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元亨燃氣
YUANHENG GAS

YUAN HENG GAS HOLDINGS LIMITED
元亨燃氣控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 332)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 MARCH 2017

RESULTS

The Board of Directors (the "Directors") of Yuan Heng Gas Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2017, together with the comparative figures, as follows:

I. CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2017

	NOTES	2017 RMB'000	2016 RMB'000
Turnover	4	**7,972,843**	6,841,169
Operating costs		**(7,911,030)**	(6,735,514)
Gross profit		**61,813**	105,655
Other income	5	**12,099**	46,579
Other gains and losses	6	**(7,027)**	(2,115)
Impairment loss on goodwill		**(22,670)**	–
Distribution and selling expenses		**(10,994)**	(10,357)
Administrative expenses		**(72,666)**	(101,621)
Share of results of associates		**(9,359)**	4,224
Finance costs	7	**(42,524)**	(48,451)
Loss before tax		**(91,328)**	(6,086)
Income tax expense	8	**(13,919)**	(13,935)

	NOTES	2017 RMB'000	2016 RMB'000
Loss for the year	9	**(105,247)**	(20,021)
Other comprehensive income for the year			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation		**505**	417
Total comprehensive expense for the year		**(104,742)**	(19,604)
(Loss) profit for the year attributable to:			
Owners of the Company		**(84,591)**	9,676
Non-controlling interests		**(20,656)**	(29,697)
		(105,247)	(20,021)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(84,086)**	10,093
Non-controlling interests		**(20,656)**	(29,697)
		(104,742)	(19,604)
(Loss) earnings per share (RMB cents)	10		
– Basic		**(1.48)**	0.18
– Diluted		**(1.48)**	0.18

II. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2017

	NOTE	**2017** *RMB'000*	2016 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**788,127**	837,086
Prepaid lease payments		**37,309**	38,671
Goodwill		**34,070**	56,740
Intangible asset		**8,166**	8,559
Interests in associates		**136,562**	111,421
Long-term receivables		**37,325**	60,806
Deposit paid for acquisition of an associate		**190,748**	–
Deferred tax assets		**576**	4,818
Available-for-sale investment		**202,200**	–
Deposits for property, plant and equipment under finance lease		**–**	847
		1,435,083	1,118,948
CURRENT ASSETS			
Inventories		**26,784**	26,181
Trade and other receivables	*11*	**821,839**	1,554,880
Prepaid lease payments		**1,362**	1,362
Long-term receivables due within one year		**59,181**	27,006
Amounts due from non-controlling equity owners of subsidiaries		**12,810**	2,904
Amounts due from related parties		**1,878**	480
Pledged bank deposits		**186,099**	289,915
Bank balances and cash		**463,222**	61,129
		1,573,175	1,963,857

	NOTE	2017 RMB'000	2016 RMB'000
CURRENT LIABILITIES			
Trade and other payables	*12*	**1,149,753**	1,871,261
Amounts due to associates		**12,949**	3,203
Amount due to a non-controlling equity owner of a subsidiary		**–**	10,000
Tax payable		**56,915**	62,349
Bank and other borrowings due within one year		**415,708**	131,282
Convertible bond		**65,200**	–
Embedded derivatives		**15,547**	–
Obligations under finance leases		**–**	1,115
		1,716,072	2,079,210
NET CURRENT LIABILITIES		**(142,897)**	(115,353)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,292,186**	1,003,595
CAPITAL AND RESERVES			
Share capital		**549,014**	475,031
Reserves		**634,988**	298,237
Equity attributable to owners of the Company		**1,184,002**	773,268
Non-controlling interests		**79,645**	105,332
TOTAL EQUITY		**1,263,647**	878,600
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**4,539**	–
Bank and other borrowings due after one year		**24,000**	56,000
Convertible bond		**–**	56,054
Embedded derivatives		**–**	12,941
		28,539	124,995
		1,292,186	1,003,595

III. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Yuan Heng Gas Holdings Limited (the "Company"), together with its subsidiaries, collectively referred to as the "Group") is a public limited company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section in the annual report.

