天伦燃气
TIANLUN GAS

ANNUAL REPORT 2013


# China Tian Lun Gas Holdings Limited
# 中國天倫燃氣控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 01600

WE ARE HERE
TO PROVIDE

# CLEAN ENERGY

# CONTENTS

# COMPANY PROFILE

## BOARD OF DIRECTORS

### Executive Directors

Mr. Zhang Yingcen *(Chairman)*
Mr. Xian Zhenyuan
Mr. Hu Xiaoming
Mr. Feng Yi
Mr. Sun Heng
Ms. Li Tao

### Independent Non-executive Directors

Mr. Cao Zhibin
Mr. Li Liuqing
Mr. Zhang Jiaming
Ms. Zhao Jun

## AUDIT COMMITTEE

Mr. Li Liuqing *(Chairman)*
Mr. Zhang Jiaming
Ms. Zhao Jun

## REMUNERATION COMMITTEE

Ms. Zhao Jun *(Chairperson)*
Mr. Zhang Yingcen
Mr. Zhang Jiaming

## NOMINATION COMMITTEE

Mr. Zhang Yingcen *(Chairman)*
Ms. Zhao Jun
Mr. Zhang Jiaming

## AUTHORIZED REPRESENTATIVES

Mr. Feng Yi
Mr. Hung, Man Yuk Dicson

## COMPANY SECRETARY

Mr. Hung, Man Yuk Dicson *FCCA, HKICPA*

## HEAD OFFICE IN THE PRC

4th Floor,
Tian Lun Group Building,
No.6 Huang He East Road,
Zheng Dong Xin District,
Zhengzhou City,
Henan Province, the PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1603, 16th Floor
100 Queen's Road Central
Central
Hong Kong

## REGISTERED OFFICE

Clifton House
75 Fort Street
PO Box 1350
Grand Cayman
KY1-1108
Cayman Islands

# COMPANY PROFILE

## CAYMAN ISLANDS SHARE TRANSFER OFFICE

Appleby Trust (Cayman) Ltd
Clifton House
75 Fort Street
PO Box 1350
Grand Cayman
KY1-1108
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716,
17th Floor,
Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong

## AUDITOR

PricewaterhouseCoopers
22nd Floor,
Prince's Building,
Central, Hong Kong

## LEGAL ADVISER AS TO HONG KONG LAWS

Loong & Yeung
Suites 2001-2005,
20th Floor,
Jardine House,
1 Connaught Place,
Central, Hong Kong

## PRINCIPAL BANKERS

China Construction Bank Corporation
Bank of China Limited
The Hongkong and Shanghai Banking Corporation Limited

## STOCK CODE

01600

## INVESTOR RELATIONS

| | |
|---|---|
| Telephone: | 86 371 6370 7151 |
| Fax: | 86 371 6397 9930 |
| E-mail: | ir@tianlungas.com |
| Website: | www.tianlungas.com |
| Address: | Department of Investor Relations,<br>4th Floor, Tian Lun Group Building,<br>No.6 Huang He East Road,<br>Zheng Dong Xin District,<br>Zhengzhou City, Henan Province,<br>the PRC |
| Zip Code: | 450003 |

# BUSINESS REGIONS

Urban Gas Project ● Transportation Gas Project ● Gas Source Base ●

## Henan

| | Urban Gas Project | Transportation Gas Project | Gas Source Base |
|---|---|---|---|
| Hebi City | ● | ● | ● |
| Shilin Industrial Assemble Zone | ● | | |
| Heqi Industrial Assemble Zone | ● | | |
| Xuchang City | ● | ● | ● |
| New District in Xuchang | ● | | |
| Shangjie District in Zhengzhou City | ● | ● | ● |
| High-tech District in Puyang City | ● | | |
| Shangqiu City | | ● | |
| Minquan County | ● | ● | |
| Yucheng County | ● | | |
| Song County | ● | ● | |
| Xinye County | ● | ● | |
| Weishi County | ● | ● | |
| Three Industrial Parks in Weishi County | ● | | |
| Lankao County | ● | ● | ● |
| Luoyang City | | | ● |

## Jilin

| | Urban Gas Project | Transportation Gas Project | Gas Source Base |
|---|---|---|---|
| Dunhua City | ● | | |
| Panshi City | ● | ● | |
| Da'an City | ● | ● | ● |
| Jiutai City | ● | ● | ● |
| Baicheng City | | ● | |
| Tongyu County | ● | ● | |
| Zhenlai County | ● | ● | |
| Nong'an County | ● | | |
| Shuangyang District | | ● | ● |
| Changchun Airport Economic Zone | ● | | |
| Yitong Manchu Autonomous County | ● | | |
| Changling County | | | ● |

