CHANGFENG ENERGY INC.

Management's Discussion and Analysis
For the year ended December 31, 2017

Dated April 5, 2018

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, 2017. 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, 2017. "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 consolidated 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 Energy Inc. (hereafter referred to as "Changfeng", "we" or the "Company") is a Canadian public company currently trading on the TSX Venture Exchange ("TSX-V") under the stock symbol "CFY". Changfeng is primarily involved in natural gas distribution and sustainable energy utilization in the People's Republic of China ("the PRC" or "China").

In 2017, the Company has four revenue generating projects in operation: two pipeline natural gas distribution projects and two compressed natural gas ("CNG") vehicle refueling stations. Changfeng has a 30-year exclusive concession right to distribute natural gas in Sanya City, Hainan Province, and a 50-year operating right for gas distribution in Xiangdong District, Pingxiang City, Jiangxi Province.

On December 29, 2017, Changfeng established the Hebei Riheng Clean Energy Ltd. ("Riheng Energy") to supply Liquified Natural Gas ("LNG") to factories and industrial parks in the Hebei area. Two ceramic factories have been signed by Riheng Energy for the supply of LNG to their factories and are expected to commence contributing to the Company's revenue in 2018.

Revenue for the year ended December 31, 2017 was RMB382 million, an increase of RMB53 million, or 16%, from RMB329 million for the year 2016[1]. Net income for fiscal 2017 was RMB25.8 million, compared to RMB21.3 million in 2016. EBITDA for continuing operations (non-IFRS measure as identified and defined under section "Non-IFRS Measures") for fiscal 2017 was RMB80.6 million, an increase of RMB1.3 million, from RMB79.3 million in 2016.

Early 2017, Changfeng began a three-year plan to strategically shift its corporate focus to sustainable energy in combination with natural gas to become an integrated energy provider in the PRC. Changfeng has always strived to provide natural gas to our customers, a cleaner alternative to coal since the company's inception over 20 years ago. As the Chinese economy is moving away from coal dependency in correspondence with central government guidance, Changfeng looks to integrated smart energy and clean technology to complement the usage of natural gas. As forecasted by British Petroleum ("BP"), China is the largest source of renewables growth over the next 20 years, adding more renewable power than the European Union and United States combined[2]. Since the inception of the plan, Changfeng has made some inroads into positioning and paving the way to the establishment of the Company as a sustainable energy provider.

On August 2, 2016, Changfeng entered into a Statement of Intent for Cooperation with the Sanya municipal government and EDF (China) Holding Ltd., a wholly owned subsidiary of the Electricite De France ("EDF") Group to jointly pursue the integrated smart energy system program in Sanya City, Hainan Province. The tender for the project and the 30-year operating franchise right for the Sanya Haitang Bay region was officially awarded to EDF (China) Holding Ltd. and Changfeng on August 8, 2017; the joint venture, Sanya EDF Changfeng Energy Management Co., Ltd. ("EDF CF") was established on November 9, 2017. On December 11, 2017, the 30-year concession right agreement was officially signed between EDF CF and the Sanya municipal government. Once the Haitang Bay pilot project is proven successful, Changfeng looks to expand the energy efficient system to cities across China.

In addition to the cooperation between the Company and the EDF Group, Changfeng has established two other important partnerships in 2017 in support of the Company's shift in strategic focus. In November 2017, the Company signed a ten (10) years agreement with WISE (Waterloo Institution of Sustainable Energy) of Waterloo University. According to the agreement, WISE will provide technical support and advice to Changfeng for its future projects in China and North America in the field of sustainable energy. On December 11, 2017, the Company announced that the Company signed a memorandum of understanding ("MOU") with China Overseas Energy Co., Ltd., the wholly owned subsidiary of China Overseas Holdings Ltd., to jointly pursue integrated smart energy projects in the PRC. Both partnerships were officially signed and witnessed during the Sanya International Energy Forum, organized by Changfeng. The Sanya International Energy Forum was an important step in the Company's strategic shift to become a leading integrated smart energy provider in the PRC. Many important government representatives, scholars, and corporate leaders were represented at the forum to discuss green and sustainable energy. In addition, on March 30, 2018, Sanya Changfeng Offshore Natural Gas Distribution Co., Ltd ("CF China"), a wholly owned subsidiary of Changfeng and the Chongqing University signed a cooperative agreement to designate CF China as an official internship base for the School of Sustainability and Engineering of Chongqing University.

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[1] Revenue stated excludes revenue from the Pingxiang Project as the Company is no longer majority shareholder in the subsidiary. For more information please see Acquisitions & Divestitures.

[2] "BP Energy Outlook 2017 Edition". https://www.bp.com/content/dam/bp/pdf/energy-economics/energy-outlook-2017/bp-energy-outlook-2017.pdf.

The Company also plans to complete its public offering ("HK IPO") on the Stock Exchange of Hong Kong Limited (the "HKEX" or the "Hong Kong Stock Exchange") by 2018. Changfeng has discharged its outstanding loan to the related party in 2017 in compliance with the HKEX listing requirement and restructured its stake in the Pingxiang project to free up capital. In further anticipation for the HK IPO, the management team is working to restructure the company's project portfolio to spinoff poor performing assets and reinvesting capital into projects that are already or soon to be generating cash flow. Furthermore, the Company is working with a consultant firm in Hong Kong to enforce the Company's system of internal control to better meet the requirements of the HKEX. The HK IPO will further enhance the profile of the Company which will serve to broaden Changfeng's investor base, increase stock liquidity, and allow the company to gain access to and recognition of strategic investors in the Chinese market.

The board of directors of the Company (the "Board") and the management team are determined to do what is necessary to increase shareholder value as well as Company performance. With the Company's strong operating cash flows, experienced Board and management team, and foresight into the Chinese energy market, we are confident that Changfeng will become a leader in providing natural gas and integrated smart energy to cities across the PRC.

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. The Company listed on the TSX-V under the stock symbol "CFY" in 2008 and has since became a strong brand in the Chinese natural gas market. In 2017, Changfeng began a three-year plan to strategically shift its corporate focus to sustainable energy in combination with natural gas to become an integrated energy provider in the PRC. As the Chinese economy is moving away from coal dependency in correspondence with central government guidance, Changfeng looks to integrated smart energy and clean technology to complement the usage of natural gas.

Chariman's Message

Huajun Lin, the Company's CEO and Chairman of the Board states that "The Chinese energy market is rapidly transforming under the guidance of the Chinese central government. Changfeng must adapt to the new market conditions early on and move to not only to survive but to thrive in the new environment. Since 2016, we began the process with the plan of an IPO on the Main board of the Hong Kong Stock Exchange. Changfeng have engaged various professional parties to assist with the IPO and more recently engaged consultants to strengthen the company's systems of internal controls as well as assisting with corporate restructuring as part of the IPO initiative. The move to list on the Hong Kong Stock Exchange will not only provide more liquidity for our Shareholders but will also provide a new financing platform with which Changfeng can tap the market to fund its aggressive growth strategy, particularly the planned renewable energy business, moving forward. With Changfeng's experienced management team, dependable strategic partners, and innovative corporate culture, I am confident that we will emerge as a leader in the Chinese energy market."