Upon the completion of the mandatory unconditional cash offer on 3 January 2011, Frontier Global Group Limited ("Frontier Global") which is ultimately controlled by Mr. Wang Jianqing ("Mr. Wang"), acquired 71.5% of the aggregate issued share capital of the Company, and Frontier Global and Champion Golden Limited then became the immediate holding company and ultimate holding company of the Company, respectively. Both Frontier Global and Champion Golden Limited are limited liability companies incorporated in the British Virgin Islands (the "BVI").

Upon the completion of the acquisition of a subsidiary and the issue of new shares on 16 May 2014 as set out in note 2 (the "Acquisition"), the immediate holding company and ultimate holding company of the Company were changed to Champion Ever Limited, which a limited liability company incorporated in the BVI and is wholly-owned by Mr. Wang.

The Group is principally engaged in the entering into oil and gas sales and purchase contracts with a number of counterparties. Starting from 16 May 2014, upon the completion of the Acquisition, the Group is also engaged in the production and sale of liquefied natural gas ("LNG"), operating vehicle gas refueling station, sales of piped gas, LNG transportation and construction of gas pipeline infrastructure.

Upon the completion of the Acquisition, the functional currency of the Company has changed from Hong Kong dollars ("HKD") to Renminbi ("RMB") as the primary economic environment of the Company changed to a PRC business environment. Following the change of functional currency of the Company, the Company changed the presentation currency of its consolidated financial statements from HKD to RMB. The directors of the Company are of the opinion that this could simplify the financial reporting process and it could provide users with more comparable information with other companies in similar industries.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Acquisition of Union Honor Limited ("UHL") and the adoption of merger accounting

On 28 October 2013, the Group entered into an agreement with Ying Hui Limited ("Vendor") and Vendor's shareholders, pursuant to which the Group conditionally agreed to acquire and the Vendor conditionally agreed to dispose of the sales shares, representing the entire issued share of UHL, a wholly-owned subsidiary of the Vendor, at the total consideration of HK$2,861,775,000. Both the Vendor and UHL are limited liability companies incorporated in the BVI.

Mr. Wang, the ultimate shareholder of the Company, has equity interest of 62.89% of the Vendor and has control over the Vendor. On 17 March 2014, the Group entered into a supplemental agreement ("Supplemental SPA") with the Vendor and the Vendor's shareholders pursuant to which the consideration of the Acquisition has been revised to approximately HK$3,068,246,000.

According to the Supplemental SPA, the total consideration of the Acquisition is satisfied by (i) cash consideration of HK$70,000,000 (equivalent to RMB55,595,000); (ii) HK$2,998,246,000 by procuring the Company to issue and allot to the Vendor's shareholders of a total 4,283,209,057 shares ("Consideration Shares") at an issue price of HK$0.70 per Consideration Share. During the year ended 31 March 2014, cash consideration of HK$70,000,000 (equivalent to RMB55,595,000) has been paid, which is deemed to be a distribution to shareholders.

The Acquisition was approved by the shareholders of the Company in a special general meeting held on 8 May 2014 and was completed on 16 May 2014.

Mr. Wang has obtained the control of the Company since the completion of mandatory unconditional cash offer on 3 January 2011 as stated in note 1, and on 11 January 2013, Mr. Wang obtained the control of the Vendor and UHL. As such, the Group and UHL are under common control of Mr. Wang. The Acquisition of UHL has been reflected in the consolidated financial statements using the principle of merger accounting, taking into consideration of the requirements under Accounting Guideline 5 "Merger Accounting for Common Control Combinations", as if they had been combined from the date when the combining entities first came under control of Mr. Wang.

Going concerns

In preparing the consolidated financial statements, the directors of the Company have given careful considerations to the future liquidity of the Group in light of the fact that as at 31 March 2017, its current liabilities exceeded its current assets by approximately RMB142,897,000. Taking into account of (i) the internally generated funds, and (ii) the available long-term loan facilities of RMB344,640,000 and RMB28,936,000 with maturity up to September 2017 and September 2019, respectively, pursuant to the relevant facilities documents, the directors of the Company are confident that the Group will be able to meet its financial obligations when they fall due in the foreseeable future and be able to operate on a going concern basis.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for current year

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in current year:

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

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

Amendments to HKAS 1 Disclosure Initiative

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

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

The Group has applied these amendments retrospectively. Hence, the grouping and ordering of certain notes has been revised to give prominence to the areas of the Group's activities that management considers to be most relevant to an understanding of the Group's financial performance and financial position. Specifically, information to capital risk management and financial instruments was reordered. Other than the above presentation changes, the application of the amendments to HKAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

New and amendments to HKFRSs and interpretations in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15 and amendments to HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HKFRS 16	Leases[2]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to HKAS 40	Transfers of investment property[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2014 – 2016 cycle[5]

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

The directors of the Company anticipate the application of the other new and amendments to HKFRSs and interpretations will have no material impact on the Group's financial statements.

4. SEGMENT INFORMATION

The Group is organised into business units based on the types of customers and methods used to distribute their products and provide their services, based on which information is prepared and reported to the chief operating decision maker ("CODM"), the directors of the Company, for the purposes of resource allocation and assessment of performance. Segment profit/loss represents the profit earned by/loss from each segment without allocation of central administration costs, share of results of associates, interest income, finance costs and gain on bargain purchase. This is the measure reported to the CODM. The accounting policies of the reportable segments are the same as the Group's accounting policies. The Group's operating and reportable segments under HKFRS 8 Operating Segments are as follows:

Production and sales of LNG	Wholesale of LNG
Oil and gas transactions	Entering into oil and gas sales and purchase contracts
Other operations	Vehicle gas refuelling stations, sales of piped gas, LNG transportation and construction of gas pipeline infrastructure

Segment turnover and results

Year ended 31 March 2017

	Production and sales of LNG *RMB'000*	Oil and gas transactions *RMB'000*	Other operations *RMB'000*	Total *RMB'000*
Segment turnover from external customers	**1,610,135**	**6,182,859**	**179,849**	**7,972,843**
Intra-segment turnover	**85,416**	**–**	**–**	**85,416**
Segment turnover	**1,695,551**	**6,182,859**	**179,849**	**8,058,259**
Elimination				**(85,416)**
Total turnover				**7,972,843**
Segment results	**(54,793)**	**3,208**	**9,768**	**(41,817)**
Interest income				**6,243**
Share of results of associates				**(9,359)**
Finance costs				**(42,524)**
Gain on bargain purchase				**339**
Unallocated corporate expenses				**(4,210)**
Loss before tax				**(91,328)**

Year ended 31 March 2016

	Production and sales of LNG *RMB'000*	Oil and gas transactions *RMB'000*	Other operations *RMB'000*	Total *RMB'000*
Segment turnover from external customers	986,009	5,656,698	198,462	6,841,169
Intra-segment turnover	225,760	–	–	225,760
Segment turnover	1,211,769	5,656,698	198,462	7,066,929
Elimination				(225,760)
Total turnover				6,841,169
Segment results	(61,889)	44,819	22,071	5,001
Interest income				45,248
Share of results of associates				4,224
Finance costs				(48,451)
Unallocated corporate expenses				(12,108)
Loss before tax				(6,086)

Segment assets and liabilities

Information of the operating segments of the Group reported to the CODM for the purposes of resource allocation and performance assessment does not include any assets and liabilities. Accordingly, no segment assets and liabilities information are presented.

5. OTHER INCOME

	2017	2016
	RMB'000	*RMB'000*
Interest income from		
– banks	**2,730**	6,682
– a non-controlling equity owner of subsidiaries	**–**	2,618
– long-term receivables	**3,513**	3,947
– third-party	**–**	19,163
– a related party	**–**	12,838
	6,243	45,248
Government grant *(note)*	**5,000**	–
Others	**856**	1,331
	12,099	46,579

Note: The Group entitled to a government grant of RMB5,000,000 in the current year as an incentive for locating the principal office of a Group's subsidiary with a certain amount of paid-up capital in Guangzhou City.