## Yunnan

| | Urban Gas Project | Transportation Gas Project | Gas Source Base |
|---|---|---|---|
| Huize County | ● | | |
| Gejiu City | ● | | |
| Guangnan County | ● | | |
| Yanshan County | ● | | |
| Ludian County | ● | | |
| Honghe Prefecture | ● | | |
| Hekou County | ● | | |

## Shandong

| | Urban Gas Project | Transportation Gas Project | Gas Source Base |
|---|---|---|---|
| Cao County | ● | | |
| Shan County | ● | | |
| Gaoxin District in Heze City | ● | | |
| Dongming County | ● | | |

## Guangxi

| | Urban Gas Project | Transportation Gas Project | Gas Source Base |
|---|---|---|---|
| Luzhai County | ● | | |
| Guanyang County | ● | | |

## Gansu

| | Urban Gas Project | Transportation Gas Project | Gas Source Base |
|---|---|---|---|
| Baiyin City | ● | ● | |
| Jingtaizheng Road Industy Park | ● | | |
| Gulang County | ● | ● | |

## Hunan

| | Urban Gas Project | Transportation Gas Project | Gas Source Base |
|---|---|---|---|
| Dongkou County | ● | ● | |

## Chongqing

| | Urban Gas Project | Transportation Gas Project | Gas Source Base |
|---|---|---|---|
| Kai County | | | ● |

