CHANGFENG ENERGY INC.

Management's Discussion and Analysis for the Three months and Six months ended June 30, 2018

Dated August 29, 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. (here after referred to as "Changfeng", "we" or the "Company") (together with its subsidiaries the "Group") as at and for the three months and six months ended June 30, 2018. This information should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and related notes for the three months and six months ended June 30, 2018 and the audited consolidated financial statements and related notes and the MD&A 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 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 Renminbi (RMB) and Canadian dollars (CAD) unless otherwise indicated.

Caution Regarding Forward-Looking Information

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

Overview

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

Currently the Company has six projects in operation: two pipeline natural gas distribution projects, two liquefied natural gas ("LNG") supply 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 and the supply of natural gas to three factories in Xingtai City, Shijiazhuang City and Baoding City, the Hebei Province, which officially commenced in March 2018, April 2018 and May 2018 respectively under their respective natural gas supply contracts signed by Hebei Riheng Clean Energy Ltd. ("Riheng Energy"), a controlled subsidiary of the Company.

Major project under development is the integrated smart energy project (the "Haitang Bay Integrated Smart Energy Project") which combines the usage of multiple clean energy sources, including solar, hydro, electricity, and natural gas (CCHP/Co-Gen), to supply cooling, heating, as well as hot water to the hotels, shopping centers, and households in the Haitang Bay area, the Hainan Province. This project is conducted through the 50:50 joint venture company, Sanya EDF Changfeng Energy Management Co., Ltd. ("EDF CF") established between Changfeng and the EDF Group in November 2017. In December 2017, the Sanya Municipal Government and the EDF CF signed the 30-year concession right agreement which gives the EDF CF the right to build, own and operate four energy processing stations in Haitang Bay, Sanya City, the Hainan Province. Project development has since begun, contracts with customers are currently being negotiated, and commencement of commercial operation is expected by the end of 2018.

This is the second year of Changfeng's 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. In line with this strategy, Changfeng has taken steps to divest its controlling interest (the "Disposal") in Pingxiang Changfeng Gas Co., Ltd. ("Pingxiang CF", subsequently changed name to Pingxiang Xin'ao Changfeng Gas Co., Ltd.) through the entering into of the disposal agreement (the "Agreement") to free up capital for other investment opportunities. The Disposal was completed on January 5, 2018 and the Group's equity interest in Pingxiang CF was reduced to 40% and such interest has since been re-classified as interest in associates of the Group. Pursuant to the Agreement, the Group is committed to repay to the buyer the full consideration under the Disposal should Pingxiang CF fails to be granted a new concession right (in the form issued by the Ministry of Housing and Urban-Rural Development of the PRC) (the "New Concession Right") under the new shareholding structure within 2 years after completion of the Disposal. In August 2018, Pingxiang CF has entered into a supplementary contract (the "Supplemental Agreement") with the Xiangdong District Government of Pingxiang, Jiangxi, the PRC. The Supplemental Agreement states that the New Concession Right for natural gas pipeline distribution (in the form issued by the Ministry of Housing and Urban-Rural Development of the PRC) has been approved and will be granted to the Project Company within 30 days following the signing of the Supplemental Agreement. The New Concession Right will grant the Pingxiang CF a 30-year pipeline natural gas distribution right, beginning from January 19, 2010 to January 18, 2040. Extension can be applied to the New Concession Right in 15-year increments upon expiration, with no limit on the number of extensions. Receiving the New Concession Right will discharge Changfeng of the potential obligation to repurchase its previous interest in the Project Company

The Company has been pursuing its plans to undertake a public offering (the "HK IPO") of common shares together with the listing of its common shares on The Stock Exchange of Hong Kong Limited (the "HKEx"). Since late 2017, the Group has successfully procured several new projects that are currently either under development or at the initial stage of operation, whose contributions will only be reflected in the Company's financial results as those projects become fully operational. Consequently, management of Changfeng has determined to reschedule its pursuit of the HK IPO for completion during the first half of 2019, which would permit it to advance these new projects and enable their results to be reflected in its financial statements for the year ending December 31, 2018, thereby providing the opportunity to incorporate those results in the HK IPO process and potentially enhance the Company's valuation. With GF Capital (Hong Kong) Limited ("GF Capital"), the sponsor previously appointed by the Company for the HK IPO, unable to allocate sufficient resources as sponsor to assist the Company under the new schedule for the HK IPO, the Company has appointed Altus Capital Limited ("Altus Capital") as sponsor in place of GF Capital. Nevertheless, GF Capital will continue to support the HK IPO plan as financial adviser to the Company. In addition, the Company also plans to appoint GF Securities (Hong Kong) Brokerage Limited ("GF Securities"), an affiliated company of GF Capital, as the global coordinator, book runner and lead manager of the HK IPO.

Highlight for the three months ended June 30, 2018

On April 13, 2018, pursuant to the stock option plan which was approved by shareholders of the Company at the Company's annual and special general meetings of the Shareholders held on June 4, 2008, the Company granted stock options (the "Options") to directors, consultant and certain members of management and employees of the Group to acquire up to an aggregate of 2,440,000 Common Shares. All the Options are exercisable at a price of CAD1.09 per Common Share, which was the closing price of the Company's shares on the TSX Venture Exchange on April 12, 2018, being the last trading day immediately preceding the grant date. The Options granted are to be vested from the day immediately following the successful HK IPO and the commencement date of listing of the Company's shares on the HKEx (the "Vesting Date"). The Options are exercisable for a period of 3 to 5 years from the Vesting Date.