6. OTHER GAINS AND LOSSES

	2017	2016
	RMB'000	*RMB'000*
Gain on disposal of property, plant and equipment	**5**	70
Net foreign exchange (loss) gain	**(5,596)**	178
Loss on fair value change of embedded derivatives	**(1,775)**	(2,363)
Gain on bargain purchase arising from acquisition of a subsidiary	**339**	–
	(7,027)	(2,115)

7. FINANCE COSTS

	2017	2016
	RMB'000	*RMB'000*
Interest on bank and other borrowings	**33,369**	33,083
Interest on convertible bond	**9,538**	3,764
Finance leases	**59**	574
Total interest charges	**42,966**	37,421
Less: Amount capitalised in construction in progress *(note)*	**442**	1,054
	42,524	36,367
Other finance costs	**–**	12,084
	42,524	48,451

Note: The borrowing costs have been capitalised at a rate of 6.6% per annum for the year ended 31 March 2017 (2016: 6.6%).

8. INCOME TAX EXPENSE

	2017	2016
	RMB'000	*RMB'000*
The charge comprises:		
Hong Kong Profits Tax		
– Current year	**(1,164)**	(285)
PRC Enterprise Income Tax ("EIT")		
– Current year	**(3,973)**	(32,013)
– Underprovision in prior years	**(1)**	(1,036)
	(3,974)	(33,049)
Deferred taxation		
– Current year	**(8,781)**	19,399
	(13,919)	(13,935)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

PRC EIT has been provided at the applicable income tax rate of 25% on the assessable profits of the PRC subsidiaries of the Group except for 鄂爾多斯市星星能源有限公司 ("Xingxing Energy"), 達州市匯鑫能源有限公司 ("Huixin Energy") and 貴州華亨能源投資有限公司 ("Huaheng Energy") which are taxed at concessionary rate in certain years.

As set out below, the applicable PRC EIT concessionary rate for Xingxing Energy, Huixin Energy and Huaheng Energy is 15%, which are under the preferential tax treatment that given to companies established in the western regions in the PRC and derived at least 70% of their total income from their main business in oil and gas industry which falling within the list of encouraged industries specified by the PRC government.

Xingxing Energy was registered with the local tax authority to be eligible to the reduced 15% enterprise income tax rate from 2013 to 2020. Accordingly, Xingxing Energy is eligible for the EIT of 15% (2016: 15%).

Huixin Energy was registered with the local tax authority to be eligible to the reduced 15% enterprise income tax rate from 2012 to 2020. Accordingly, Huixin Energy is eligible for the EIT of 15% (2016: 15%).

Huaheng Energy was entitled to a 15% preferential rate since its establishment on 24 June 2011 with no definite period and subject to annual review and approval of local tax authority.

9. LOSS FOR THE YEAR

	2017	2016
	RMB'000	*RMB'000*
Loss for the year has been arrived at after charging:		
Auditors' remuneration	**1,800**	1,600
Amortisation of intangible asset (included in administrative expense)	**393**	393
Amortisation of prepaid lease payments	**1,362**	1,362
Cost of inventories recognised as an expense	**1,742,856**	1,110,452
Depreciation of property, plant and equipment	**66,978**	65,334
Directors' emoluments	**4,160**	3,853
Operating lease payment in respect of office premises	**3,047**	2,787
Salaries and other benefits	**43,920**	50,003
Retirement benefits schedule contributions	**5,083**	4,827
Total staff costs (excluding directors' emoluments)	**49,003**	54,830

10. (LOSS) EARNINGS PER SHARE

The weighted average number of shares used for the purpose of calculating basic (loss) earnings per share for the both years has been adjusted as if the Consideration Shares was issued at 1 April 2013, on the basis that the consolidated financial statements are prepared as if the UHL and its subsidiaries ("UHL Group") had been combined from the date when UHL Group first came under the control of the common controlling party of the Company and UHL Group (see note 2).

The calculation of the basic loss per share for the year is based on the loss (2016: profit) attributable to equity holders of the Company of approximately RMB84,591,000 (2016: RMB9,676,000) and the weighted average number of 5,718,945,104 (2016: 5,487,510,416) ordinary shares in issue during the year.

The computation of diluted (loss) earnings per share for the year ended 31 March 2017 and 2016 does not assume the conversion of the Company's outstanding convertible bond since their exercise would not result in an increase/decrease in loss/earnings per share.

11. TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**405,645**	938,608
Bills receivables	**735**	23,302
Other receivables	**13,081**	25,032
Prepayments	**402,378**	567,938
	821,839	1,554,880

The Group generally requires prepayments made by customers before delivery of goods or provision of services, except for certain customers to which the Group allows an average credit period of 30 to 90 days. The Group also allows customers to settle the trade receivables before the end of credit period or to make prepayments to the Group by bills receivables.

Trade receivables arisen from oil and gas sales contracts are settled either by bills issued by banks with high credit-ratings assigned by international credit-rating agencies which are receivable with an average credit period ranging from seven days to six months after the date of delivery of commodity to customers or by telegraphic transfer.

The following is an aged analysis of trade receivables presented based on the revenue recognition date:

	2017	2016
	RMB'000	*RMB'000*
Within 30 days	**373,365**	187,208
31 – 90 days	**991**	2,435
91 – 180 days	**2,688**	733,548
Over 180 days	**28,601**	15,417
	405,645	938,608

The following is an aged analysis of bills receivables based on the date of receipt of bills:

	2017	2016
	RMB'000	*RMB'000*
Within three months	**735**	22,210
Three months to six months	**–**	1,092
	735	23,302

12. TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**309,911**	866,091
Bills payables	**593,664**	912,130
Other payables	**44,861**	30,407
Other tax payables	**18,157**	17,721
Consideration payable	**16,735**	16,735
Receipts in advance	**155,940**	16,220
Compensation payable	**10,255**	10,442
Payroll payables	**230**	1,515
	1,149,753	1,871,261

Trade payables arisen from oil and gas purchase contracts are granted by suppliers with an average credit period ranging from seven days to six months after the date of delivery, and trade payables arisen from production and sales of LNG are granted by suppliers with an average credit period ranging from 30 days to 90 days after date of delivery.

Besides, certain suppliers will also require to have prepayments received before the supply of materials. The Group will arrange for certain of its prepayments or settlement of trade payable by bills payables.

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

	2017	2016
	RMB'000	*RMB'000*
Within 90 days	**303,401**	849,749
91 – 180 days	**2,643**	7,040
181 – 365 days	**1,945**	5,050
Over 1 year	**1,922**	4,252
	309,911	866,091

The following is an aged analysis of bills payables based on the date of issue of bills:

	2017	2016
	RMB'000	*RMB'000*
Within three months	**233,600**	655,490
Three months to six months	**360,064**	256,640
	593,664	912,130

DIVIDEND

The Board of Directors did not recommend the payment of a final dividend for year ended 31 March 2017 (2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP FINANCIAL REVIEW

BUSINESS REVIEW

Group results

For the year ended 31 March 2017 and at present, the Group has been principally engaged in (i) trading of oil and gas products and the provision of related consultancy services; and (ii) processing, distribution, sales, trading and transportation of LNG and other auxiliary operations and networks in the PRC.

For the year ended 31 March 2017, the Group recorded consolidated turnover of approximately RMB7,973 million (2016: approximately RMB6,841 million) with loss after tax of approximately RMB105 million (2016: approximately RMB20 million). The Group's performance for the year ended 31 March 2017 were contributed mainly by the production and sales of LNG and the trading of oil and gas business.

The Group's financial results were adversely affected as compared to that for the corresponding period in 2016 is mainly due to supply side driven factor and challenging market conditions (as further elaborated under the sections headed "Production and sales of LNG" and "Oil and gas transactions").

Notwithstanding, the management is exploring avenues in improving its profit margins, as well as seeking business opportunities to diversify the Group's businesses and/or portfolio with a view to improve its overall financial and operational performance.

Production and sales of LNG

During the year, the Group produced approximately 440,943,000 cubic meters of LNG, representing an increase of approximately 111,134,000 cubic meters or 33.7% compared with the last year. The turnover from the sales of LNG business for the year ended 31 March 2017 was approximately RMB1,610 million representing an increase of approximately RMB624 million or 63.3% compared with the last year, contributing approximately 20.2% of the total turnover of the Group. Gross profit, sightly increased by approximately RMB1 million to approximately RMB19 million (2016: approximately RMB18 million), gross profit margin however, fell from approximately 1.8% to approximately 1.2%.