Highlights for the 2017 Year and up to the Date of the MD&A

On January 17, 2017, the Company announced that the Board 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 RMB6.4 million was contemplated for payment annually under Changfeng's dividend policy. The 2017 dividend was paid in equal semi-annual instalments in July 2017 and February 2018.

On January 23, 2017, Changfeng announced that the special resolution of the shareholders of the Company (the 'Shareholders") to approve the continuation of the Company into British Columbia (the "Resolution") was approved unanimously at a meeting of the Shareholders held on January 23, 2017. 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 the HK IPO, which will provide the Company with greater flexibility in corporate governance and administrative matters and corporate structure generally afforded by the Business Corporations Act (British Columbia).

On June 30, 2017, the Company announced that at its annual and special meeting of shareholders voted in favor of an ordinary resolution (the "Loan Discharge Resolution") to approve a Loan Discharge Agreement pursuant to which, among other things, Changfeng will repay indebtedness owed to Mr. Huajun Lin, the majority shareholder, Chairman and Chief Executive Officer of the Company, and a related party of the Company, for an aggregate amount of RMB 36 million.

In August 2016, Changfeng entered into a Statement of Intent for Co-operation with the Sanya municipal government and EDF (China) Holding Ltd., a wholly owned subsidiary of the EDF Group to jointly pursue the integrated smart energy system program in Sanya City, Hainan Province. The tender for the project and the 30-year operating franchise right for the Sanya Haitang Bay region was officially awarded to EDF (China) Holding Ltd. and Changfeng on August 8, 2017; the joint venture was established on November 9, 2017.

In November 2017, the Company signed a ten (10) years agreement with the Waterloo Institution of Sustainable Energy (WISE) of Waterloo University. According to the agreement, WISE will provide technical support and advice to Changfeng for its future projects in China and North America in the field of sustainable energy.

On November 22, 2017, Sanya Changfeng New Energy Investment Co., Ltd., a wholly-owned subsidiary of the Company, and Hunan CNPC New Energy Investment Co., Ltd., a non-wholly owned subsidiary of the Company ("Hunan CF CNPC "), the joint shareholders of Pingxiang Changfeng Gas Co., Ltd. ("Pingxiang Changfeng" or "Pingxiang CF", which invests in and operates the natural gas distribution project in Pingxiang District and the Ceramic Industry Park (the "Pingxiang Project"), have entered into an Equity Restructuring Agreement with Xin'ao Gas Development Co. Ltd. and Xin'ao Gas (China) Investment Co., Ltd. (collectively referred to "Xin'ao Gas") with respect to the Pingxiang Project.

On December 11, 2017, the Company announced that the Company signed a MOU with China Overseas Energy Co., Ltd., the wholly owned subsidiary of China Overseas Holdings Ltd to jointly pursue integrated smart energy projects in the PRC.

On December 11, 2017, the Sanya Municipal Government signed a 30-year concession right agreement with EDF CF. The concession right gives EDF CF the right to build, own, and operate four energy processing stations in Haitang Bay, Sanya, Hainan to supply cooling, heating, as well as hot water to the hotels, shopping centers, and residential households in the Haitang Bay area.

On December 29, 2017, Changfeng established Riheng Energy to supply LNG to factories and industrial parks in the Hebei area.

On March 19, 2018, Riheng Energy has finished the construction for the associated regasification and storage facilities for the ceramic factory in Shijiazhuang, Hebei and officially began supplying gas on March 29, 2018.

On March 30, 2018, Sanya Changfeng and the Chongqing University signed a cooperative agreement to designate Sanya Changfeng as an official internship base for the School of Sustainability and Engineering of Chongqing University.

Acquisitions & Divestitures

Pingxiang Project

On November 22, 2017, the Group entered into an equity restructuring agreement (the " Agreement") to dispose of in aggregate 50.2% effective interest in Pingxiang CF, to Xin'ao Gas Development Co. Ltd. and Xin'ao Gas (China) Investment Co., Ltd. (collectively referred to "Xin'ao Gas")(the 'Disposal"). Pingxiang CF is engaged in distribution of natural gas for industrial, commercial, and residential users in Pingxiang City, Jiangxi Province in the PRC.

The transaction is in support of Changfeng's strategic shift from an urban natural gas distributor to an integrated energy service provider. The introduction of Xin'ao Gas as the majority shareholder of the Pingxiang project will free up the Company's cash flow and human capital to undertake projects in alignment with the Company's strategic goals.

The terms of the Agreement included the following:

(i) the Group will dispose of 24.5% interest in Pingxiang CF (effectively 14.7% owed by the Company) to Xin'ao Gas at a consideration of RMB34.09 million;

(ii) upon the completion of step (i), the Group and Xin'ao Gas will make capital contribution of RMB16.9 million and RMB49.4 million and respectively, resulting in a dilution of the Company's effective interest in Pingxiang CF from 75.5% to 40%; and

(iii) upon the completion of step (ii), Pingxiang CF will repay an outstanding loan of RMB46.8 million to the Group.

The Group has also written a put option that the Company will commit to repay Xin'ao Gas the full amount of the injected capital and repurchase its 60% interest in Pingxiang CF within two years from the completion date of step (ii) if: a)Pingxiang CF fails to sign a concession agreement issued by the Ministry of Housing and Urban-Rural

Development of the PRC; or b) the operation of Pingxiang CF is suspended as a result of failing to sign the above noted concession agreement.

All the above-mentioned steps in the Agreement are entered into at the same time. Based on the terms and conditions of the Agreement, the occurrence of one step is dependent on the occurrence of the former step. The Group accounted for the abovementioned steps in the Agreement as a single transaction which will cause the Group to lose control over Pingxiang CF. Management of the Group considers that the Group has significant influence over Pingxiang CF upon the completion of the Disposal and therefore it will be classified as an associate of the Group.

As at December 31, 2017, the management of the Group considered Pingxiang CF is a discontinued operation of the Group as it is represented a separate geographical location of business operated in Pingxiang City. The management of the Company considers it is highly probable that the Disposal will be completed within twelve months after December 31, 2017 and therefore the related assets were classified as "assets classified held-for-sale" at December 31, 2017. The Disposal was completed on January 5, 2018.

Prior to the completion of the disposal, the Group has recognized the consideration received as receipts in advance from the Disposal.

As at December 31, 2017, step (i) was completed and the Group received part of the consideration amount of RMB30.9 million. The net proceeds of the Disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss has been recognized.