On April 30, 2018, Changfeng and Guangdong Natural Gas Grid Co., Ltd. (the "Guangdong Grid") signed a memorandum of understanding to jointly pursue natural gas pipeline projects in the Guangdong Province, the PRC. According to the Chinese government's 13th five-year plan, Guangdong Grid was formed with the purpose of establishing a province-wide network of natural gas trunk pipelines more than 3,200 km in length covering 21 cities in the Guangdong Province over the city-level natural gas distribution network, reaching annual gas transmission capacity of 60 billion cubic meters by 2020. Guangdong Grid is a joint venture of the China National Offshore Oil Corporation, the Sinopec Group, PetroChina Company Limited and the Guangdong Yudean Group Co., Ltd., with a registered capital of RMB3.98 billion. A task team has been established by Changfeng and Guangdong Grid to finalize the details of the partnership with the intention of creating a joint venture for the development, investment, and operation of city natural gas projects in the Guangdong Province.

On May 7, 2018, Riheng Energy signed a three-year natural gas purchasing agreement with a carbon product manufacturer in Baoding City, the Hebei Province to provide natural gas and associated infrastructure to the manufacturer's factory.

On May 17, 2018, pursuant to the Company's previously announced dividend policy in 2017, the Board of Directors has continued to approve the annual dividend for the 2018 financial year. The first installment of the semi-annual dividend of approximately RMB 3,500,000, which is approximately CAD $640,000 based on the prevailing exchange rate between CAD and RMB on May 17, 2018. Such dividend was paid out on July 26, 2018.

On June 18, 2018, the Company announced the completion of its continuance into the provincial jurisdiction of the Business Corporations Act (British Columbia) from the federal jurisdiction of the Canada Business Corporations Act which took effect on June 18, 2018.

Subsequent Event

On July 13, 2018, the Company announced the rescheduling of its pursuit of the HK IPO for completion to the first half of 2019. Altus Capital Limited has been appointed as sponsor of the HK IPO in place of GF Capital was unable to allocate sufficient resources as sponsor to assist the Company under the new schedule for the HK IPO. GF Capital will continue to support the HK IPO plan as financial adviser to the Company and the Company also plans to appoint GF Securities as the global coordinator, book runner and lead manager of the HK IPO.

On August 8, 2018, the Company announced that Pingxiang CF has entered into the Supplemental Agreement with the Xiangdong District Government of Pingxiang, Jiangxi, the PRC. The Supplemental Agreement states that the New Concession Right for natural gas pipeline distribution (in the form issued by the Ministry of Housing and Urban-Rural Development of the PRC) has been approved and will be granted to Pingxiang CF within 30 days following the signing of the Supplemental Agreement. The New Concession Right grants the Pingxiang CF a 30-year pipeline natural gas distribution right, beginning from January 19, 2010 to January 18, 2040. Extension can be applied to the New Concession Right in 15-year increments upon expiration, with no limit on the number of extensions.

On August 8, 2018, the Company announced that Sanya Changfeng Offshore Natural Gas Distribution Co., Ltd., a wholly owned subsidiary of Changfeng, has successfully procured a RMB20 million secured short-term loan from Bank of China, Sanya Branch for working capital of its daily operations. This secured loan carries a fixed annual interest rate of 4.35% and will be due for repayment in 12 months.

On August 8, 2018, the Company further announced that the Baoding ceramic manufacturer client of Riheng Energy has declared that its factory will temporarily halt production for the next two months due to operational issues and seasonality.

On August 22, 2018, the Company announced that Sanya Changfeng Clean Energy Co. Ltd. ("Sanya Changfeng Clean Energy"), a wholly owned subsidiary of Changfeng has entered into a LNG supply agreement with a brick manufacturer in Wenchang City, Hainan Province, marking Changfeng's first step into business outside of Sanya City on Hainan island. The agreement outlines the supply of LNG to the manufacturer for a duration of 10 years beginning from October 1, 2018 to September 30, 2028 at a price of RMB3.30/Nm3. The brick manufacturer is estimated to consume 1,270,000 Nm3 of natural gas per annum.

On August 22, 2018, the Company further announced that Sanya Changfeng Clean Energy has also entered into a LNG supply agreement with a rubber manufacturer in Wenchang City. The agreement outlines the supply of LNG to the manufacturer for a duration of 10 years beginning from August 8, 2018 to August 7, 2028 at a price of RMB3.20/Nm3. The rubber manufacturer is expected to consume 500,000 Nm3 of LNG per annum. With the government's policy to turn Hainan island into a free trade port and a role model to low carbon economy.

Outlook

This is the second year of Changfeng's 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 refueling stations, and LNG distribution; b) integrated smart energy system to distribute power, heat, cooling, and hot water; and c) natural gas mid-stream infrastructure.

The Company expects the volume of gas sold during the rest of the 2018 year to increase with its existing pipeline networks in the Sanya Region continuing to add both residential and commercial and industrial customers to its network, the new ceramic company customers in Xingtai City and Shijiazhuang City, Hebei Province, moving toward full capacity after an initial start in March/April 2018.

For the rest of 2018, Changfeng will continue to implement its long-term growth strategy through its proposed Guangdong Grid pipelined gas project in the Western Guangdong area of the Guangdong Province and work towards moving the development of the Haitang Bay Integrated Smart Energy Project with the EDF Group in Sanya City forward to commercial operation by the end of 2018. In addition to these business developments, the group will continue to put great effort in the preparation of the HK IPO so as to meet the targeted listing on the HKEx by the first half of 2019.

Selected Quarterly Financial Information

The following tables provide selected financial information for the three and six months ended June 30, 2018 and 2017 in Chinese RMB:

In thousands of Chinese RMB	Three months ended June 30,				Six months ended June 30,			
except percentages and per share amounts	2018	2017 (restated)	Change	%	2018	2017 (restated)	Change	%
Continuing Operations								
Revenue	**100,808**	**82,289**	**18,519**	**23%**	**204,938**	**170,246**	**34,692**	**20%**
Gross profit	**41,237**	**33,026**	**8,211**	**25%**	**89,184**	**78,251**	**10,933**	**14%**
% of revenue	41%	40%	1%		44%	46%	-2%	
Selling and marketing expenses	(10,888)	(8,841)	(2,047)	23%	(24,787)	(20,932)	(3,855)	18%
% of revenue	11%	11%	0%		12%	12%	0%	
General and administrative expenses	(11,940)	(8,758)	(3,182)	36%	(20,673)	(19,280)	(1,393)	7%
% of revenue	12%	11%	1%		10%	11%	-1%	
Listing expenses	(2,149)	(96)	(2,053)		(2,149)	(96)	(2,053)	
Share-based compensation	(862)	(1,092)	230	-21%	(862)	(1,092)	230	-21%
Total expenses	**(25,839)**	(18,787)	**(7,052)**	**38%**	**(48,471)**	**(41,400)**	**(7,071)**	**17%**
% of revenue	26%	23%	3%		24%	24%	0%	
Income from operations	**15,398**	**14,239**	**1,159**	**8%**	**40,713**	**36,850**	**3,863**	**10%**
% of revenue	15%	17%	-2%		20%	22%	-2%	
Finance costs	(1,432)	(1,597)	165	-10%	(2,807)	(3,318)	511	-15%
Other income	383	359	24	7%	647	550	97	18%
Other gains and losses	(621)	(104)	(517)	499%	(1,632)	(1,753)	121	-7%
Fair value change on put option liability	14,485	-	14,485		14,485	-	14,485	
Share of loss of associates	(633)	(2)	(631)	100%	(1,923)	(3)	(1,920)	100%
Share of profit (loss) of a joint venture	69	-	69		(115)	-	(115)	
Profit before tax	**27,649**	**12,895**	**14,754**	**114%**	**49,368**	**32,327**	**17,041**	**53%**
% of revenue	27%	16%	11%		24%	19%	5%	
Income tax expense	(7,259)	(5,162)	(2,097)	41%	(15,015)	**(12,506)**	**(2,509)**	20%
% of revenue	7%	6%	1%		7%	7%	0%	
Profit for the period from continuing operations	**20,390**	**7,733**	**12,657**	164%	**34,353**	**19,821**	**14,532**	**73%**
% of revenue	20%	9%	11%		17%	12%	5%	
Discontinued operation								
Profit (loss) for the period from discontinued operation	-	(99)	99	-100%	30,293	(1,059)	31,352	
Profit for the period	**20,390**	**7,634**	**12,756**	167%	**64,646**	**18,762**	**45,884**	245%
Fair value change on available-for-sale financial assets	-	(2)	2		-	(2)	2	
Total comprehensive income for the period	**20,390**	**7,632**	**12,758**	167%	**64,646**	**18,760**	**45,886**	245%
-attributable to non-controlling interests	**(116)**	**384**	**(500)**	**-130%**	**9,126**	**597**	**8,529**	**100%**
-attributable to owners of the Company	**20,506**	**7,248**	**13,258**	**183%**	**55,520**	**18,163**	**37,357**	**206%**
EBITDA from continuing operations (note 1)	**11,214**	**11,202**	**12**	**0%**	**32,150**	**28,031**	**4,119**	**15%**
% of revenue	11%	14%	-3%		16%	16%	0%	
From continuing and discontinued operations								
Basic EPS (RMB)	*0.32*	*0.11*			*0.86*	*0.28*		
Diluted EPS (RMB)	*0.31*	*0.11*			*0.83*	*0.28*		
From continuing operations								
Basic EPS (RMB)	*0.32*	*0.12*			*0.53*	*0.30*		
Diluted EPS (RMB)	*0.31*	*0.11*			*0.52*	*0.30*		

Note 1: EBITDA is identified and defined under the section "Non-IFRS Financial Measures".

The following tables provide selected financial information for the three and six months ended June 30, 2018 and 2017 in Canadian dollars and it is for information only:

In thousands of Canadian Dollars	**Three months ended June 30,**				**Six months ended June 30,**			
except percentages and per share amounts	**2018**	**2017 (restated)**	**Change**	**%**	**2018**	**2017 (restated)**	**Change**	**%**
Continuing Operations								
Revenue	**20,232**	**16,516**	**3,716**	**22%**	**41,131**	**34,168**	**6,963**	**20%**
Gross profit	**8,276**	**6,628**	**1,648**	**25%**	**17,899**	**15,705**	**2,194**	**14%**
% of revenue	41%	40%	1%		44%	46%	-2%	
Selling and marketing expenses	(2,185)	(1,774)	(411)	23%	(4,975)	(4,201)	(774)	18%
% of revenue	11%	11%	0%		12%	12%	0%	
General and administrative expenses	(2,396)	(1,758)	(638)	36%	(4,149)	(3,869)	(280)	7%
% of revenue	12%	11%	1%		10%	11%	-1%	
Listing expenses	(431)	(19)	(412)		(431)	(19)	(412)	
Share-based compensation	(173)	(219)	46	-21%	(173)	(219)	46	-21%
Total expenses	**(5,184)**	(3,769)	**(1,415)**	**38%**	**(9,728)**	**(8,308)**	**(1,420)**	**17%**
% of revenue	26%	23%	3%		24%	24%	-	
Income from operations	**3,092**	**2,858**	**234**	**8%**	**8,171**	**7,397**	**774**	**10%**
% of revenue	15%	17%	-2%		20%	22%	-2%	
Finance costs	(287)	(320)	33	-10%	(563)	(666)	103	-15%
Other income	77	72	5	7%	130	110	20	18%
Other gains and losses	(125)	(21)	(104)	495%	(328)	(352)	24	-7%
Fair value change on put option liability	2,907	-	2,907		2,907	-	2,907	
Share of loss of associates	(127)	(1)	(126)	100%	(386)	(1)	(385)	100%
Share of profit (loss) of a joint venture	14	-	14		(23)	-	(23)	
Profit before tax	**5,551**	**2,588**	**2,963**	**114%**	**9,908**	**6,488**	**3,420**	**53%**
% of revenue	27%	16%	11%		24%	19%	5%	
Income tax expense	(1,457)	(1,036)	(421)	41%	(3,014)	(2,510)	**(504)**	20%
% of revenue	7%	6%	1%		7%	7%	0%	
Profit for the period from continuing operations	**4,094**	**1,552**	**2,541**	164%	**6,894**	**3,978**	**2,916**	**73%**
% of revenue	20%	9%	11%		17%	12%	5%	
Discontinued operation								
Profit (loss) for the period from discontinued operation	-	(20)	20		6,080	(213)	6,293	
Profit for the period	**4,094**	**1,532**	**2,562**	167%	**12,974**	**3,765**	**9,209**	245%
Fair value change on available-for-sale financial assets	-	-	-		-	-	-	
Total comprehensive income for the period	**4,094**	**1,532**	**2,562**	**167%**	**12,974**	**3,765**	**9,209**	**245%**
-attributable to non-controlling interests	**(23)**	**77**	**(100)**	**-130%**	**1,832**	**120**	**1,712**	**100%**
-attributable to owners of the Company	**4,117**	**1,455**	**2,662**	**183%**	**11,142**	**3,645**	**7,497**	**206%**
EBITDA from continuing operations	2,251	**2,248**	3	**0%**	**6,452**	**5,626**	**826**	**15%**
% of revenue	11%	14%	-3%		16%	16%	0%	
From continuing and discontinued operations								
Basic EPS (CAD)	*0.06*	*0.02*			*0.17*	*0.06*		
Diluted EPS (CAD)	*0.06*	*0.02*			*0.17*	*0.05*		
From continuing operations								
Basic EPS (CAD)	*0.06*	*0.02*			*0.11*	*0.06*		
Diluted EPS (CAD)	*0.06*	*0.02*			*0.10*	*0.06*		