The low utilization level of the Group's LNG processing plants in last reporting period was due to unscheduled facilities maintenance resulted from change of gas sources by upstream supplier. However, the production level of the Group's LNG processing plants return to normal level and led to an increase of the production volume for the year ended 31 March 2017.

The low profit margin for the year ended 31 March 2017 was due to (1) stiff market competition against LNG in PRC and (2) the continuing fall in natural gas price which led to the depression of the LNG industry.

Notwithstanding the above, the management has (1) sought and explored the expansion of its LNG downstream distribution channel through proposed collaboration with industry player(s) and/or state-owned enterprises; and (2) sought to further expand collaboration with quality end users of natural gas, which is expected to make positive contribution to the business and operations of the Group.

Oil and gas transactions

During the year, revenue arising from oil and gas transactions increased to approximately RMB6,183 million from approximately RMB5,657 million, representing an increase of approximately RMB526 million or 9.3% compared with the last year, contributing approximately 77.5% of the total turnover of the Group. Gross profit, however, decreased to approximately RMB22 million from approximately RMB60 million, with gross profit margin decreased from approximately 1.1% to approximately 0.36% as a result of the fluctuation of oil and gas prices at the industry low range and the overall doldrums of the oil and gas industry.

Given the difficult overall oil and gas industry environment, the Group has implemented different measures to overcome the hard times in the oil and gas industry and believe that oil and gas market will start its growth momentum. Moreover, to strengthen the Group's trading business, the management is (1)seeking to formulate strategic cooperation with globally-renowned oil and gas suppliers and (2) continue to adopt cautionary steps while seeking profitable trading opportunities.

Prospect

During the year, the Group's business was affected by adverse market conditions in the oil and gas industry as described in the previous sections. It is expected that although the domestic natural gas market is currently in an over supply position during the transitional gas users adjustment period, the policy of the Chinese government to adjust the overall energy structure and to increase the use of natural gas is clear in a long run, and the prospect of the natural gas industry remains favourable. Meanwhile, PRC's "One Belt One Road" initiative also focuses on going out strategy for PRC's energy equipment, technologies, standards and services would be conducive to the market environment, in which the Group operates.

The management is mindful of the market environment and will continue to adopt cautionary steps and implement various strategies to mitigate the adverse impact on the business arising from challenges as in this market condition. Looking forward, the Group will continue to develop its businesses in natural gas sector and to explore new business opportunities in order to create value for its shareholders.

FINANCIAL REVIEW

Turnover

The Group's turnover for the year ended 31 March 2017 was approximately RMB7,973 million (2016: approximately RMB6,841 million). The increase in turnover was mainly attributable to the increase in the wholesale of LNG which reported a turnover of approximately RMB1,610 million during the year ended 31 March 2017 (2016: approximately RMB986 million).

Gross Profit

Gross profit for the year ended 31 March 2017 was approximately RMB62 million (2016: approximately RMB106 million). The decrease in gross profit was primarily due to the decrease in the cost of the alternative source of energy and the dis-alignment on the price adjustment between the natural gas suppliers and the market users have caused significant challenges to the group in costs transferring, placing pressure on the Group's product selling price. Accordingly, the Group's gross profit margin for the year ended 31 March 2017 decreased from approximately 2% (year ended 31 March 2016) to approximately 1%.

Other Income

Other income for the year ended 31 March 2017 was approximately RMB12 million (2016: approximately RMB47 million). The decrease in other income is mainly due to the absence of the non-recurring interest income from third party and a related party.

Impairment Loss on Goodwill

As the domestic LNG market recovery was slower than expected, part of the goodwill from sales of LNG segment was impaired. During the year, the Group recognised an impairment loss of approximately RMB23 million (2016: nil) on goodwill.

Administrative Expenses

The Group's administrative expenses for the year ended 31 March 2017 amounted to approximately RMB73 million (2016: approximately RMB102 million), representing a decrease of approximately 28.5% as compared to the previous year. The decrease was due to (1) the suspension of LNG production plant resulted from change of gas sources from upstream supplier in last year which part of the fixed production costs (i.e. labour salaries and deprecation etc.) were treated as administrative expenses in the suspension period and (2) the Group has adopted effective cost control measurements.

