMB354.4 million, an increase of RMB49.0 million, or 16%, from RMB305.4 million for the year 2015. This increase is mainly the result of increased gas sales volume, and connection revenue.

Further analysis is presented below for the Company's two business segments: Natural Gas Distribution Utility and CNG Vehicle Refueling Stations.

Natural Gas Distribution Utility

Natural Gas Distribution Utility segment consists of two components: Gas Sales and Pipeline Installation and Connection. With the stable growth in customers newly connected and in gas volume consumed, revenue from gas sales has been growing steadily in recent years; and revenue from pipeline installation and connection has also growth during 2016.

Gas Sales

Gas Volume Sold – Sanya Region

Sanya Region Gas volume sold (m^3)	**2016**	**2015**	**Change**	**%**
Residential customers	11,282,000	9,440,000	1,842,000	20%
Commercial customers	30,802,600	28,340,000	2,462,600	9%
Subtotal (Sanya Region)	**42,084,600**	**37,780,000**	**4,304,600**	**11%**

In 2016, the Company had an annual gas quota of 25.0 million m^3 for its Sanya Region operation. And a 9 million m^3 of extra gas quota made available in 2016 through coordination with the local government in Sanya region. In 2016, the Company purchased 5.0 million m^3 exchanged pipeline gas from its Gas and Electricity Exchange Program which was completed at the end of 2013.

Gas sales volume for Sanya Region in 2016 was 42.1 million m^3, an increase of 4.3 million m^3 or 11%, compared to 37.8 million m^3 for the year 2015, of which 11.3 million m^3 was for residential customers at an annual growth rate of 20% and 30.8 million m^3 for commercial customers at an annual growth rate of 9%.

The Company's non-residential customers include commercial and industrial customers, mainly comprised of hotels, resorts and restaurants in Sanya City. Currently, approximately 73% of the total annual volume of gas in Sanya City is sold to these non-residential customers. Sanya municipal government's approval of the sales price increase related to the implementation of the long-term Budget Process (the "Budget Process"), which was implemented as part of the solution to address the ongoing gas deficit issue in the Sanya region. The Budget Process is intended to provide (a) potential subsidy for the loss, if any, on the gas sales to its residential customers; and (b) periodic sales price adjustments for its commercial customers enabling the sales prices to reflect the interaction between supply and demand; however, there is no guarantee that the Budget Process will be successfully implemented by the government in the future.

Gas Sales

Gas Volume Sold – Xiangdong Region

Xiangdong Region				
Gas volume sold (m^3)	**2016**	**2015**	**Change**	**%**
Residential customers	351,291	195,155	156,136	80%
Commercial customers	7,526,731	1,646,894	5,879,837	357%
Subtotal (Xiangdong District)	**7,878,022**	**1,842,049**	**6,035,973**	**328%**

Gas sales volume for Xiangdong District in 2016 was 7.9 million m^3, an increase of 6.0 million m^3 or 328%, compared to 1.8 million m^3 for 2015, of which 96% of gas volume was sold to non-residential customers.

Gas Sales

Gas Sales Revenue

Gas sales revenue in RMB'000	2016	2015	Change	%
Sanya	149,020	132,742	16,278	12%
Xiangdong	21,424	6,311	15,113	239%
Total	**170,444**	**139,053**	**31,391**	**23%**

Gas sales revenue for the year ended December 31, 2016 was RMB170.4 million, an increase of RMB31.4 million or 23%, from RMB139.1 million in 2015. The increase is mainly attributable to:

- the gas sales volume increased by 11% for Sanya region in 2016;
- the gas sales volume growth of 328% in Xiangdong district in 2016.

Pipeline Installation and Connection

Sanya Region	2016	2015	Change	%
Customers newly connected				
Residential customers	30,558	27028	3,530	13%
Commercial customers	64	44	20	45%
Total customers connected				
Residential customers	199,834	169276	30,558	18%
Commercial customers	897	833	64	8%

Xiangdong Region	2016	2015	Change	%
Customers newly connected				
Residential customers	1,114	408	706	173%
Commercial customers	45	3	42	1400%
Total customers connected				
Residential customers	2,549	1,435	1,114	78%
Commercial customers	55	10	45	450%

Pipeline connection revenue in RMB'000	2016	2015	Change	%
Sanya	130,836	122,316	8,520	7%
Xiangdong	3,973	846	3,127	370%
Total	**134,809**	**123,162**	**11,647**	**9%**

Pipeline installation and connection revenue for fiscal 2016 was RMB134.8 million, an increase of RMB11.6 million or 9%, from RMB123.2 million in 2015. The increase is mainly attributable to:

- comparatively higher amount of new residential customers connected during 2016 in Sanya region, which was a total of 30,558, an increase of 3,530 or 13%, from 27,028 in 2015;
- comparatively higher number of new commercial customers connected during 2016 in Sanya region, which was a total of 64, an increase of 20 or 45%, from 44 in 2015;
- comparatively higher amount of new residential customers connected during 2016 in Xiangdong district, which was a total of 1,114, an increase of 706 or 173%, from 408 in 2015 and
- significantly higher number of new commercial customers connected during 2016 in Xiangdong region, which was a total of 45, an increase of 42 or 1400%, from 3 in 2015;