Results of Operations

Total Revenue and Sales Volume sold

Revenue (Summary table)								
Total Revenue	Three months ended June 30,				Six months ended June 30,			
(in RMB'000)	2018	2017 (restated)	Change	%	2018	2017 (restated)	Change	%
Gas distribution utility								
- Gas Sales	58,749	35,886	22,863	64%	122,714	87,155	35,559	41%
- Pipeline Installation and Connection	27,879	31,773	(3,894)	-12%	53,619	54,884	(1,265)	-2%
CNG vehicle refueling	14,180	14,630	(450)	-3%	28,605	28,208	397	1%
Total Revenue in RMB'000	**100,808**	**82,289**	**18,519**	**23%**	**204,938**	**170,247**	**34,691**	**20%**

Revenue for the second quarter of 2018 was RMB100.8 million, an increase of RMB18.5 million, or 23%, from RMB82.3 million for same quarter of 2017. Revenue for the six months ended June 30, 2018 was RMB204.9 million, an increase of RMB34.7 million, or 20%, from RMB170.2 million for the same period of 2017. This increase was mainly due to the increases in gas sales offset by a slightly decrease in revenue from pipeline installation and connection.

Revenue from CNG vehicle refueling maintained its steadiness in the second quarter of 2018 and for the six months ended June 30, 2018, comparing to the same periods of 2017.

Sales volume sold								
Sales volume sold (m^3)	Three months ended June 30,				Six months ended June 30,			
	2018	2017	Change	%	2018	2017	Change	%
Sanya region	10,924,186	9,852,651	1,071,535	11%	26,926,321	24,826,522	2,099,799	8%
Hebei region	2,613,580	-	2,613,580		2,613,580	-	2,613,580	100%
Total gas sales volume (m^3)	**13,537,766**	**9,852,651**	**3,685,115**	**37%**	**29,539,901**	**24,826,522**	**4,713,379**	**19%**
Changsha CNG	1,242,971	1,751,564	(508,593)	-29%	2,558,723	3,390,570	(831,847)	-25%
Sanya CNG/LNG	1,702,192	1,532,623	169,569	11%	3,451,841	2,930,727	521,114	18%
Total CNG/LNG volume (m^3)	**2,945,163**	**3,284,187**	**(339,024)**	**-10%**	**6,010,564**	**6,321,297**	**(310,733)**	**-5%**
Total sales volume sold (m^3)	**16,482,929**	**13,136,838**	**3,346,091**		**35,550,465**	**31,147,819**	**4,402,646**	**14%**

Gas sales volume increased was mainly attributable to the continuously growing total gas sales volume in Sanya and the commencement of gas sales in Hebei region during the second quarter of 2018. Gross gas sales volume in Sanya region increased by 11% and 8% for the second quarter of 2018 and six months ended June 30, 2018 respectively.

CNG sales volume from Changsha CNG vehicle refueling station dropped by 29% and 25% for the second quarter of 2018 and six months ended June 30, 2018 respectively. CNG sales volume from Sanya CNG vehicle refueling station experienced an increase of 11% and 18% for the second quarter of 2018 and six months ended June 30, 2018 respectively.

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

Natural Gas Distribution Utility

Natural Gas Distribution Utility segment consists of two components: Gas Sales and Pipeline Installation and Connection. With the stable growth in customers newly connected and in gas volume consumed, revenue from gas sales has been growing steadily in recent periods; and revenue from pipeline installation and connection decreased slightly during the first half of 2018.

Gas Sales by volume

Gas sales								
Sanya Region	**Three months ended June 30,**				**Six months ended June 30,**			
Gas volume sold (m³)	**2018**	**2017**	**Change**	**%**	**2018**	**2017**	**Change**	**%**
Residential customers	2,392,783	2,119,243	273,540	13%	7,872,106	6,855,798	1,016,308	15%
Commercial customers	8,531,403	7,733,408	797,995	10%	19,054,215	17,970,724	1,083,491	6%
Subtotal (Sanya Region)	**10,924,186**	**9,852,651**	**1,071,535**	**11%**	**26,926,321**	**24,826,522**	**2,099,799**	**8%**
Hebei Region	**Three months ended June 30,**				**Six months ended June 30,**			
Gas volume sold (m³)	**2018**	**2017**	**Change**	**%**	**2018**	**2017**	**Change**	**%**
Commercial customers	2,613,580	-	2,613,580	100%	2,613,580	-	2,613,580	100%
Total	**13,537,766**	**9,852,651**	**3,685,114**	**37%**	**29,539,901**	**24,826,522**	**4,713,379**	**19%**

Gas sales volume for Sanya Region in the second quarter of 2018 was 10.9 million m³, an increase of 1.0 million m³ or 11%, compared to 9.9 million m³ for the same quarter of 2017, of which 2.4 million m³ was for residential customers at a growth rate of 13% and 8.5 million m³ was for commercial customers at a growth rate of 10%. Gas sales volume for Sanya Region during the six months ended June 30, 2018 was 26.9 million m³, an increase of 2.1 million m³ or 8%, compared to 24.8 million m³ for the same period of 2017, of which 7.9 million m³ was for residential customers at a growth rate of 15% and 19.0 million m³ was for commercial customers at a growth rate of 6%.