Events after the reporting period

On January 22, 2018, the Company announced that a controlled subsidiary, Riheng Energy, was established in Shijiazhuang, Hebei, China to pursue gas distribution and clean energy related projects in Hebei Province. Since Riheng Energy's establishment, two clients have already been acquired and Riheng is expected to supply an aggregate of 165,000/m3 of natural gas per day.

In February 2018, the Company issued the second installment of the RMB3,044,000 interim dividend pursuant to the dividend policy as announced by the Company on January 17, 2017.

On March 19, 2018, Riheng Energy has finished the construction for the associated regasification and storage facilities for the ceramic factory in Shijiazhuang, Hebei and officially began supplying gas on March 29, 2018.

On March 30, 2018, CF China, a wholly owned subsidiary of Changfeng and the Chongqing University signed a cooperative agreement to designate Sanya Changfeng as an official internship base for the School of Sustainability and Engineering of Chongqing University.

Business Segments

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

Natural Gas Distribution Utility

The Natural Gas Distribution Utility consists of gas pipeline installation and connection and piped gas sales. Natural gas distribution will continue to be the cornerstone of Changfeng while the integrated smart energy business segement is being developed, providing the foundation necessary for the Company's growth. Given the PRC Central Government guidance to move the Chinese economy away from coal consumption, natural gas becomes the cleaner and more efficient alternative. In addition to ongoing operations and projects under development, Changfeng will continue to expand its natural gas distribution project portfolio. However, the management team now looks to invest into projects that are either already or soon to be generating cash flow.

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

Since 2003, Changfeng has been building extensive pipeline networks in the main district of Sanya City. In recent 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 PRC Government in late 2009 to build Hainan Province into an international tourism destination by 2020.

CNG Vehicles Refueling Stations

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

The CNG refueling retail station in Changsha was completed and began supplying gas in April 2010. Changsha City is the capital of Hunan Province with a population of approximately 7.9 million (2017), and 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) to alleviate serious air pollution problems. Since 2012, the municipal government allowed private owners to switch to natural gas fueled vehicle.

The CNG refueling retail station in Sanya was completed and began supplying 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.

Selected Annual Financial Information

	RMB '000				For information purposes and unaudited CAD'000			
except percentages and per share amounts	2017	2016	Change	%	2017	2016	Change	%
Continuing Operations		(Restated)				(Restated)		
Revenue	**381,965**	**329,052**	**52,913**	**16%**	**73,375**	**65,679**	**7,697**	**12%**
Gross profit	**163,439**	**151,554**	**11,885**	**8%**	**31,397**	**30,250**	**1,146**	**4%**
% of revenue	43%	46%	-3%		43%	46%	-3%	
Administrative expenses	54,319	39,639	14,680	37%	10,435	**7,912**	**2,523**	**32%**
% of revenue	14%	12%	2%		14%	12%	2%	
Selling, marketing and distribution expenses	48,973	38,012	10,961	29%	9,408	**7,587**	**1,821**	**24%**
% of revenue	13%	12%	1%		13%	12%	1%	
Total expenses	**103,292**	**77,651**	**25,641**	**33%**	**19,842**	**15,499**	**4,343**	**28%**
% of revenue	27%	24%	3%		27%	24%	3%	
Income from operations	**60,147**	**73,903**	**(13,756)**	**-19%**	**11,554**	**14,751**	**(3,197)**	**-22%**
% of revenue	16%	22%	-6%		16%	22%	-6%	
Finance costs	5,977	7,804	(1,827)	-23%	1,148	1,558	(409)	-26%
Listing expenses	381	7,065	(6,684)	-95%	73	1,410	(1,337)	-95%
Other income	(1,026)	(674)	(352)	52%	(197)	-135	(63)	47%
Other expenses and other gain and loss	(437)	2,740	(3,177)	-116%	(84)	547	(631)	-115%
Share of loss of an associate	6	7	1	14%	1	1	(0)	-18%
Share of loss of a joint venture	4	3,516	(3,512)	-100%	1	702	(701)	-100%
Loss on disposal of a joint venture	-	3,114	(3,114)	-100%	-	622	(622)	-100%
Profit before tax	**55,242**	**50,331**	**4,911**	**10%**	**10,612**	**10,046**	**566**	**6%**
% of revenue	14%	15%	-1%		14%	15%	-1%	
Income tax expense	20,240	24,088	(3,848)	-16%	3,888	4,808	(920)	-19%
% of revenue	5%	7%	-2%		5%	7%	-2%	
Profit for the year from continuing operations	**35,002**	**26,243**	**8,759**	**33%**	**6,724**	**5,238**	**1,486**	**28%**
% of revenue	9%	8%	1%		9%	8%	1%	
Discontinued operation								
Loss for the year from discontinued operation	**9,158**	**4,917**	**4,241**	**86%**	**1,759**	**981**	**778**	**79%**
Profit for the year	**25,844**	**21,326**	**4,518**	**21%**	**4,965**	**4,257**	**708**	**17%**
% of revenue	7%	6%	1%		7%	6%	1%	
EBITDA (1) from continuing operations	**80,601**	**79,268**	**1,333**	**2%**	**15,483**	**15,822**	**(338)**	**-2%**
% of revenue	21%	24%	-3%		21%	24%	-3%	
Profit attributable to non-controlling interest	813	1,440	(627)	-44%	156	287	(131)	-46%
From continuing and discontinued operation								
Basic EPS	0.39	0.32	0.07	22%	0.07	0.06	0.01	17%
Diluted EPS	0.39	0.32	0.07	22%	0.07	0.06	0.01	17%
From continuing operation								
Basic EPS	0.52	0.39	0.13	33%	0.10	0.08	0.02	28%
Diluted EPS	0.52	0.39	0.13	33%	0.10	0.08	0.02	28%

Notes: (1) EBITDA is identified and defined under the section "Non-IFRS Financial Measures".
(2) The statement includes the Pingxiang CF as discontinued operation.

Results of Operations

Revenue

Total Revenue from continuing operations (in RMB'000)	**2017**	**2016 (restated)**	**Change**	**%**
Gas distribution utility				
- Gas Sales	173,453	149,020	24,433	16%
- Pipeline Installation and Connection	149,177	130,836	18,341	14%
CNG vehicles refuelling stations	59,335	49,196	10,139	21%
Total Revenue from continuing operations in RMB'000	**381,965**	**329,052**	**52,913**	**16%**
Total Revenue from continuing operations in CAD'000	**73,375**	**65,679**	**7,697**	**12%**

Revenue from continuing operations for the year ended December 31, 2017 was RMB382.0 million, an increase of RMB52.9 million, or 16%, from RMB329.1 million for the year 2016. This increase is mainly the result of increased gas sales volume, CNG sales volume, and connection revenue.

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

Natural Gas Distribution Utility

The natural gas distribution utility segment provides gas pipeline connection services and delivers natural gas to commercial and residential customers through its pipeline networks and associated facilities in Sanya City, Hainan Province in the PRC. 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 2017.