CNG vehicle refueling station

CNG Sales Volume (m³)	**2016**	**2015**	**Change**	**%**
Changsha CNG	7,812,176	11,314,354	(3,502,178)	-31%
Sanya CNG/LNG	3,853,354	-	3,853,354	100%
Total Sales Volume (m³)	**11,665,530**	11,314,354	351,176	3%

CNG sales revenue in RMB'000	**2016**	**2015**	**Change**	**%**
Revenue in RMB				
Changsha CNG	29,749	43,230	(13,481)	-31%
Sanya CNG/LNG	19,447	-	19,447	100%
Total	**49,196**	**43,230**	**5,966**	**14%**

Total revenue from CNG refueling retail stations for 2016 was RMB49.2 million, with an increase of RMB6.0 million, or 14% from 2015. Sales revenue for Changsha CNG station dropped to RMB29.7 million in 2016, a decrease of RMB13.5 million or 31%, from RMB43.2 million in 2015. The drop was mainly due to local market competition thus sales volume decreased to 7.8 million m^3 in 2016, a decrease of 3.5 million m^3 or 31%, from 11.3 million m^3 in 2015. Sales revenue from new Sanya CNG/LNG refueling retail station, which commenced its operation in May 2016, was RMB19.4 million in 2016, and the sales volume was 3.9 million m^3.

Foreign exchange rates

Changfeng reports its financial results in RMB and earns all of its revenues and incurs most of its expenses in Chinese RMB. As the Company is listed in TSX Canada, for financial information or comparative analysis presented in Canadian dollars, fluctuation in exchange rate should also be considered.

The exchange rate between Chinese RMB and Canadian dollar is summarized below.

One Chinese RMB to Canadian dollars	**2016**	**2015**	**% change**
Spot rate at the end of the year	0.1930	0.2131	-9.4%
Average rate for the year	0.1996	0.2034	-1.9%

Gross margin

Gross margin for 2016 was RMB150.0 million, an increase of RMB6.4 million, or 4%, from RMB143.6 million in 2015. The gross margin percentage of 42% for 2016 was slightly lower than that of 47% for 2015.

Natural gas distribution utility gross margin as a percentage of sales year-over-year increased 5% (47% for 2016 vs 42% 2015). And the CNG refueling station gross margin as a percentage of sales year-over-year maintained the same 27% for 2016 and 2015.

Operating expenses

General and administrative expenses for 2016 were RMB70.2 million, an increase of RMB6.3 million, or 10%, from RMB63.9 million in 2015. The increase was attributable to higher employee salaries and benefits as a result of a higher inflation rate in China, additional employees, and expenses for new projects and new entities. General and administrative expenses as a percentage of sales for 2016 were 20%, lower than 21% in 2015.

Travel and business development expenses for 2016 were RMB17.8 million, an increase of RMB0.6 million, or 3%, from RMB17.3 million in 2015. As a percentage of sales, travel and business development expenses for 2016 was 5%, a decrease from 6% in 2015. These expenses normally fluctuate with travel and business development activities in mainland China as the Company seeks to develop new projects in close proximity to the new national pipelines.

Finance costs

For fiscal 2016 and 2015 was RMB7.9 million and RMB7.4 million, respectively, an increase of RMB0.5 million.

Share of loss and loss of disposal of Evergrowth

Changfeng has recognized a share of loss of approximately RMB3.5 million on its investment on Evergrowth and a loss of RMB3.1 million due to the disposal of its stake in Evergrowth in 2016.

EBITDA

EBITDA (non-IFRS measure as identified and defined under section "Non-IFRS Measures") for fiscal 2016 was RMB76.3 million, a decrease of RMB9.9 million, from RMB86.1 million in 2015. Increase in gross profit was offset by the loss of RMB6.6 million on the investment and disposal of the joint venture, Evergrowth. EBITDA as a percentage of revenue for 2016 was 22%, a decrease of 6% from 28% in 2015.

Net income

Net income for fiscal 2016 was RMB21.3 million, or RMB0.32 per share basic and diluted compared to RMB36.4 million or RMB0.54 and RMB0.54 per share (basic and diluted) in 2015.

Expansion Projects

Changfeng has the following projects under development as part of its growth strategy.

Haitang Bay Pipelined Gas Project, Sanya City, Hainan Province

Haitang Bay is one of the five major bays in Sanya City, Hainan Province. It is a flagship project being promoted by the Hainan provincial government to build Hainan Island into an international tourism destination by 2020. The size of the Haitang Bay development area is estimated at 98.7 square km and includes approximately 24 km of beachfront. It is planned to build this area into a new township and house more than twenty (20) five-star hotels by 2020.