The Company's non-residential customers include commercial and industrial customers, mainly comprised of hotels, resorts and restaurants in Sanya City. Approximately 71% of the gas sold in Sanya City during the six months ended June 30, 2018 was to those non-residential customers.

In the Sanya Region, there is a total of 187,943 residential customers as at June 30, 2018, an increase of 4,502 new customers in the second quarter of 2018 as compared to 2,858 new customers in the same quarter of 2017. There is a total of 999 commercial customers as at June 30, 2018, an increase of 15 new customers in the second quarter 2018 as compared to an increase of 6 new customers in the same quarter of 2017.

Commencement of gas supply to 2 commercial customers in Xingtai City and Shijiazhuang City, Hebei Province in the second quarter of 2018, with total sales volume of 2.6 million m³ sold.

Gas Sales by amount

Gas sales								
Sanya Region	**Three months ended June 30,**				**Six months ended June 30,**			
Gas sales revenue (in RMB'000)	**2018**	**2017**	**Change**	**%**	**2018**	**2017**	**Change**	**%**
Residential customers	15,041	4,897	10,144	207%	31,911	15,981	15,930	100%
Commercial customers	38,093	30,989	7,104	23%	85,188	71,174	14,014	20%
	53,134	**35,886**	**17,248**	**48%**	**117,099**	**87,155**	**29,944**	
Hebei Region	**Three months ended June 30,**				**Six months ended June 30,**			
Gas sales revenue (in RMB'000)	**2018**	**2017**	**Change**	**%**	**2018**	**2017**	**Change**	**%**
Commercial customers	5,615	-	5,615	100%	5,615	-	5,615	100%
Total	**58,749**	**35,886**	**22,863**	**64%**	**122,714**	**87,155**	**35,559**	**41%**

Gas sales revenue in the second quarter was RMB58.7 million, an increase of RMB22.8 million or 64%, from RMB35.9 million for the same quarter of 2017. Gas sales revenue for the six months ended June 30, 2018 was RMB122.7 million, an increase of RMB35.5 million or 41%, from RMB87.2 million for the same period of 2017.

Increase in gas sales revenue is driven by increase of gas sales volume and increase in gas price which commenced in and continued since May 2017 following the release of the document that detailed the natural gas price hike beginning from May 1, 2017 by the Sanya Municipal Development and Reform Commission.

The three-tier residential natural gas price is adjusted as follows:
Less than 260m³: Increased from RMB2.6/m³ to RMB3.15/m³, an increase of 21%;
Between 261 m³- 390 m³: Increased from RMB2.86/m³ to RMB3.78/m³, an increase of 32%; and
More than 391 m³: Increased from RMB3.12/m³ to RMB3.96/m³, an increase of 27%.

Social welfare units (schools, government facilities, and other not-for-profit organizations): Gas price increased from RMB2.86/ m³ to RMB3.46/m³, an increase of 21%;

Non-residential (commercial and industrial): Gas price increased from RMB4.7/m³ to RMB5.12/m³, an increase of 9%.

Pipeline Installation and Connection

Pipeline connection								
Sanya Region	**Three months ended June 30,**				**Six months ended June 30,**			
	2018	**2017**	**Change**	**%**	**2018**	**2017**	**Change**	**%**
Customers newly connected								
Residential customers	5,762	6,585	(823)	-12%	8,375	7,877	498	6%
Commercial customers	17	6	11	183%	36	17	19	112%
Total customers connected								
Residential customers	5,762	6,585	(823)	-12%	239,451	207,711	31,740	15%
Commercial customers	17	6	11	183%	985	914	71	8%
Pipeline connection revenue (in RMB'000)								
Residential customers	22,827	23,966	(1,139)	-5%	38,508	36,724	1,784	5%
Commercial customers	5,052	7,807	(2,755)	-35%	15,111	18,160	(3,049)	-17%
Total	**27,879**	**31,773**	**(3,894)**	**-12%**	**53,619**	**54,884**	**(1,265)**	**-2%**

Pipeline installation and connection revenue for the second quarter of 2018 was RMB27.9 million, a decrease of RMB3.9 million or 12%, from RMB31.8 million for the same quarter of 2017. Pipeline installation and connection revenue for the six months ended June 30, 2018 was RMB53.6 million, a slight decrease of RMB1.3 million or 2%, from RMB54.9 million for the same period of 2017.

There are 5,762 new residential customers in the second quarter of 2018, a decrease of 823 new customers or 12% from 6,585 new residential customers obtained for the same quarter of 2017. There are 239,451 residential customers and 985 commercial customers as at June 30, 2018, as compared to 207,711 residential customers and 914 commercial customers as at June 30, 2017.

Due to the purchasing restrictions policy imposed by the government in the property market of Sanya, fewer property sales were made in the second quarter of 2018. Development of certain residential areas have slowed down which resulted in the decrease in number of new residential customers and revenue generated from pipeline installation and connection in the second quarter of 2018.

There are 17 new commercial customers in the second quarter of 2018, an increase of 11 new customers or 183% from 6 new commercial customers for the same quarter of 2017. These new commercial customers obtained in the second quarter of 2018 are small customers with no major construction project being undertaken, hence the revenue per customer is lower in the 2018 while new customers in 2017 included large hotels with major construction projects and the revenue per customer in the first half of 2017 was higher. Pipeline installation and connection revenue for the commercial customers was RMB5.1 million in second quarter of 2018, a decrease of RMB2.8 million or 35%, from RMB7.8 million for the same quarter of 2017.