The natural gas distribution utility segment in Pingxiang City, Jiangxi Province in the PRC was discontinued in the current year. The segment information reported on the following pages does not include any amounts for the discontinued operation, which are described in more detail in Assets Classified as Held-for-Sale.

<u>Gas Sales from continuing operations</u>

Gas Volume Sold – Sanya Region

Sanya Region Gas volume sold (m³)	**2017**	**2016**	**Change**	**%**
Residential customers	13,366,497	11,282,000	2,084,497	18%
Commercial customers	33,635,632	30,802,600	2,833,032	9%
Subtotal (Sanya Region)	**47,002,129**	**42,084,600**	**4,917,529**	**12%**

Gas sales volume for Sanya Region in 2017 was 47.0 million m^3, an increase of 4.9 million m^3 or 12%, compared to 42.1 million m^3 in 2016, of which 13.4 million m^3 was for residential customers at an annual growth rate of 18% and 33.6 million m^3 for commercial customers at an annual growth rate of 9%.

There is a total of 173,687 residential gas customers in 2017, an increase of 25,025 residential customers or 17% compared to the 148,662 residential customers in 2016, contributing to the significant increase in residential gas sales.

There is a total of 962 commercial customers in 2017, an increase of 65 commercial customers or 7% compared to 897 commercial customers in 2016. Gas sales to commercial customers maintain a steady growth.

In 2017, the Company had an annual gas quota of 24.0 million m^3 for its Sanya Region operation. In 2017, the Company purchased 3.7 million m^3 exchanged pipeline gas from its Gas and Electricity Exchange Program which was completed at the end of 2013. The total annual gas quota for the Gas and Electricity Exchange Program is 5.0 million m^3。

A record high of 16.8 million m^3 LNG was purchased in 2017. After the LNG is re-gasified in the energy station in Haitang Bay, the gas is supplied to the city via pipeline. To meet the energy demand of peak season in 2017, the

Company built an emergency LNG gate station. The LNG storage facilities, which cost a total of RMB15.0 million, began operations on December 25, 2017, estimated to have a capacity of 30.0 million m^3 allowing the Company to ensure the city's natural gas usage during the peak season energy demand.

The Company's non-residential customers are commercial customers, mainly comprised of hotels, resorts and restaurants in Sanya City. As Hainan continue to develop as an international tourist destination, the gas usage of non-residential users continues to increase. Currently, approximately 72% of the total annual volume of gas in Sanya City is sold to these non-residential customers.

Gas Sales Revenue – Sanya Region

Gas sales revenue (in RMB'000)	2017	2016	Change	%
Residential customers	30,393	23,355	7,038	30%
Commercial customers	143,060	125,665	17,395	14%
Total	**173,453**	**149,020**	**24,433**	**16%**

Gas sales revenue for the year ended December 31, 2017 was RMB173.4 million, an increase of RMB24.4 million or 16%, from RMB149.0 million in 2016. The increase is mainly attributable to the gas sales volume increased by 12% for Sanya region in 2017; The revenue growth is increasing more than the growth of gas sales volume due to the natural gas price hike which began on May 1, 2017. Residential customers' revenue increased faster than commercial customers mainly due to the natural gas price hike.

The Sanya Municipal Development and Reform Commission released the document that detailed the natural gas price hike beginning from May 1, 2017.

The three-tier residential natural gas price is adjusted as follows:
Less than 260m^3: Increased from RMB2.6/m^3 in 2016 to RMB3.15/m^3, an increase of 21%;
Between 261 m^3- 390 m^3: Increased from RMB2.86/m^3 in 2016 to RMB3.78/m^3, an increase of 32%;
More than 391 m^3: Increased from RMB3.12/m^3 in 2016 to RMB3.96/m^3, an increase of 27%;

Social welfare units (schools, government facilities, and other not for profit organizations): Gas price increased from RMB2.86/ m^3 in 2016 to RMB3.46/m^3, an increase of 21%;

Non-residential (commercial and industrial): Gas price increased from RMB4.7/m^3 in 2016 to RMB5.12/m^3, an increase of 9%;

Pipeline installation and connection from continuing operations– Sanya Region

Sanya Region	2017	2016	Change	%
Customers newly connected				
Residential customers	31,242	30,558	684	2%
Commercial customers	52	64	-12	-19%
Total customers connected				
Residential customers	231,076	199,834	31,242	16%
Commercial customers	949	897	52	6%
Pipeline connection revenue from continuing operations (in RMB'000)	**2017**	**2016 (restated)**	**Change**	**%**
Residential customers	96,248	92,252	3,996	4%
Commercial customers	52,929	38,584	14,345	37%
Total	**149,177**	**130,836**	**18,341**	**14%**

Pipeline installation and connection revenue for fiscal 2017 was RMB149.1 million, an increase of RMB18.3 million or 14%, from RMB130.8 million in 2016. The increase is mainly attributable to:

- Residential customer installations in 2017 increased by 684 more than when compared to the new installations in 2016, a decrease in growth rate mainly attributable to the price increase. Beginning from May 20, 2017, pipeline connection and installation fee for residential customers rose from RMB2200/unit to RMB3200 /unit.

- Commercial customer installations in 2017 decreased when compared to new installations in 2016. However, the contract price for the installations in 2017 is comparatively higher. In 2017, the revenue recognized from Haitang Bay Atlantis Hotel is RMB13.5 million.

CNG vehicle refueling stations

The Company's other segment is two CNG vehicle refueling stations in Sanya and Changsha, which primarily supply gas for taxicabs and public transportation vehicles.

CNG Sales Volume (m³)	2017	2016	Change	%
Changsha CNG	7,076,484	7,812,176	(735,692)	-9%
Sanya CNG/LNG	8,657,317	3,853,354	4,803,963	125%
Total Sales Volume (m³)	**15,733,801**	11,665,530	4,068,271	35%
CNG Sales Revenue (in RMB'000)	**2017**	**2016**	**Change**	**%**
Changsha CNG	26,499	29,749	(3,250)	-11%
Sanya CNG/LNG	32,836	19,447	13,389	69%
Totoal Revenue	**59,335**	**49,196**	**10,139**	**21%**

Total revenue from CNG refueling retail stations for 2017 was RMB59.3 million, with an increase of RMB10.1 million, or 21% from 2016.

Sales revenue from Changsha CNG vehicle refueling station dropped to RMB26.5 million in 2017, a decrease of RMB3.2 million or 11%, from RMB29.7 million in 2016. The drop was mainly due to local market competition causing sales volume to decrease to 7.1 million m³ in 2017, a decrease of 0.7 million m³ or 9%, from 7.8 million m³ in 2016.

Sales revenue from Sanya CNG/LNG vehicle refueling retail station, which commenced its operation in May 2016, was RMB32.8 million in 2017, an increase of RMB13.4 million, or 69%, from RMB19.4 million for 2016; the sales volume was 8.7 million m³, an increase of 4.8 million m³, or 125%, from 3.9 million m³ for 2016.