In December 2010, Changfeng completed the extension of a 26.6 km of high-to-medium pressure pipeline linking Sanya City with Haitang Bay district together with 21.2 km of low pressure pipeline and associated facilities, and began to supply gas for this district.

During 2016 and 2015, the construction of pipeline networks in this district was slowed due to the tightening of credit by the Central Government of China to address growing inflation in China. Another 3.5km of gas pipeline has been completed in 2016. In the long term, Changfeng believe that the Haitang Bay would represent a high-growth potential area for its operation in Sanya Region as more luxury hotels are to be constructed and connected to its pipeline networks.

Currently, there are 17 newly built hotels, including the Hilton, and Sheraton-chains, in operation and using the natural gas supplied by the Company for cooking and hot water. The gas consumption in 2016 was 5.2 million cubic meters, accounting for 12 percent of the total gas sales in Sanya operation.

CNG Refueling Retail Stations Project, Changsha City, Hunan Province

CNG refueling stations represent Changfeng's first growth project in mainland China. However, further expansion and development of CNG refueling retail stations in Changsha beyond the first station has been delayed pending a secured gas source at a price that will provide a reasonable margin. In addition, other issues such as pricing of the lands to be either leased or purchased for construction of the CNG refueling stations, market size/development and capital budgeting are expected to play a role in the evolution of its CNG station initiative in Changsha City.

CNG and Piped Gas Distribution-Project, Xiangdong District, Pingxiang City, Jiangxi Province

In December 2014, the Company entered into a natural gas purchase and sale agreement with PetroChina Company Ltd. regarding the purchase and sale of piped natural gas of 50 million m³ in 2015. Thereafter, Changfeng and PetroChina will negotiate the annual volume of natural gas to be purchased by the Company from PetroChina in five year periods. Under the terms of the Agreement, The Company is also required to commission contract with Jiangxi Provincial Natural Gas Investment Co., Ltd. (the "Carrier"), the official natural gas terminal receiver appointed by the Government of Jiangxi Province, for the Carrier to transmit the purchased gas from PetroChina's Second West-East Pipeline ("WEP II") to the Company's gate station. After the construction of the Carrier's branch pipeline is completed, the Agreement will allow the Company to significantly reduce the quantities of relatively expensive CNG it has been required to purchase to supply its operations in Xiangdong.

Pipelined Gas Project, in the Western Guangdong Area ("Yue Xi") of Guangdong Province, China

On December 30, 2015, Changfeng has obtained a land use right, received pipeline construction approval from the local government and passed the environmental assessments necessary to build the natural gas transmission pipelines, transmission stations and associated facilities to link the existing and/or planned provincial trunk lines to certain gas fueled power plants located in Gaoyao District, Zhaoqing City, Guangdong Province, China. The project consists of the installation of approximately 2.0 kilometres (1.4 miles) of pipeline connecting the existing and/or planned provincial trunk lines to gas fueled power plants belonging to Datang International Power Generation Co., Ltd, Guangdong Branch ("Datang - Guangdong"). The project will potentially allow for Changfeng to be one of the major natural gas distributors to Datang – Guangdong's power plant in Gaoyao District and other possible industrial customers. To carry out the development and future operation of the project, Gaoyao Evergrowth Natural Gas Co., Ltd., a wholly-owned subsidiary of Changfeng, has been incorporated in Gaoyao District, Zhaoqing City, Guangdong Province, China. The Company is inviting engineering construction bids for the project. The Company intends to work to secure the gas source for this project and to conclude the gas sales and purchase agreements with the end users.

Selected Quarterly Results

The following set out the Company's consolidated quarterly results for the most recent eight quarters:
In thousands of Chinese RMB, except per share amounts:

Quarterly data (RMB '000)	2016				2015 (Restated)			
except per share amounts	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Foreign exchange rate one RMB to Canadian dollars	0.1996	0.1965	0.1972	0.2101	0.2034	0.2076	0.1982	0.1990
Revenue	113,568	82,134	77,595	81,152	91,207	64,690	67,439	82,109
Gross profit	42,603	34,404	30,411	42,615	32,673	30,470	33,366	47,078
Profit (loss)	4,152	7,685	(1,718)	11,207	9,297	4,900	7,850	14,305
EPS								
- basic	0.07	0.10	0.00	0.15	0.09	0.10	0.15	0.20
- diluted	0.07	0.10	0.00	0.15	0.08	0.11	0.15	0.20

Financial Condition and Liquidity

Key Financial Data and Comparative Figures		
(RMB'000)	31-Dec-16	31-Dec-15 (Restated)
Cash	142,377	66,558
Working deficit	(80,724)	(117,058)
Adjusted working capital (Note 1)	24,367	(62,397)
Plant and equipment	385,654	352,439
Total assets	627,060	541,345
Long term liabilities	145,817	111,470
Shareholders' equity	192,010	170,669

Notes: (1) These financial measures are identified and defined under the section "Non-IFRS Financial Measures".