CNG vehicle refueling stations

CNG Sales								
	Three months ended June 30,				**Six months ended June 30,**			
CNG Sales Volume (m³)	**2018**	**2017**	**Change**	**%**	**2018**	**2017**	**Change**	**%**
Changsha CNG	1,242,971	1,751,564	(508,593)	-29%	2,558,723	3,390,570	(831,847)	-25%
Sanya CNG/LNG	1,702,192	1,532,623	169,569	11%	3,451,841	2,930,727	521,114	18%
Total Sales Volume (m³)	**2,945,163**	**3,284,187**	**(339,024)**	-10%	**6,010,564**	**6,321,297**	**(310,733)**	-5%

CNG Sales Revenue	**Three months ended June 30,**				**Six months ended June 30,**			
(in RMB'000)	**2018**	**2017**	**Change**	**%**	**2018**	**2017**	**Change**	**%**
Revenue in RMB								
Changsha CNG	4,747	6,540	(1,793)	-27%	9,832	12,662	(2,830)	-22%
Sanya CNG/LNG	9,433	8,090	1,343	17%	18,773	15,546	3,227	21%
Total Revenue	**14,180**	**14,630**	**(450)**	**-3%**	**28,605**	**28,208**	**397**	**1%**

Total revenue from CNG refueling retail stations for the second quarter of 2018 was RMB14.2 million, a decrease of RMB0.5 million, or 3%, from RMB14.6 million for the same quarter of 2017. Total revenue from CNG refueling retail stations for the six months ended June 30, 2018 was RMB28.6 million, maintained its steadiness with an increase of RMB0.4 million, or 1%, from RMB28.2 million for the same period of 2017. The relatively moderate increase of revenue from Sanya CNG/LNG station in the second quarter of 2018 as compared with the same quarter of 2017 reflected the slowing down of growth in Sanya new CNG/LNG refueling retail station since its commencement of operation in May 2016.

CNG sales volume from Changsha CNG vehicle refueling station dropped due to local market competition. Sales volume dropped by 0.5 million m^3 or 29% in the second quarter of 2018 and 0.8 million m^3 or 25% in the six months ended June 30, 2018 as compared same periods in 2017. The decrease in sales volume is attributed to the reduction of taxi usage due to the combined effect of new introduction of electrical cars launched in the market in 2018, two lines of the mass transit subway system which commenced operation in since first half of 2018 and more common use of shared bikes in short distance travelling which reduced the consumption of CNG.

Foreign exchange rates

Changfeng reports its financial results in RMB and earns all of its revenues and incurs most of its expenses in Chinese RMB. As the Company is listed in TSXV 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	Q2 2018	Q2 2017	% change
Spot rate at the end of the period	0.1989	0.1914	3.9%
Average rate for the period	0.2007	0.1961	2.3%

Gross margin

Gross margin for the three months ended June 30, 2018 was RMB41.2 million, increased RMB8.2 million, or 25%, compared to the same period in 2017. Gross margin was RMB89.2 million, an increase of RMB10.9 million or 14% for the six months ended June 30, 2018 with compared to the same period in 2017. The gross margin percentage of 44% for the first half of 2018 slightly decreased by 2% percent point from 46% for the first half of 2017.

The decrease in gross profit margin for the Sanya pipeline distribution subsidiary, CF China mainly attributable to increased cost of gas purchased from RMB1.83/ m^3 in the first half of 2017 to RMB2.47/ m^3 in the first half of 2018. The pipeline installation and connection subsidiary, CF Engineering recorded an increase of gross profit margin mainly attributable to the reduction in average labor cost for connecting new residential areas as compared to old residential areas due to better city planning in the new residential areas. More customers in new residential areas were connected in the first half of 2018 whereas more customers in old residential areas were connected in same period of 2017. New commercial customers in pipeline installation and connection obtained in first half of 2018 were for small customers where costs were higher than for larger customers as less benefit is derived from economies of scale.

The gross profit margin for Sanya CNG/LNG vehicle refueling station increased in the first half of 2018 mainly attributable to the decrease in cost of RMB0.81/ m^3 in gas price in 2018. The gross profit margin for the Changsha CNG vehicle refueling station remained constant as compared to same period in 2017.

Operating expenses

General and administrative expenses for the second quarter of 2018 is RMB11.9 million, an increase of RMB3.1 million, or 36%, from RMB8.8 million in the same quarter of 2017. For the six months ended June 30, 2018, general and administrative expenses were RMB20.7 million, an increase of RMB1.4 million, or 7%, from RMB19.3 million in the same period of 2017. General and administrative expenses as a percentage of sales for the second quarter of 2018 and six months ended June 30, 2018 were 12% and 10% respectively and maintained at a relatively similar level as that of the same periods of 2017.

Selling and marketing expenses for the second quarter of 2018 is RMB10.9 million, an increase of RMB2.1 million, or 23%, from RMB8.8 million in the same period of 2017. Selling and marketing expenses for the six months ended June 30, 2018 were RMB24.8 million, an increase of RMB3.9 million, or 18%, from RMB20.9 million in the same period of 2017. As a percentage of sales, selling and marketing expenses for the second quarter of 2018 and six months ended June 30, 2018 maintained the same of 11% and 12% as that of the same period of 2017. These expenses normally fluctuate with travel and business development activities in mainland China as the Company seeks to develop new projects in close proximity to the new national pipelines, as well as to develop the integrated energy system projects in Haitang Bay area, Sanya City.

Finance Costs

Finance costs of RMB1.4 million for the second quarter of 2018 is at similar level as that of the same quarter of 2017. Finance costs for the six months ended June 30, 2018 is RMB2.8 million, a decrease of 0.5 million compared to RMB3.3 million for the same period of 2017.