The Sanya refueling station only operated for 8 months in 2016 and therefore the rate of increase cannot accurately depict the rate of growth. The gas volume supplied by the Sanya CNG/LNG vehicle refueling station in 2017 average 16,900 kg/day while the gas volume supplied in 2016 average 15,700 kg /day, an increase of 1,200 kg/day or 8%. The gas sales from the Sanya CNG/LNG vehicle refueling station is steadily increasing.

Foreign exchange rates

Changfeng reports its financial results in RMB and earns all of its revenues and incurs most of its expenses in RMB. As the Company is listed on the TSX-V in 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	2017	2016	% change
Spot rate at the end of the period	0.1928	0.1930	-0.1%
Average rate for the period	0.1921	0.1996	-3.8%

Gross margin from continuing operations

Gross margin from continuing operations for 2017 was RMB163.4 million, an increase of RMB11.8 million, or 8%, from RMB151.6 million in 2016. The gross margin percentage of 43% for 2017 was slightly lower than that of 46% for 2016.

The gross margin for the Sanya pipeline distribution subsidiary, CF China is 41%, a 4% decrease from 2016, mainly attributable to the increased cost of gas purchase. The pipeline connection subsidiary, Sanya Changfeng Offshore Natural Gas Engineering Construction Co., Ltd ("CF Engineering"), has a gross margin of 51%, a 2% decrease from 2016, mainly attributable to the rising cost of certain construction materials in 2017.

The Sanya CNG/LNG vehicle refueling station has a gross margin of 30%, an increase of 8% from 2016, mainly attributable to the increase of RMB0.32/kg in gas price. The gross margin for the Changsha CNG vehicle refueling station remained constant at 31%

Operating expenses from continuing operations

Administrative expenses for 2017 were RMB54.3 million, an increase of RMB14.7 million, or 37%, from RMB39.6 million in 2016. The increase was attributable to a) share-based compensation expense of RMB4.5 million, and b) 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. Furthermore, the preparation for the HK IPO significantly increased auditing and legal expenses, substantial part of which were expensed. General and Administrative expenses as a percentage of sales for 2017 were 14%, higher than 12% in 2016.

Selling, marketing and distribution expenses for 2017 were RMB49.0 million, an increase of RMB11.0 million, or 29%, from RMB38.0 million in 2016. As a percentage of sales, selling, marketing and distribution expenses for 2017 was 13%, an increase from 12% in 2016. These expenses normally fluctuate with travel and business development activities in the PRC as the Company seeks to develop new projects. Another reason for the increase in selling, marketing and distribution expenses is due to the costs associated with the preparation of the Sanya International Energy Forum. The Sanya International Energy Forum was an important step in the Company's strategic shift to become a leading integrated smart energy provider in the PRC. Many important government representatives, scholars, and corporate leaders were represented at the forum to discuss green and sustainable energy. Changfeng announced many important strategic partnerships during the forum and received nationwide media attention for the forum, the Haitang Bay Project, and the Company.

Finance costs for 2017 and 2016 was RMB6.0 million and RMB7.8 million, respectively, a decrease of RMB1.8 million. The cost of financing decreased due to partial repayment of debt outstanding thereby decreasing the interests accrued as well as the capitalization of interest on the RMB 80 million long-term debt.

Assets classified as held-for-sale.
On November 22, 2017, the Group entered into the restructuring agreement to dispose of in aggregate of 50.2% effective interest in Pingxiang CF with Xin'ao Gas. Pingxiang CF carried out the distribution of natural gas for industrial, commercial and residential users in Pingxiang City, Jiangxi Province in the PRC.

The loss for the year from Pingxiang CF is set out below. The comparative figures in the consolidated statement of profit or loss and other comprehensive income have been restated to the re-presentation of Pingxiang CF as a discontinued operation.

	2017 RMB'000	2016 RMB'000
Revenue	74,632	25,397
Cost of sales	(78,928)	(27,103)
Other income	14	7
Selling, marketing and distribution expenses	(911)	(889)
Administrative expenses	(3,815)	(2,259)
Finance costs	(150)	(70)
Loss before tax	(9,158)	(4,917)
Income tax expense	-	-
Loss for the year	(9,158)	(4,917)

For further details please refer to the notes to the consolidated financial statements.

EBITDA from continuing operations

EBITDA (non-IFRS measure as identified and defined under section "Non-IFRS Measures") for fiscal 2017 was RMB80.6 million, an increase of RMB1.3 million, from RMB79.3 million in 2016. Higher sales and connection revenue drove the increase. EBITDA as a percentage of revenue for 2017 was 21%, a decrease of 3% from 24% in 2016.

Net income from continuing operations and discontinued operation

Net income for fiscal 2017 was RMB25.8 million, or RMB0.39 per share (basic and diluted) compared to RMB21.3 million or RMB0.32 per share (basic and diluted) in 2016.

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. 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.

Haitang Bay Integrated Smart Energy Project, Sanya City, Hainan Province

Early 2017, Changfeng began a three-year plan to strategically shift its corporate focus to sustainable energy in combination with natural gas to become an integrated energy provider in the PRC. Changfeng has always strived to provide natural gas to our customers, a cleaner alternative to coal since the company's inception over 20 years ago. As the Chinese economy is moving away from coal dependency in correspondence with central government guidance, Changfeng looks to integrated smart energy and clean technology to complement the usage of natural gas.

On August 2, 2016, Changfeng entered into a Statement of Intent for Cooperation with the Sanya municipal government and EDF (China) Holding Ltd., a wholly owned subsidiary of the EDF Group to jointly pursue the integrated smart energy system program in Sanya City, Hainan Province. The tender for the project and the 30-year operating franchise right for the Sanya Haitang Bay region was officially awarded to EDF (China) Holding Ltd. and Changfeng on August 8, 2017; EDF CF was established on November 9, 2017 (50% respective ownership of EDF CF). On December 11, 2017, the 30-year concession right agreement was officially signed between EDF CF and the Sanya municipal government. On January 9, 2018, in the Great Hall of the People, Beijing, under the witness of Chinese President Xi Jinping and French President Emmanuel Macron, the formal Concession Right Agreement ceremony took place. Mr. Huajun Lin, Chairman and legal representative of EDF CF, authorized Jean-Bernard Lévy, the CEO and Chairman of the EDF group, to attend the ceremony and sign the agreement on behalf of EDF CF.

The agreement with the Sanya Municipality focuses on the design, construction, and exclusive operation of a network of cooling (for air conditioning) and hot water supply for 30 years in the Haitang Bay area. The Sanya Municipal Government subsequently released the relevant regulatory documents which outlined that i) all newly constructed buildings available to the public (i.e. hotels and hospitals) must connect to the cooling network operator ii) all existing buildings available to the public have a 10 year transition period during which they must merge with the cooling network and iii) subsidies will be provided by the municipality to accelerate the transition in merging with the cooling network. Haitang Bay is a tourist area under development, consisting of about twenty hotels, shopping centers, and a hospital for a total area of 3.4 million square meters. Thanks to high-performance equipment and an intelligent driving system, the network will reduce CO2 emissions by 20% compared to the use of individual systems for each building, i.e. up to 70,000 tones less CO2 per year.