Cash increased by RMB75.8 million to RMB142.4 million at December 31, 2016 from RMB66.6 million at December 31, 2015. Cash change mainly originated from cash inflow provided by operating activities of RMB69.5 million, proceeds from the disposal of a joint venture of RMB13.0 million and disposal of available-for-sale financial assets of RMB1.0 million as well as from short-term loan withdrawal of RMB30.0 million and proceeds from stock option exercise of RMB1.2 million, withdrawal of pledged bank deposits of RMB9.0 million and long term debt raised of RMB60.0 million, but offset by cash outflow due to acquisition of property and equipment of RMB44.1 million, purchase of land use right of RMB7.5 million, payoff of due to related parties of RMB1.8 million, repayments of short term bank loan of RMB30.0 million and long term loan of RMB18.0 million.

Adjusted Working Capital

Its adjusted working capital (see "Non-IFRS Financial Measures") was RMB25.1 million at December 31, 2016. Adjusted working capital excludes RMB64.7 million of receipts in advance from customers in connection with gas connection fees and RMB40.4 million of line of credit.

Liquidity and Capital Resources

Overview

The Company's principal sources of short-term funding are its existing cash balances, operating cash flows and borrowing under its line of credit. Its principal sources of long-term funding are its three term loans into which Changfeng entered in January 2010, December 2012 and January 2013, respectively.

The Company's principal sources of liquidity are cash provided by operations, including advance payments from residential and commercial and industrial customers related to gas connection contracts, and access to credit facilities and capital resources.

The Company's primary short-term cash requirement is to fund working capital, and repay the remainder of its outstanding withdrawal on its line of credit.

The Company's medium and long-term cash goals are to fund construction of its pipeline networks and gas distribution facilities, to acquire capital and intangible assets for its growth initiatives in mainland China and to repay its long-term loans from the Bank of China Sanya Branch ("BOC, Sanya") and Bank of China Pingxiang Branch ("BOC, Pingxiang").

In the short term, the management does not expect to face any liquidity problems considering its ability to generate sustainable cash flow from operations. The Company has not experienced any difficulties in collecting its outstanding receivables from its customers and expects no such difficulties in the foreseeable future.

Long-term bank loans

	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.

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					160,510	118,237	

Notes:

a. The term loan from Bank of China, Sanya with an original principal amount of RMB100.0 million 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 RMB40.0 million. 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 RMB80.0 million. 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 RMB60.0 million 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 RMB56.8 million. 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 RMB20.0 million, 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.

Government grants

The Company received RMB5.3 million government grants to fund the construction of certain items of property and equipment for the Company's operation in Sanya City in 2012. These government grants were recognized as a long-term liability and will be recognized in 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 (2015: RMB5,224,000) was recognized as non-current liability.

Credit Agreement

The Company'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	

Notes:

a. The short-term loan from Bank of China, Sanya is secured by 60% of the equity interest in CF China, 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 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 USD1.5 million and is secured by a pledged bank deposit amounting to of RMB1.0 million (2015: RMB10.0 million).

c. At December 31, 2015, the short-term loan from China Minsheng Bank, Sanya is guaranteed by Mr. Huajun Lin, with a maximum guarantee amount of RMB20.0 million. The amount has been fully repaid in the current year.

d. In 2016, the Company entered into 1-year facility line of credit with China Everbright Bank Haikou with an aggregate amount of RMB50.0 million. RMB30.0 million is withdrawn by the Company during the year ended December 31, 2016. The credit line is guaranteed by Mr. Huajun Lin, chairman of the Company, with a maximum guarantee amount of RMB50.0 million.

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

Cash Flow from Operations

Net cash provided by operations was RMB69.5 million for fiscal 2016 compared to RMB81.0 million in 2015.

Cash Flow from Financing Activities

Cash provided in financing activities in 2016 included a RMB30.0 million short-term bank borrowing repayment and RMB30.0 million for new short-term bank borrowing raised, RMB1.1 million paid for share buyback, repayment of long-term debts of RMB18.0 million as well as proceeds on exercised options of RMB1.2 million, and cash inflow of RMB60.0 million from new long-term debts raised.

Investing Activities

Cash used in investing activity included capital expenditures of RMB33.3 million for fiscal 2016 compared to RMB80.0 million in 2015, proceeds on disposal of a joint venture of RMB13.0 million and on disposal of available-for-sale financial assets of RMB1.0 million and withdrawal of pledge bank deposits of RMB9.0 million, as well as cash outflow for investment in available-for-sale financial assets of RMB1.9 million and land use rights of RMB4.8 million.

Changfeng will finance the majority of the upcoming construction of projects under development in mainland China through its long-term bank loans with the BOC, Sanya and BOC, Pingxiang, as well as operating cash flow from its existing operations.

Contractual Obligations and Commitments

Pipeline Construction and Equipment:

The Company has capital commitments for the purchase of property and equipment and the construction of pipelines under development contracted for but not provided in the consolidated financial statements amounting to RMB21.3 million in 2016 compared to RMB21.1 million in 2015.