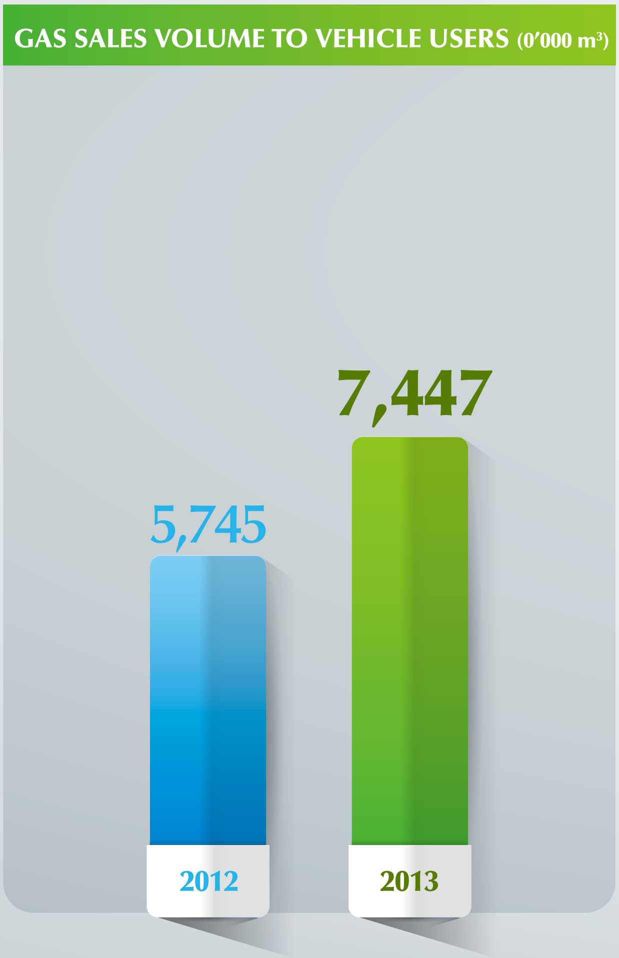
## Hebei

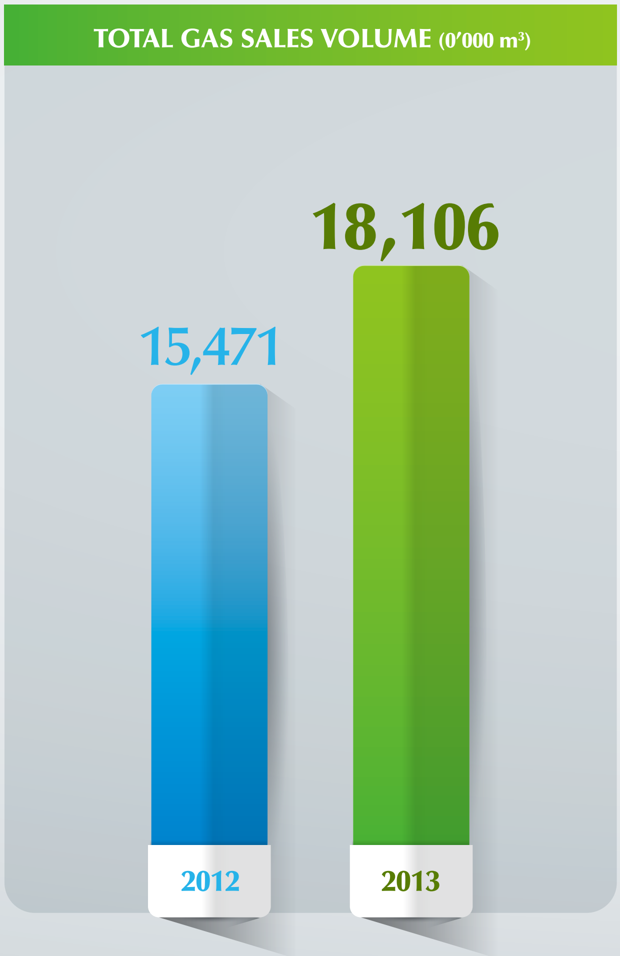
| | Urban Gas Project | Transportation Gas Project | Gas Source Base |
|---|---|---|---|
| Xingtai City | | ● | |

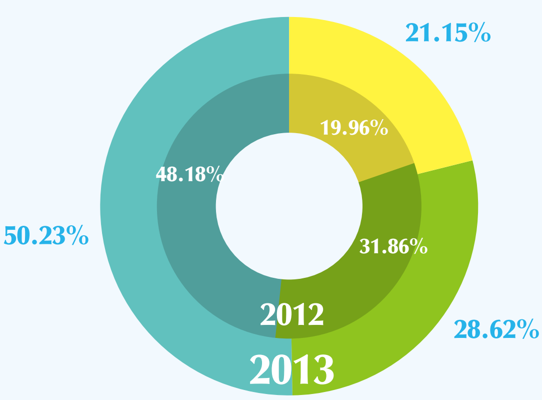
## Guangdong

| | Urban Gas Project | Transportation Gas Project | Gas Source Base |
|---|---|---|---|
| Ceramic Industrial Park in Chaozhou City | ● | | |