In addition to the cooperation between the Company and the EDF Group, Changfeng has established two other important partnerships in 2017 in support of the Company's shift in strategic focus. In November 2017, the Company signed a ten year agreement with WISE of Waterloo University. According to the agreement, WISE will provide technical support and advice to Changfeng for its future projects in China and North America in the field of sustainable energy. On December 11, 2017, the Company announced that the Company signed a MOU with China Overseas Energy Co., Ltd., the wholly owned subsidiary of China Overseas Holdings Ltd to jointly pursue integrated smart energy projects in the People's Republic of China.

Integrated Smart Energy refers to combining the usage of multiple clean energy sources in an integrated system to generate power with cost savings and reduction in CO2 emission, in line with the initiative of the PRC Central Government policy and target to reduce CO2 emission. Energy sources used in the system can include solar, wind, hydroelectricity, electricity, natural gas, and thermal energy. Depending on the geography, weather conditions, and energy supply of a given region, the energy sources used in the system will vary. Combining the use of multiple energy sources in a single system allows for the use of specific energy sources at different times depending on the energy availability and price, creating maximum efficiency in energy usage. The deployment of integrated smart energy systems does not interfere with existing electricity/natural gas operators' franchise rights. Furthermore, the increased energy efficiency and use of sustainable energy sources is in line with China's central government guidance and therefore receives strong support from local governments.

Hebei LNG Distribution

On January 22, 2018, the Company announced that Riheng Energy, has been established in Shijiazhuang, Hebei, China to pursue the gas distribution and clean energy related projects in Hebei Province. Since Riheng Energy's establishment, two clients have already been acquired and Riheng is expected to supply an aggregate of 165,000/m^3 of natural gas per day.

Due to the Government of the PRC's energy reform policies that endeavor to phase out coal gas usage and transform China into a natural gas driven economy, the Hebei based factories and industry parks were forced to replace coal with natural gas. Moreover, some of the Hebei based factories were forced to move out of the cities to remote areas where pipeline gas is not accessible. A new market opportunity therefore presented itself for energy firms to supply LNG to the Hebei factories and industrial parks. The province has experienced a severe shortage of natural gas in the latter half of 2017 and this natural gas shortage trend is expected to continue in the future.

Riheng Energy is fast growing and expected to significantly contribute to the Company's revenue. Riheng Energy also represents the Company's presence in Northern China and will aid the progress of project development in the Beijing, Tianjing, Hebei area.

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 from Continuing Operations

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)	2017				2016 (Restated)			
except per share amounts	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Foreign exchange rate one RMB to Canadian dollars	0.1921	0.1920	0.1941	0.1921	0.1996	0.1965	0.1972	0.2101
Revenue	118,226	95,309	81,522	86,908	104,332	74,178	72,226	78,316
Gross profit	37,008	47,504	32,961	45,966	42,861	33,726	32,204	42,763
Profit (loss)	(2,451)	16,540	8,286	12,627	4,433	8,008	1,372	12,430
(loss) earnings per share								
- basic	(0.04)	0.26	0.13	0.20	0.07	0.13	0.02	0.20
- diluted	(0.04)	0.26	0.13	0.20	0.07	0.13	0.02	0.20

Note: (1) The allotted 24 million m^3 gas for the Sanya pipeline natural gas operation were all consumed by the end of 2017 and therefore required additional gas at a much higher cost to supplement the gas usage, resulting in a loss in the last quarter of operations.

Financial Condition and Liquidity

Key Financial Data and Comparative Figures		
(RMB'000)	**31-Dec-17**	**31-Dec-16**
Cash	155,365	142,377
Working capital (deficit)	(42,512)	(80,724)
Adjusted working capital (note1)	120,726	24,367
Plant and equipment	349,006	385,654
Total assets	726,706	627,060
Long term liabilities	139,040	145,817
Shareholders' equity	223,981	192,010

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

(2) This table includes both continuing and discontinued operations.

Cash increased by RMB12.9 million to RMB155.3 million as at December 31, 2017 from RMB142.3 million as at December 31, 2016. The cash increase in mainly attributable to i) cash inflow from operating activities RMB 75.5 million; ii) cash outflow from financing activities RMB 22.5 million: resulting from raising RMB 40.0 million in short term loan and RMB 21.3 million long term debt; repaying RMB 22.0 million in long term debt, RMB 30.0 million short term debt, and RMB 36.0 million in shareholder's loan; iii) the deposit received from the disposal of 24.5% ownership in the Pingxiang CF resulted in an increase of RMB30.9 million in cash, currently RMB31.6 million worth of invested capital into the subsidiary is in infrastructure construction; iv) investing RMB 18.0 million in the EDF CF and investing RMB61.6 million in the Group's infrastructure.

Adjusted Working Capital

Its adjusted working capital (see "Non-IFRS Financial Measures") was RMB120.7 million at December 31, 2017. Adjusted working capital excludes RMB82.6 million of receipts in advance from customers in connection with gas connection fees and RMB49.8 million of line of credit and RMB30.8 million receipts in advance from the disposal of a subsidiary.

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 four term loans into which Changfeng entered in 2010, 2012, 2013 and 2016, 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 the PRC and to repay its long-term loans from the Bank of China Sanya Branch ("BOC, Sanya").

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 near future.

Long-term bank loans

	2017 RMB'000	2016 RMB'000
Bank borrowings		
- Secured, with variable rate	147,758	148,663
- Unsecured, with variable rate	-	11,000
	147,758	159,663
The carrying amounts of the above borrowings are repayable:		
Within one year	22,000	28,000
Within a period of more than one year, but not exceeding two years	24,000	27,000
Within a period of more than two years, but not exceeding five years	56,000	52,000
Within a period of more than five years	46,000	54,000
	148,000	161,000
Less: Unamortized transaction costs	(242)	(482)
	147,758	160,518
Less: Amounts due within one year shown under current liabilities	(22,000)	(28,000)
Amounts shown under non-current liabilities	125,758	132,518

The Group's long-term debts comprise:

Lenders	Secured/ unsecured	Contractual interest rate	Effective interest rate 2017	Effective interest rate 2016	Carrying amount 2017 RMB'000	Carrying amount 2016 RMB'000	Notes
Bank of China, Sanya	Secured	5-year People's Bank of China ("PBOC") benchmark borrowing rate, repricing every 6 months	4.9%	4.9%	39,758	59,518	(a)
Bank of China, Sanya	Secured	110% of 5-year PBOC benchmark borrowing rate, repricing every 6 months	5.4%	5.4%	28,000	30,000	(b)
Bank of China, Sanya	Secured	10-year PBOC benchmark borrowing rate, repricing every 12 months	4.9%	4.9%	80,000	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	(d)
Total long-term debts					147,758	160,518	

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, 2017, the Group has drawn down RMB20.0 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 drawn down. 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. This loan is included in liabilities held-for-sale.