At December 31, 2015, the Company is bounded by an 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 Company has disposed of its entire interest in Evergrowth together with this investment commitment.

Operating Lease Commitment:

Operating lease commitments represent rentals payable for certain of its staff quarters and land. 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 and 5 years from signing the lease contracts, respectively and progressively increased by 5% and 10% thereafter.

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

Capital Lease Commitment:

	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 RMB80.0 million 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.

Off-Balance Sheet Arrangements

As a policy, Changfeng does not enter into off-balance sheet arrangements with special purpose entities, nor does it have any unconsolidated affiliates that have not been accounted for in these financial statements

Related Parties Transactions

Apart from details of the balances with related parties disclosed in the consolidated statements of financial position and other details disclosed elsewhere in the consolidated financial statements, the Company has not entered into any significant transactions with related parties during 2016 and 2015.

Compensation of key management personnel

The remuneration of directors and other members of key management of the Company during the reporting period is RMB2.4 million in 2016 for short-term benefits compared to RMB2.3 million in 2015, and RMB1.2 million for share-based payments in 2016 compared to RMB0.8 million in 2015.

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

Amount due to 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.

Amounts due from (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	Unsecured, non-interest bearing and repayable on demand	-	(333)
			(4,249)	(6,304)

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

Share Capital

As of the date of this MD&A, the Company has 62,037,700 common shares outstanding, 3,930,000 stock options outstanding and exercisable at a weighted average exercise price of CAD0.36 per share. The Company has no warrants outstanding. 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 Company's contributed surplus. No share option expense has been recognized for the year ended December 31, 2016 has been recognized.

During 2016, the Company purchased for cancellation 614,000 of its common shares under its normal-course issuer bid (the "Bid") for cash of RMB1,086,000, inclusive of transaction costs. Subsequent to December 31, 2016, the Company did not purchase any shares.

Risks and Uncertainties

The Company is exposed to a variety of risks in the normal course of operations that could significantly affect its operating cash flow and profitability of operations and could cause its actual results to differ in material respects from its anticipated results. These risks may include, but are not limited to, those listed below. The Company seeks to manage the risks associated with its business operations; however, many of the factors affecting these risks are beyond the Company's control. The future effect of these risks and uncertainties cannot be quantified or predicted.

Country risks

As substantially all of the business of the Company is operated in China, the profitability, financial position and prospects of the Company are subject to the consideration and risks of operating in China. These include risks associated with the political and economic environment, foreign currency exchange and the legal system in China. Any changes in the policies of the Chinese government regarding the domestic economy (for example, changes affecting foreign exchange rates, inflation, taxation and trade) may have a material effect on the overall economy.

The Chinese government has been pursuing economic reforms since it first adopted its "open-door" policy in 1978. The current reforms are unprecedented, producing effects that are unpredictable, and are subject to further refinement and improvement. New political, economic and social developments and considerations may lead the Chinese government to make adjustments to these reform measures. Any change in governmental policies or any unfavourable change in the political, economic or social conditions, the laws or regulations, or the rate or method of taxation in China may have a material adverse effect on the business of the Company.

Many laws and regulations dealing with economic matters in general, and foreign investment in particular, have been enacted in China. However, China still does not have a comprehensive system of laws, and enforcement of existing laws may be uncertain and sporadic. In China, gas distribution companies invest in and operate the piped gas supply business in urban areas under the supervision of a number of government ministries and departments, including the Ministry of Commerce, the Ministry of Labor and Social Security and the Ministry of Public Security. The Company must comply with the relevant requirements of certain regulations, including the City Fuel Gas Administration Regulations, the Tentative Regulations in relation to the Supervision and Administration of the Safety of Petroleum and Natural Gas Pipelines and the Regulations of the Safety of City Fuel Gas Administration. In addition, the Company must comply with the relevant requirements and policies of local authorities where the Company's projects are situated. Rights or rights of first refusal to provide piped gas are granted by local governments pursuant to policies of promoting environmental protection and encouraging the use of natural gas and the construction of natural gas supply facilities. In addition, the natural gas distribution business in China is highly regulated and pricing is controlled by the Chinese government. Any change in such laws or regulations could have a material adverse effect on the business of the Company. There can be no assurance that the above regulatory regime and policies (including the granting of rights or rights of first refusal to supply piped gas) will not be changed. The Company's operations and profitability may be materially adversely affected if changes that occur are not favorable to the Company.