Finance Costs

The Group incurred finance costs of approximately RMB43 million during the year ended 31 March 2017 (2016: approximately RMB48 million), representing a decrease of approximately 12.2%. The decrease was mainly due to the decrease in the non-recurring discount interest expense from the debt assignment incurred in last year.

Income Tax Expenses

The Group is subjected to taxes in Hong Kong and the PRC due to its business operations in these jurisdictions. For the year ended 31 March 2017, income tax expenses of the Group approximately RMB14 million (2016: approximately RMB14 million). The changes were mainly come from the decrease in the current tax expenses due to the drop of profit in oil and gas transactions and the increase in the deferred tax expenses as a result of not recognising a substantial amount of tax losses carried forward in deferred tax assets.

Liquidity, Financial Resources and Capital Structure

As at 31 March 2017, the Group maintained bank balances and cash of approximately RMB463 million (2016: approximately RMB61 million).

The net current liabilities of the Group as at 31 March 2017 were approximately RMB143 million, representing an increase of approximately RMB28 million compared with the last year (2016: approximately RMB115 million). The current ratio was approximately 0.92 (2016: approximately 0.94).

Notwithstanding the net current liabilities of the Group at 31 March 2017, the management are confident that the Group would have adequate funds to meet its obligation, as and when they fall due, having regard to the following:

(i) the available long-term loan facilities of RMB344,640,000 and RMB28,936,000 with maturity up to September 2017 and September 2019, respectively; and

(ii) the Group expects to generate positive operating cash flows.

The Group will further improve its financial position in order to improve liquidity and cash flows by implementing a number of measures, including but not limited to, raising further medium to long term banking facilities and rolling over short term banking facilities to medium term when they fall due.

As at 31 March 2017, the Group had borrowings of approximately RMB481 million which are due within one year and approximately RMB24 million which are repayable after one year. The gearing ratio, which is debt-to-equity ratio, of the Group was approximately 0.4 as at 31 March 2017 compared to approximately 0.28 as at 31 March 2016.

On 13 February 2017, the Company entered into a Subscription Agreement ("Subscription Agreement I") with the Subscriber for 331,000,000 Subscription Shares, which were allotted and issued by the Company at the Subscription price of HK$0.68 per Subscription Share at the completion. The closing price of the Share as quoted on the Stock Exchange on 13 February 2017, being the date of the Subscription Agreement, was HK$0.76. The Directors considered that the entering into of the Subscription to raise additional funds to strengthen the financial position and broaden the capital base of the Company.

The completion of the Subscription Agreement I took place on 24 February 2017. After the completion of the Subscription, 331,000,000 ordinary shares were allotted and issued with nominal value of HK$0.1 per share. The gross proceeds of approximately HK$225,080,000 (equivalent to approximately RMB199,365,000, at the exchange rate of HK$1 = RMB0.88575) received from the Subscription and the net proceeds, after deducting relevant expenses, was approximately HK$224,700,000 (equivalent to approximately RMB199,000,000, at the exchange rate of HK$1 = RMB0.88575) and the net price per Subscription Share issued is about HK$0.679. The net proceeds was used to settle the trade payment.

On 21 March 2017, the Company entered into another Subscription Agreement ("Subscription Agreement II") with the Subscriber for 503,703,704 Subscription Shares, which were allotted and issued by the Company at the Subscription price of HK$0.675 per Subscription Share at the completion. The closing price of the Share as quoted on the Stock Exchange on 21 March 2017, being the date of the Subscription Agreement, was HK$0.75. The Directors considered that the entering into of the Subscription to raise additional funds to strengthen the financial position and broaden the capital base of the Company.

The completion of the Subscription Agreement II took place on 30 March 2017. After the completion of the Subscription, the aggregate of 503,703,704 ordinary shares were allotted and issued with nominal value of HK$0.1 per share. The gross proceeds of approximately HK$340,000,000 (equivalent to approximately RMB301,485,000, at the exchange rate of HK$1 = RMB0.88672) received from the Subscription and the net proceeds, after deducting relevant expenses, was approximately HK$332,400,000 (equivalent to approximately RMB294,700,000, at the exchange rate of HK$1 = RMB0.88672) and the net price per Subscription Share issued is about HK$0.66. Out of the net proceeds, approximately RMB293,300,000 was used to settle the loan of a subsidiary and the remaining balance was used by the Company to pay for the administrative expenses (i.e. legal and professional fees, rent, salaries etc.).