Deferred Income - 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 the statement of profit or loss over the expected useful lives of these property and equipment when these property and equipment are ready for use. As of December 31, 2017, part of the property and equipment are ready for use and RMB237,000 (2016: RMB70,000) is recognized as other income. As at December 31, 2017, the government grants of RMB4,917,000 (2016: RMB5,154,000) was recognized as non-current liability.

Credit Agreement

The Group's short-term bank borrowings comprise:

Lenders	Secured/unsecured	Contractual interest rate	Effective interest rate		Carrying amount		Notes
			2017	2016	2017	2016	
					RMB'000	RMB'000	
Bank of China, Sanya	Secured	Fixed interest rate at 4.4%	4.4%	4.4%	40,000	-	(a)
Bank of China (Canada)	Secured	Three-month London Interbank Offered Rate ("LIBOR") plus 250 basis points (2016:Six-month LIBOR plus 250 basis points)	3.9%	2.3%	9,760	10,435	(b)
China Everbright Bank,Haikou	Unsecured	Fixed interest rate at 4.4%	4.4%	4.4%	-	30,000	(c)
Total short-term bank borrowings					49,760	40,435	

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.

b. The 1-year term loan from Bank of China (Canada) is denominated in United States dollars ("USD") with a principal amount of USD1,500,000 and is secured by a pledged bank deposit of RMB1,008,000 (2016: RMB1,005,000).

   In August 2017, the bank loan has been renewed for another one year. The contractual interest rate of the bank loan is three-month LIBOR plus 250 basis point (2016: six-month LIBOR plus 250 basis point). Other terms and conditions are same as the original contract.

c. In 2016, the Group entered into 1-year facility line of credit with China Everbright Bank Haikou with an aggregate amount of RMB50,000,000. (RMB30,000,000 is withdrawn by the Group during the year ended December 31, 2016.) The credit line was guaranteed by Mr. Lin, with a maximum guarantee amount of RMB50,000,000. As at December 31, 2017, the Group repaid the bank borrowing in full.

As at December 31, 2017 and 2016, the Group was in compliance with all of its debt covenants.

Cash flow from operating activities from continuing and discontinued operations

Net cash provided by operations was RMB75.5 million for fiscal 2017 compared to RMB69.5million in 2016.

Cash flow from financing activities from continuing and discontinued operations

Cash provided in financing activities in 2017 included a RMB30.0 million short-term bank borrowing repayment and RMB40.0 million for new short-term bank borrowing raised, repayment of long-term debts of RMB28.0 million as well as proceeds on exercised options of RMB3.9 million, and cash inflow of RMB21.3 million from new long-term debts raised.

Cash used in investing activities from continuing and discontinued operations

Net cash used in investing activity was RMB39.7 million for fiscal 2017 compared to RMB33.7 in 2016. It mainly included capital expenditures of RMB64.0 million, investment in EDF CF of RMB18.0 million and cash inflow from disposal of discontinued operation of RMB30.8 million, available-for-sale financial assets of RMB0.8 million and property and equipment of RMB0.9 million, respectively.

On November 6, 2017, the Company entered into an agreement with EDF (China) Holding Ltd, an independent third party, to incorporate a joint venture to jointly pursue the integrated energy system program in Sanya City, Hainan Province. EDF CF was incorporated on November 9, 2017. The Group holds 50% of the issued share capital of EDF CF and maintains 50% voting right in EDF CF.

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 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 RMB16.8 million in 2017 compared to RMB21.3 million in 2016.

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% for every other 4 or 5 years thereafter.

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

	2017 RMB'000	2016 RMB'000
Staff quarters and lands	2,595	1,199

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:

	2017 RMB'000	2016 RMB'000
Within one year	3,015	1,281
In the second to fifth year inclusive	6,262	4,059
Over five years	8,938	9,365
	18,215	14,705

Capital Commitments:

	2017 RMB'000	2016 RMB'000
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	16,828	21,277

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

Amount due to the 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 was due on demand only after April 27, 2016 ("the Loans"). In 2007, companies (the "Lender") controlled by Mr. Lin advanced loans in the aggregate amount of RMB 40,000,000 to the Group, 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 and April 27, 2016, these loans were renewed for another year with the same terms and conditions, respectively.

On June 30, 2017, in the Company's annual and special meeting of Shareholders, Shareholders voted in favour of an ordinary resolution to approve a loan discharge agreement (the "Loan Discharge Agreement") pursuant to which, among other things, Changfeng will repay indebtedness owed to Mr. Lin, the majority shareholder and Chairman and Chief Executive Officer of the Company, and a related party of the Company, for an aggregate amount of RMB36.0 million. In addition, if the listing of the Company's common shares on the Hong Kong Stock Exchange has not been completed on or prior to June 28, 2019, the Company shall have the right for a period of 90 day following June 28, 2019 to require that the Mr. Lin, directly or indirectly, subscribe for common shares of the Company, in a minimum amount of Chinese RMB36.0 million or its Canadian dollar equivalent (the "Right"). The subscription price for such common shares shall be the volume weighted average price of the common shares of the Company on the TSX-V (or any other exchange on which such common shares are then trading (collectively the "Exchange")) for the 30 trading days immediately prior to June 28, 2019 subject to Exchange and other applicable regulatory approvals. For greater certainty, the Company shall not have the right to request such investment if Mr. Lin has otherwise invested Chinese RMB36.0 million in common shares or other securities of the Company prior to June 28, 2019 through a private placement or public offering of common shares by the Company. The difference of RMB4.0 million between the original value of RMB40.0 million and the settlement value of RMB36.0 million was recorded as a deemed contribution in the equity for the period in 2017. As at December 31, 2017 the value of the Right has been estimated to be nil as management believes the chance for the Right to be exercised is very small.

As at September 31, 2017, the Company has fully repaid the Loans to the Lender, Mr. Lin, in amount of RMB36.0 million.

Amounts due from (to) related parties

Name of related	Relationship parties	Terms	2017 RMB'000	2016 RMB'000
Shin-Ko Energy	Associate	Non-trade, unsecured, non-interest bearing and repayable on demand	(4,249)	(4,249)
EDF CF (1)	Joint Venture	Non-trade, unsecured, non-interest bearing and repayable on demand (1)	2,765	-
Mr. Huajun Lin	Ultimate controlling Shareholder	Non-trade, unsecured, non-interest bearing and repayable on demand	(109)	-

(1) The receivable from EDF CF was the cost of project development spent on behalf of EDF CF.