Changes in foreign exchange regulations

Since 1996, the Chinese government has promulgated various foreign exchange rules, regulations and notices (the "Policies") to raise the convertibility of the Chinese renminbi ("renminbi"). According to the Policies, a foreign-invested enterprise ("FIE") must open a "current account" and a "capital account" at a bank authorized to trade foreign exchange. A FIE may convert renminbi in the capital account into any foreign currency at any authorized bank with the prior approval of the State Administration for Foreign Exchange ("SAFE") . The income and expenditures of the Company are denominated in renminbi. At present, renminbi cannot be freely converted into other currencies. According to the Polices, upon producing the board resolution on the authorization of the distribution of profits or dividends or the commercial documents evidencing foreign exchange transactions, the Company may purchase the foreign exchange required for the distribution from a designated authorized bank. The Company cannot guarantee that the Policies will not be withdrawn or amended. The Company continues to have substantial requirements for foreign currency, including foreign currency denominated loans and purchases of imported equipment and materials. Repayment of the principal and interest on loans denominated in foreign currency shall be approved by SAFE in advance. Such approval requirements could affect the Company's ability to obtain foreign exchange through debt financing or to obtain foreign exchange for capital expenditure. In addition, according to the current foreign exchange control system, there can be no assurance that sufficient foreign exchange can be obtained pursuant to a specific exchange rate in order to satisfy the Company's needs. A shortage in the foreign exchange may prevent the Company from obtaining sufficient currency to pay dividends or limit its ability to satisfy its needs for foreign exchange.

Development projects and acquisitions

Changfeng continues to focus on growing its business segments through organic development projects or acquisitions. The Company capitalizes costs incurred on certain of its projects during the development period when the project meets specific criteria and is expected to proceed through to completion. The related capital costs of a project that does not proceed through to completion are expensed at the time it is discontinued to the extent that these costs and underlying materials cannot be utilized on another project. With respect to the Company's acquisition of assets and operations, there is a risk that certain business opportunities may not materialize as expected, resulting in asset impairment.

Substantial initial capital expenditure requirement

The nature of the Company's operations require it to make a substantial initial investment in the construction of gas pipeline infrastructure and the construction of CNG filling stations. The initial investment must be financed by internal resources of the Company, bank loans and/or equity fund raising. There can be no assurance that external sources of financing will be available to fund the Company's capital expenditure program. The failure to obtain such financing may hinder the Company's ability to continue its existing investments or make new investments. In addition, there are risks associated with the construction of new facilities, including risks that costs of construction may be greater than anticipated, and that construction may be delayed due to factors beyond the control of the Company.

Grant of additional licenses

The business objectives of the Company include the expansion of its operations by applying for distribution and construction permits for natural gas distribution rights in other cities in China. Applicants for such licenses are required to meet extensive criteria, and to submit to a detailed examination of their infrastructure and management to a special team appointed by the government body reviewing such applications. Notwithstanding the results of any such review, distribution and construction permits are granted to applicants at the sole discretion of the government body reviewing such applications, and such grants occur on an infrequent basis. Accordingly, there can be no assurance that the Company will be granted any distribution or construction permits for which it applies, which may in turn have a material adverse effect upon the operations and growth strategy of the Company.

Price control

Any increase in gas usage charges exceeding the original approved charge requires the approval of the local state price bureau. There is no assurance that any increases (except for an increase to offset the rise in the Company's purchase price of gas) will be approved. There is no assurance that the Company will be able to offset any increase in the purchase price of gas with an increase in the sales price, such that its profitability may be adversely impacted.

Obligations to purchase gas

The Company currently has a letter of intent with CNOOC for the purchase of 150 million m^3. The Company may, at its option, enter into a take or pay agreement with CNOOC which will leave it financially committed to purchase gas without any assurance that it will have sales to offset the purchase obligations. In addition, the agreement in principle between the Company and CNOOC is conditional upon the completion of a plant to be constructed by CNOOC, which is in turn subject to the receipt of various regulatory and governmental approvals. Failure by CNOOC to obtain the required approvals and/or to complete construction of its proposed plant may have a material adverse effect on the Company.

Reliance on the suppliers of natural gas

At present, the Company purchases natural gas solely from Hainan Petrol pursuant to the supply agreement. Currently, the Company has a contract to purchase approximately 25 million m^3 gas from this supplier in 2016. There can be no assurance that the Company will be able to obtain natural gas from suppliers on terms similar to those of the supply agreement or without material interruption.

Limited insurance coverage

As natural gas is an inherently flammable and explosive substance, the Company has implemented strict safety measures for the operation and maintenance of its facilities; however, the Company cannot guarantee that industry-related accidents will not happen in the future. Significant operational hazards and natural disasters may cause interruptions in the Company's operations that could have a material adverse impact on the financial condition of the Company. Although the Company may maintain insurance to protect against certain risks in such amounts as considered reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not be available or may not be adequate to cover any resulting liability. A successful claim made against the Company that is not covered by any of the Company's insurance policies or is in excess of its insurance coverage could have a material adverse effect on the Company's business and financial position.