Upon completion of the abovementioned two subscriptions agreements, the issued share capital of the Company is enlarged from 5,683,635,248 shares to 6,518,338,952 shares.

Capital Expenditure on Property, Plant and Equipment

Capital expenditure for purchase of property, plant and equipment amounted to approximately RMB18 million (2016: approximately RMB21 million) for the year ended 31 March 2017.

Pledge of Assets

As at 31 March 2017, the Group had pledged assets in an aggregate amount of approximately RMB717 million (2016: approximately RMB872 million) to banks for banking facilities.

Capital Commitments

As at 31 March 2017, the Group had no material capital commitments.

Contingent liabilities

As at 31 March 2017, the Group issued financial guarantee to the banks in respect of bank loans obtained by associates of RMB135,000,000 (2016: RMB60,000,000), representing the amount that could be required to be paid if the guarantee was called upon in entirety by the bank.

Treasury Policy

The Group mainly operates in China with most of the transactions denominated and settled in RMB and US Dollar. The exposure of exchange fluctuation in respect of RMB and US Dollar could affect the Group's performance and asset value. However, there are no significant differences of the carrying amount of the monetary assets and liabilities which are denominated in US Dollar so the Group has not experienced any material difficulties and liquidity problems resulting from currency exchange fluctuations. The Group still monitors the overall currency exposures.

Employee Information

As at 31 March 2017, the Group had about 470 employees (2016: about 550). The remuneration packages are generally structured with reference to market conditions and individual qualifications. Salaries and wages of the Group's employees are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

CORPORATE GOVERNANCE

The Company has complied with all the applicable code provisions set out in the Code on Corporate Governance Practices ("the CG Code") in Appendix 14 of the Listing Rules throughout the year ended 31 March 2017, except for the deviations discussed below.

Code provision A.2.1

Pursuant to A.2.1 of the Code, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. Wang Jianqing ("Mr. Wang") is the chairman of the Company since 27 January 2011 and was appointed the CEO of the Company on 15 September 2011. The Board considers that Mr. Wang possesses the essential leadership skills to manage the Board and extensive knowledge in the business of the Group. The present structure is more suitable to the Company because it can promote the efficient formulation and implementation of the Company's strategies. Through the supervision of the Board and the audit committee, balance of power and authority can be ensured and there is no imminent need to change the arrangement.

Code provision F.1.2

Pursuant to F.1.2 of the Code, the appointment of the company secretary should be dealt with by a physical board meeting rather than a written resolution. The appointment of the current company secretary was dealt with by a written resolution in September 2013. The Board considers that, prior to the execution of the written resolution to appoint the current company secretary, all Directors were individually consulted on the matter without any dissenting opinion and there was no need to approve the matter by a physical board meeting instead of a written resolution.

AUDIT COMMITTEE

The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 March 2017. The Audit Committee comprises three independent non-executive directors, namely, Dr. Leung Hoi Ming, Mr. Wong Chi Keung and Mr. Tom Xie.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

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

COMPLIANCE WITH CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions (the "Model Code"). Having made specific enquiry of all directors of the Company, the directors of the Company have complied with the required standard set out in the Model Code throughout the year ended 31 March 2017.

DEALING IN COMPANY'S LISTED SECURITIES

During the year, there were no purchases, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This announcement of results is available for viewing on the website of Hong Kong Exchange and Clearings Limited at www.hkex.com.hk under "Latest Listed Company Information" and on the website at www.yuanhenggas.com. The annual report of the Company contained all the information required by the Listing Rules will be published on the above websites in due course.

By order of the Board
Wang Jianqing
Chairman and Chief Executive Officer

Hong Kong, 30 June 2017

As at the date of this announcement, the executive Directors are Mr. Wang Jianqing, Mr. Bao Jun and Mr. Zhou Jian; and the Independent non-executive Directors are Dr. Leung Hoi Ming, Mr. Wong Chi Keung and Mr. Tom Xie.