Share Capital

As of the date of this MD&A, the Company has 64,345,035 common shares outstanding, 5,190,150 stock options outstanding. The Company has no warrants outstanding. Fair value of share options granted to certain 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. The Group recognized share option expense of RMB4,485,000 for the year ended December 31, 2017 (2016: nil) in relation to share options granted by the Company. In respect of the share options exercised during the year, the weighted average share price at the dates of exercise was CAD 0.31 (2016: CAD 0.35).

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.

Seasonality of operations

Seasonality can impact the Company's natural gas distribution sales. The Company's current operations are primarily located in Sanya City, an international tourist destination in the PRC's only tropical province. Sanya City attracts more tourists from December to February in the subsequent year than the rest of the year. The Company's natural gas sales are higher during this high tourism season, as a large portion of the Company's natural gas sales are made to hotels and restaurants. Seasonality can also impact the Company's CNG retail station sales due to vehicles being in need of more gas during the peak seasons for air-conditioning.

Substantial initial capital expenditure requirement

The nature of the Company's operations requires 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 China National Offshore Oil Corporation ("CNOOC") for the purchase of 150 million m^3 of gas from CNOOC. Under this letter of intent, 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 CNOOC subsidiary, CNOOC Petrol (Hainan) Inc. (Hainan Petrol), pursuant to the previous supply agreement with Hainan Petrol. Currently, under this previous supply agreement the Company has a right 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.

At December 31, 2017 and up to the date of this report, the Group is still under negotiation of the purchase price of the natural gas with the supplier.

The Group estimated the purchase cost of natural gas based on the quotation price from the suppliers and the actual usage of natural gas during the year ended December 31, 2017. The accrued cost may be reversed or increased afterwards the Group agreed the final gas purchase price with the suppliers for fiscal year 2017.

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; lthough there has been no industry-related accidents had taken place before， the Company cannot guarantee that such 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.

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 (1)

EBITDA is defined herein as income before income tax expense, other income, depreciation and amortization, share of loss of an associate, share of loss of a joint venture , loss on disposal of a joint venture, interest on borrowing, as well as non-cash share-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)	2017	2016 (restated)	Change	%
Net profit for the period from continuing operations	35,002	26,243	8,759	-33%
Add (less):				
Income tax	20,240	24,088	(3,848)	-16%
Other Income	(1,026)	(674)	(352)	52%
Share of loss of an associate	6	7	1	14%
Share of loss of a joint venture	4	3,516	(3,512)	100%
Loss on disposal of a joint venture	-	3,114	(3,114)	100%
Share-based compensation	4,485	-	4,485	100%
Depreciation and amortization	15,913	15,170	743	5%
Interest on borrowing	5,977	7,804	(1,827)	-23%
EBITDA	**80,601**	**79,268**	**1,335**	2%

Note: (1) This table includes only continuing operations.

Adjusted working capital (1)

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 short-term bank loan. 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-17	31-Dec-16
Current assets	321,173	208,509
Less: Current liabilities	363,685	289,233
Working capital (deficit)	(42,512)	(80,724)
Add: Receipts in advance from customers	82,631	64,656
Short term bank loan	49,760	40,435
Receipts in advance from the disposal of a subsidiary	30,847	-
Adjusted working capital from continuing and discontinued operations	**120,726**	24,367

Note: (1) This table includes both continuing and discontinued operations.

Financial Instruments

The Group's major financial instruments include available-for-sale financial assets, trade and other receivables, amounts due from a related party, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to the ultimate controlling shareholder and a related party, dividend payable to non-controlling interests of subsidiaries, 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.

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

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, 2017, gas connection contract revenue is RMB149.2 million (2016: RMB130.8 million).

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

As at December 31, 2017, the carrying amount of trade receivables is RMB16.5 million (net of allowance for doubtful debts of RMB0.6 million (2016: RMB16.3 million, net of allowance for doubtful debts of RMB0.7 million), and the carrying amount of amounts due from customers for contract work is RMB18.5 million (net of allowance for impairment loss recognized of RMB2.7 million) (2016: RMB17.8 million, net of allowance for impairment loss recognized of RMB2.7 million).

Estimated purchase cost of natural gas

Purchase cost of the natural gas used is recognized using the agreed purchase price per cubic metre of natural gas with reference to the total cubic metres usage of natural gas during the relevant period. At December 31, 2017 and up to the date of this report, the Group is still under negotiation of the purchase price of the natural gas with the supplier.

The Group estimated the purchase cost of natural gas based on the quotation price from the suppliers and the actual usage of natural gas during the year ended December 31, 2017. The accrued cost may be reversed or increased afterwards the Group agreed the final gas purchase price with the suppliers for fiscal year 2017.

For the year ended December 31, 2017, the cost of sales of gas sales from continuing operations is RMB123.0 million (2016: (restated) RMB93.5 million).

Future Accounting Changes

New and revised International Financial Reporting Standards ("IFRSs") in issue but not yet effective

The Company has not early applied the following new and revised 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]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
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 9	Prepayment Features with Negative Compensation[2]
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 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014 - 2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRSs Standards 2015 - 2017 Cycle[2]

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

Except for the new and amendments to IFRSs and interpretations mentioned below, management of the Company anticipates that the application of all other new and amendments to IFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

IFRS 9 *Financial Instruments*

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

Key requirements of 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.

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

Based on the assessment by management of the Group, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognized by Group as at January 1, 2018 would be slightly increased as compared to the accumulated amount recognized under IAS 39 mainly attributable to expected credit losses provision on trade receivables and amount due from customers for contract work. Such further impairment recognized under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets at January 1, 2018.

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. For more, prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

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

The management of the Company anticipates that the application of IFRS 15 in the future may result in more disclosures, however, the management of the Company does not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods.

IFRS 16 *Leases*

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

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

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

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, 2017, the Group has non-cancellable operating lease commitments of RMB18,215,000 as disclosed in Note 39 in the audit report. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, 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.

In addition, the Group currently considers refundable rental deposits paid of RMB1,137,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortized cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

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

Amendments to IFRSs that are mandatorily effective for the current year

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

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRS Standards 2014 - 2016 Cycle

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

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. 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 cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 41 in the audit report. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 41, the application of these amendments has had no impact on the Group's consolidated financial statements.

Outlook

In 2017, Changfeng began a three-year plan to strategically shift its corporate focus to sustainable energy in combination with natural gas to become an integrated energy provider in the PRC. Changfeng has always strived to provide natural gas to our customers, a cleaner alternative to coal since the company's inception over 20 years ago. As the Chinese economy now moves away from fossil dependency in correspondence with central government guidance, Changfeng looks to integrated smart energy and clean technology to complement the usage of natural gas. The following three sectors will be Changfeng's main business lines in the next three (3) years from 2017-2019: a) natural gas downstream distribution, including urban city pipeline gas distribution, gas refuelling stations, and LNG distribution; b) integrated smart energy system to distribute power, heat, cooling, and hot water; c) natural gas mid-stream infrastructure.