Environmental risks and hazards

All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates. Environmental legislation is evolving in a manner that will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist in connection with the pipelines and distribution networks in which the Company holds interests that are unknown to the Company at present. Government approvals and permits are currently, and may in the future, be required to be obtained or renewed in connection with the Company's operations. To the extent such approvals are required and not obtained or existing permits are not renewed, the Company may be curtailed or prohibited from continuing its operations or from proceeding with planned development of its proposed projects. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permits governing current or proposed operations and activities of the Company, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in development expenses, capital expenditures or production costs, or require abandonment or delays in development of new projects. The Company is subject to the Chinese environmental protection laws and regulations which impose fines for violations of laws, regulations or decrees and provide for the shutdown by the central, provisional or municipal governments of any facility not in compliance with governmental orders requiring the cessation or cure of certain activities causing environmental damage. As natural gas is an environmentally friendly form of fuel, the Company has not adopted any special environmental protection measures other than the measures taken in the ordinary course of business by companies in the industry.

Key executives

The Company is dependent upon the services of key executives, management of the Company and a small number of highly-skilled and experienced executives and personnel. In addition, in the event that the Company expands its operations to other jurisdictions in the Hainan and Guangdong Provinces as presently contemplated, it will be required to hire additional skilled personnel. Due to the relatively small size of the Company, the loss of these persons or the Company's inability to attract and retain additional highly-skilled employees may adversely affect its business and future operations.

Infrastructure

Natural gas distribution activities depend on adequate infrastructure. Reliable roads, bridges, power sources and water supply are important determinants, which affect capital and operating costs. Unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Company's operations, financial condition and results of operations. Any increase in the operating costs of the natural gas distribution networks of the Company could have a material adverse effect on the Company.

Competition

The natural gas distribution industry is competitive in all of its segments. The Company faces strong competition from other natural gas distribution companies in connection with the development of pipelines and acquisition of distribution rights for natural gas. Many of these companies have greater financial resources, operational experience and technical capabilities than the Company. As a result of this competition, the Company may be unable to maintain or acquire distribution rights on terms it considers acceptable, or at all. The ability of the

Company to acquire natural gas distribution rights depends upon whether the Company is able to meet certain qualifications, the extent of competition, and the discretion of the MCC and other applicable government bodies. Factors beyond the control of the Company may affect its ability to obtain or retain distribution rights, or to secure exclusive concession rights with local municipalities, as well as the marketability of natural gas distributed by the Company. As a result of these and other factors, competitors of the Company may be granted shared or exclusive natural gas distribution rights in the target markets of the Company, either of which may adversely affect the Company's future growth plans and operations. Changfeng also competes for financing with other companies, many of whom have greater financial resources and/or more advanced operations. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to the Company.

Substitute products

Coal, gas, liquid propane gas, liquid natural gas and electricity are the main substitutes for natural gas. Ultimate consumers will consider factors such as cost, reliability, convenience and safety when choosing a fuel. Connection fees, gas usage charges and heat content are the major factors affecting customers' choice of fuel. Save for newly built residential apartments that are required to be equipped with natural gas supply for cooking stoves, in most of the locations in which the Company has established a presence, there is no assurance that existing fuel users will shift to use piped natural gas. Continued growth of the Company is dependent upon the continued conversion by Chinese residential and business consumers to natural gas as a fuel source.

Commodity prices

The price of the securities of the Company, the Company's financial results and development activities may in the future be significantly and adversely affected by declines in the price of natural gas and other commodities. The price of natural gas and other commodities fluctuates widely and is affected by numerous factors beyond the Company's control, such as the sale or purchase of natural gas by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuation in the value of the ("US") dollar and other foreign currencies, global and regional supply and demand, the political and economic conditions of major oil-producing countries throughout the world, and the cost of substitutes, inventory levels and carrying charges. Future serious price declines in the market value of natural gas and other commodities could cause continued development of the Company's projects to be impracticable. Depending on the price of natural gas and other commodities, cash flow from operations may not be sufficient and the Company could be forced to discontinue development of, may lose its interest in, or may be forced to sell, some of its interests.

Currency, interest rate and exchange fluctuations

The value of renminbi is subject to changes in the Chinese government's policies and depends to a large extent on domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of the renminbi to US dollars has generally been stable, and renminbi has appreciated slightly against the US dollar. Any devaluation of renminbi may adversely affect the value of, and dividends payable on, the securities of the Company in foreign currency terms since the Company receives its revenues in renminbi. Results of operations and the financial condition of the Company may also be affected by changes in the value of certain currencies other than renminbi in which the Company's obligations are denominated. In particular, a devaluation of the renminbi is likely to increase the portion of the Company's cash flow required to satisfy its foreign currency-denominated obligations.

Government regulation

The construction and distribution activities of the Company are subject to various laws governing development, construction, distribution, taxes, labour standards and occupational health, toxic substances, land use, water use, and other matters. Although the Company's operations are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail production or distribution activities. Amendments to current laws and regulations governing natural gas distribution and related matters or more stringent implementation thereof could have a substantial adverse impact on the Company.