EBITDA from continuing operations

EBITDA (non-IFRS measure as identified and defined under section "Non-IFRS Measures") from continuing operations for the second quarter of 2018 was RMB11.2 million, almost the same as that of the same period of 2017. EBITDA for the six months ended June 30, 2018 was RMB32.2 million, an increase of RMB4.1 million, or 15%, from RMB28.0 million for the same period of 2017.

Profit for the period from continuing operations

Net profit from continuing operations for the second quarter of 2018 was RMB 20.4 million, or RMB0.32 per share and RMB0.31 per share (basic and diluted, respectively) compared to RMB7.7 million, or RMB0.12 per share and RMB0.11 per share (basic and diluted, respectively) for the same quarter of 2017.

Net profit from continuing operations for the six months ended June 30, 2018 was RMB34.4 million, or RMB0.53 per share and RMB0.52 per share (basic and diluted, respectively) as compared to RMB19.8 million or RMB0.30 per share (basic and diluted, respectively) for the same period in 2017. Profit for the period from continuing operations in the second quarter of 2018 included a fair value gain of put option liability of RMB14.5 million subsequent to the disposal of Pingxiang CF in January of 2018.

Selected Quarterly Results for continuing and discontinued 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)	2018		2017				2016	
except per share amounts	Q2	Q1 (restated)	Q4	Q3	Q2 (restated)	Q1 (restated)	Q4	Q3
Foreign exchange rate one RMB to Canadian dollars	0.2007	0.1989	0.1921	0.1878	0.1961	0.1921	0.1996	0.1965
Revenue	100,808	104,130	96,903	114,816	82,289	87,957	89,848	83,652
Gross profit	41,237	47,947	35,740	49,449	33,026	45,224	44,935	35,125
Profit (loss) for the period	20,390	47,458	(580)	16,820	7,634	11,128	4,274	7,756
EPS of continuing and discontinued operations								
- basic (RMB)	0.29	0.59	(0.17)	0.26	0.11	0.19	0.14	0.11
- diluted (RMB)	0.28	0.58	(0.16)	0.26	0.11	0.18	0.14	0.11

Financial Condition and Liquidity

Key Financial Data and Comparative Figures		
(RMB000's)	**30-Jun-18**	**31-Dec-17**
Cash	106,080	150,711
Working capital (deficit)	(41,029)	(42,512)
Adjusted working capital deficit (note1)	100,732	120,726
Plant and equipment	371,053	349,006
Total assets	646,479	726,706
Long term liabilities	140,193	139,040
Shareholders' equity	285,006	223,981

Note 1: This financial measure is identified and defined under the section "Non-IFRS Financial Measures"

Cash decreased by RMB44.6 million to RMB106.1 million at June 30, 2018 from RMB150.7 million at December 31, 2017, primarily resulting from decreased cash generated from operating activities of RMB18.5 million, repayments of short-term bank borrowing of RMB20.0 million and of long-term bank loan of RMB11.0 million, and dividend payment of RMB10.2 million, offset by cash inflow from disposal of interest in Pingxiang of RMB42.1 million and the increase in cash from the exercise of stock option of RMB1.8 million. Cash was also used for acquisition of property and equipment of RMB25.7 million.

Adjusted Working Capital

The adjusted working capital (see "Non-IFRS Financial Measures") was RMB75.8 million at June 30, 2018. Adjusted working capital excludes contract liabilities of RMB111.8 million and line of credit of RMB30.0 million.

Liquidity and Capital Resources

Overview

The Company's principal sources of short-term funding are its existing cash balances, operating cash flows and borrowing under its line of credit. Its principal sources of long-term funding are its three term loans into which Changfeng entered in 2010, 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 construction contracts for gas connection includes in the contract liabilities, refund liabilities and access to credit facilities and capital resources.

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

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

In the short term, management does not expect to face any liquidity problems considering its ability to generate sustainable cash flow from operations in the short and long term. As at June 30, 2018 and December 31, 2017, the Group was in compliance with all of its debt covenants.

Contractual Obligations and Commitments

As of June 30, 2018, there have been no significant changes to contractual obligations and commitments since December 31, 2017.

Share Capital

As of the date of this MD&A, the Company has 65,188,155 Common Shares outstanding, 6,585,000 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. 2,440,000 new options had been granted by the Company in April 2018, 859,120 option had been exercised and 186,030 options had expired/been cancelled during the six months ended June 30, 2018.

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 provides 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 from continuing operations

EBITDA is defined herein as income before income tax expense, finance cost, depreciation and amortization, share of loss of investment in associate and joint venture, as well as non-cash stock-based compensation expense and fair value change on the on put option liability. 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 profit to EBITDA from continuing operations for each of the periods presented in this MD&A as follows:

In RMB thousands	Three months ended June 30,				Six months ended June 30,			
(except for % figures)	2018	2017	Change	%	2018	2017	Change	%
Profit for the period from continuing operations	20,390	7,733	12,657	-164%	34,353	19,821	14,532	73%
Add (less):								
Income tax expense	(7,259)	(5,162)	(2,097)	41%	(15,015)	(12,506)	(2,509)	20%
Interest income	383	359	24	7%	647	550	97	18%
Share of loss of associates	(633)	(2)	(631)	100%	(1,923)	(3)	(1,920)	100%
Share of profit (loss) of a joint venture	69	-	69	100%	(115)	-	(115)	100%
Share-based compensation	(862)	(1,092)	230	100%	(862)	(1,092)	230	100%
Depreciation and amortization	4,425	4,025	400	10%	7,793	8,159	(366)	-4%
Finance costs	(1,432)	(1,597)	165	-10%	(2,807)	(3,318)	511	-15%
Fair value gain on put option liability	14,485	-	14,485		14,485	-	14,485	
EBITDA from continuing operations	**11,214**	**11,202**	**12**	**0%**	**32,150**	**28,031**	**4,119**	**15%**

Adjusted working capital

Adjusted working capital is calculated as current assets less adjusted current liabilities. Adjusted current liabilities is calculated as current liabilities, excluding contract liability which represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

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.