Non-IFRS Financial Measures

This MD&A contains certain financial measures that do not have any standardized meaning prescribed by IFRS. Therefore, these financial measures may not be comparable to similar measures presented by other issuers. Investors are cautioned that these measures should not be construed as alternatives to net income or to cash provided by operating, investing, and financing activities determined in accordance with IFRS, as indicators of its performance. Changfeng provide these measures to assist investors in determining its ability to generate income and cash provided by operating activities and to provide additional information on how these cash resources are used. These measures are listed and defined below:

EBITDA

EBITDA is defined herein as income before income tax expense, interest expense, depreciation and amortization, share of loss of an associate, as well as non-cash stock-based compensation expense. EBITDA does not have any standardized meaning prescribed by IFRS and therefore may not conform to the definition used by other companies.

A reconciliation of net income to EBITDA for each of the periods presented in this MD&A as follows:

In RMB'000 (except for % figures)	**2016**	**2015 (Restated)**	**Change**	**Change%**
Net Income	21,326	36,352	(15,026)	-41%
Add (less):				
Income tax	24,088	19,993	4,095	20%
Interest (income) loss	(681)	(590)	(91)	15%
Share of loss of an associate	7	7	-	0%
Share of loss of a joint venture	3,516	399	3,117	781%
Loss on disposal of a jount venture	3,114	-	3,114	100%
Stock-based compensation	-	821	(821)	-100%
Amortization	17,071	21,786	(4,715)	-22%
Interest on borrowing	7,874	7,410	464	6%
EBITDA	**76,315**	**86,178**	**(9,863)**	**-11%**

Adjusted working capital

Adjusted working capital is calculated as current assets less adjusted current liabilities. Adjusted current liabilities is calculated as current liabilities, excluding deferred revenue in connection with gas connection fees, which are deferred when Changfeng receives payments from customers in advance of work having commenced and are recognized on the percentage of completion method, as well as the credit line and due to related party. As is the practice with lines of credit in China, typically, they are renewed when due.

Changfeng believes that adjusted working capital is a useful supplemental measure as it provides an indication of its ability to settle its debt obligations as they come due.

Its calculation of adjusted working capital is provided in the table below:

In RMB'000 As at	**31-Dec-16**	**31-Dec-15 (Restated)**
Current assets	208,509	142,148
Less: Current liabilities	289,233	259,206
Working capital (deficit)	(80,724)	(117,058)
Add: Receipts in advance from customers	64,656	14,919
Short-term bank loans	40,435	39,742
Adjusted working capital (deficit)	**24,367**	**(62,397)**

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 statement is also presented in the functional currency, i.e. RMB.

Financial Instruments

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 statements 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.

Key sources of estimation uncertainty

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Significant influence over Shin-Ko Energy:

> Shin-Ko Energy is an associate of the Company although the Company has only 50% ownership interest and voting rights in Shin-Ko Energy. The Company has the 50% ownership since 2011 and the remaining 50% of shareholdings are owned by two shareholders that are unrelated to the Company.
>
> The management of the Company assessed whether or not the Company has control over Shin-Ko Energy based on whether the Company has the practical ability to direct the relevant activities of Shin-Ko Energy unilaterally. In making the judgement, the management considered the Company's absolute size of holding in Shin-Ko Energy and the relative size of and dispersion of the shareholdings owned by the other shareholders. After assessment, the management concluded that the Company do not have sufficiently dominant voting interest to direct the relevant activities of Shin-Ko Energy and therefore the Company has control over Shin-Ko Energy.

In the application of the Group's accounting policies, the management of the Company are required to make judgments, 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 ongoing 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 periods. 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 RMB134.8 million (2015: RMB123.2 million).

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.

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

In assessing the impairment of trade receivable 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. The amount of the impairment loss 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. As at December 31, 2016, the carrying amount of trade receivable is RMB17.0 million (net of allowance for doubtful debts of RMB739,000) (2015: carrying amount of RMB14.7 million, net of allowance for doubtful debts of RMB312,000), and the carrying amount of amounts due from customers for contract work is RMB20.5 million (net of allowance for doubtful debts of RMB2.7 million) (2015: carrying amount of RMB27.1 million, net of allowance for doubtful debts of RMB1.1 million).

Future Accounting Changes

New and amendments to IFRSs in issue but not yet effective

The Company has not early applied the following new and amendments 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]

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 period 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 Group 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 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 detailed review.

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 *Gas connection 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. Furthermore, 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. Furthermore, 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.

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 and those classified as investment properties 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 and financing/operating 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 RMB14.7 million 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 Group completes a detailed review.

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 statement of financial position for liabilities arising from financing activities.

Outlook

The Group expects to continue to add both residential and commercial and industrial customers to its existing pipeline networks in the Sanya Region and Xiangdong district, and the volume of gas sold during 2016 will continue to increase especially from its operations in the Sanya Region with the new CNG/LNG retailing station. While gross margin from gas distribution utility in Sanya Region may expect for dropping due to the relatively higher gas purchase price in 2016.

In 2017, Changfeng will continue to implement its long-term growth strategy through its proposed pipelined gas project in the Western Guangdong Area of the Guangdong Province, China as discussed in the Expansion Project section in this MD&A on page 12.