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

In RMB thousands		
As at	**30-Jun-18**	**31-Dec-17**
Current assets	180,251	321,173
Less: Current liabilities	221,280	363,685
Working capital (deficit)	(41,029)	(42,512)
Add: Receipts in advance from customers	-	82,631
Short-term bank loans	29,931	49,760
Receipts in advance from disposal of subsidiary	-	30,847
Contract liabilities (note 1)	111,830	-
Adjusted working capital	**100,732**	**120,726**

Note 1: Contract liabilities include receipts in advance from customers in respects of natural gas pipeline installation and connections contracts and natural gas sales.

Principal accounting policies

Application of new and amendments to IFRSs

The Group has applied, for the first time, the following new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after January 1, 2018 for the preparation of the Group's condensed consolidated financial statements:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014 - 2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application, January 1, 2018. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at January 1, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations. At the date of initial application, there is no difference recognized in the opening retained profits and no comparative information has been restated.

IFRS 15 introduces a 5-step approach when recognizing revenue:

- 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 Group satisfies a performance obligation.

Under IFRS 15, the Group 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met.

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group recognizes revenue from the following major sources:

- natural gas pipeline installation and connection services
- natural gas supply
- CNG vehicle refueling stations

(a) Revenue from natural gas pipeline installation and connection services

Recognition

The Group provides natural gas pipeline installation and connection services under contracts with customers. Such contracts are entered into before the contracting services begin.

Under the terms of the contracts, the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Revenue from natural gas pipeline connection is therefore recognized over time using input method.

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognize revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

The management of the Company consider that input method would faithfully depict the Group's performance towards complete satisfaction of the performance obligation under IFRS 15.

(b) Revenue from natural gas supply

Recognition

The Group supplies gas to residential, commercial and industrial consumers in the PRC. Revenue from natural gas supply is recognized at a point in the time when the customers consume the natural gas.

(c) Revenue from CNG vehicle refuelling stations

Recognition

The Group operates two natural gas refuelling stations in Sanya City, Hainan Province and Changsha City, Hunan Province, respectively. Revenue from CNG vehicle refuelling stations is recognized at a point of time when the gas refuels to customer's vehicle.

Summary of effects arising from initial application of IFRS 15

The initial application of IFRS 15 on January 1, 2018 has no material impact on the condensed consolidated statements of profit or loss and other comprehensive income of the Group with regards to the revenue recognition.

The following adjustments were made to the amounts recognized in the condensed consolidated statement of financial position at January 1, 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at December 31, 2017	Reclassifications	Carrying amounts under IFRS 15 at January 1, 2018
		RMB'000	RMB'000	RMB'000
Current Assets				
Amounts due from customers for contract works	a	18,575	(18,575)	-
Contract assets	a	-	18,575	18,575
Current liabilities				
Amounts due to customers for contract works	a	33,377	(33,377)	-
Contract liabilities	a	-	116,008	116,008
Receipts in advance from customer	b	82,631	(82,631)	-

Note a: In relation to natural gas pipeline installation and connection construction contracts previously accounted under IAS 11, the Group continues to apply input method in estimating the performance obligations satisfied up to date of initial application of IFRS 15. RMB18,575,000 and RMB33,377,000 of amounts due from/to customers for contract works were reclassified to contract assets, trade receivables and contract liabilities respectively.

Note b: At as January 1, 2018, receipts in advances from customers of RMB 82,631,000 in respect of natural gas sales were reclassified to contract liabilities.

The following tables summarise the impacts of applying IFRS 15 on the Group's condensed consolidated statement of financial position as at June 30, 2018 and its condensed consolidated statement of profit or loss and other comprehensive income for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	As reported	Adjustment	Amounts without application of IFRS 15
	RMB'000	RMB'000	RMB'000
Current Assets			
Amounts due from customers for contract works	-	22,517	22,517
Contract assets	22,517	(22,517)	-
Current liabilities			
Amounts due to customers for contract works	-	44,540	44,540
Contract liabilities	111,830	(111,830)	-
Receipts in advance from customers	-	67,290	67,290

Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments

The Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and contract assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognized as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018. There is no difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 recognized, which are recognized in the opening retained profits and other components of equity.

Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Trade receivables and contract assets are arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognized financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The management of the Company reviewed and assessed the Group's financial assets as at January 1, 2018 based on the facts and circumstances that existed at that date. The application of IFRS 9 has had no material effect on classification and measurement of financial assets in these condensed consolidated interim financial statements.

Impairment under ECL model

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables, contract assets, other receivables, amounts due from related parties, pledged bank deposits and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

As at January 1, 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and contract assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9.

Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and contract assets. To measure the ECL, trade receivables and contract assets have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables are a reasonable approximation of the loss rates for the contract assets.

The management of the Company considers the impairment under ECL model of the Group's financial assets has no material impact on credit loss allowance of recognized against the retained profits as at January 1, 2018.

Related Parties Transactions

Amounts due from (to) related parties

Name of related parties	Relationship	Terms	June 30, 2018 RMB'000	December 31, 2017 RMB'000
Xiangtan Shin-Ko Energy Co., Ltd	Associate	Non-trade, unsecured, non-interest bearing and repayable on demand	(4,249)	(4,249)
Pingxiang CF (note)	Associate	Non-trade, unsecured and interest-bearing	12,612	-
EDF CF	Joint venture	Non-trade, unsecured, non-interest bearing and repayable on demand	407	2,765
Mr. Lin Huajun	Ultimate controlling shareholder	Non-trade, unsecured, non-interest bearing and repayable on demand	(172)	(109)

Note: The balance represents the loan to Pingxiang CF with 4.35% interest bearing since 2012. As at June 30, 2018, Pingxiang CF has been classified as an associate to the Group upon the completion of disposal and the loan to Pingxiang CF is no longer being eliminated. The management of the Company excepts that the loan will be repaid beyond 12 months and therefore the amount is classified as non-current assets.