# OPERATION



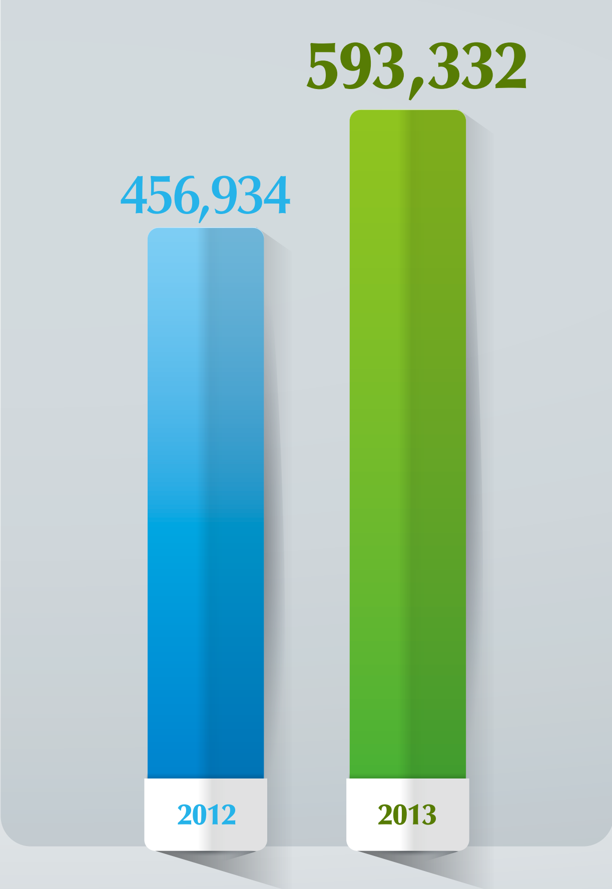




## STRUCTURE OF REVENUE FROM GAS SALES

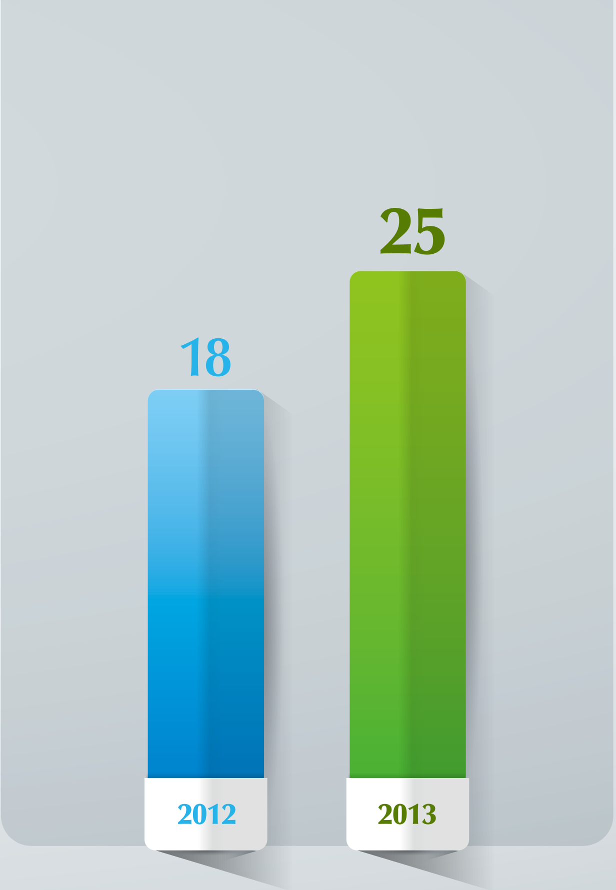
During the year, the revenue from gas sales of the Group to residential users, commercial and industrial users and vehicle users accounted for approximately 21.15%, 28.62% and 50.23% of total revenue from gas sales, respectively. The revenue from gas sales to vehicle users of the Group accounted for approximately 50.23% of total revenue from gas sales in 2013, increasing from approximately 41.90% in 2011 and approximately 48.18% in 2012, representing a compound annual growth rate (CAGR) of approximately 59.99%.

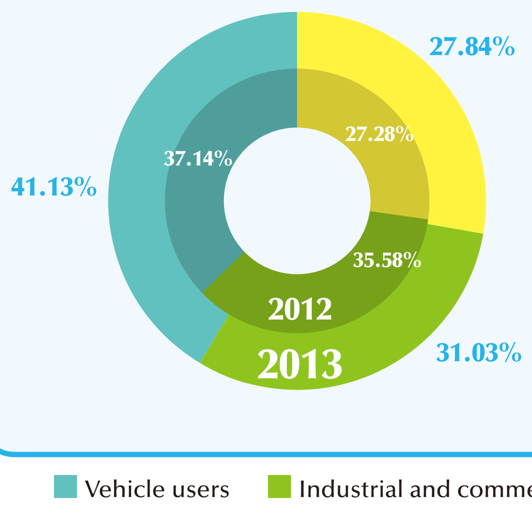
Vehicle users   Industrial and commercial users   Residential users

## AGGREGATE RESIDENTIAL USERS




## NUMBER OF GAS REFILLING STATIONS

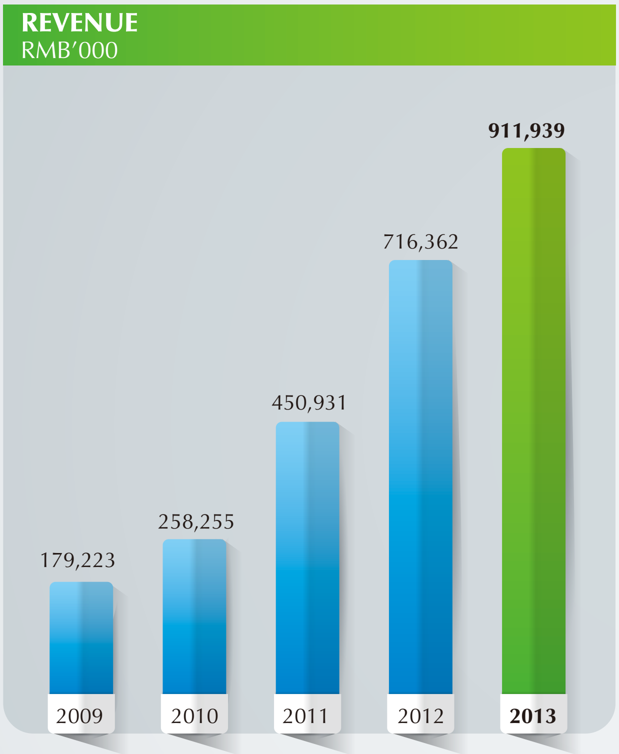


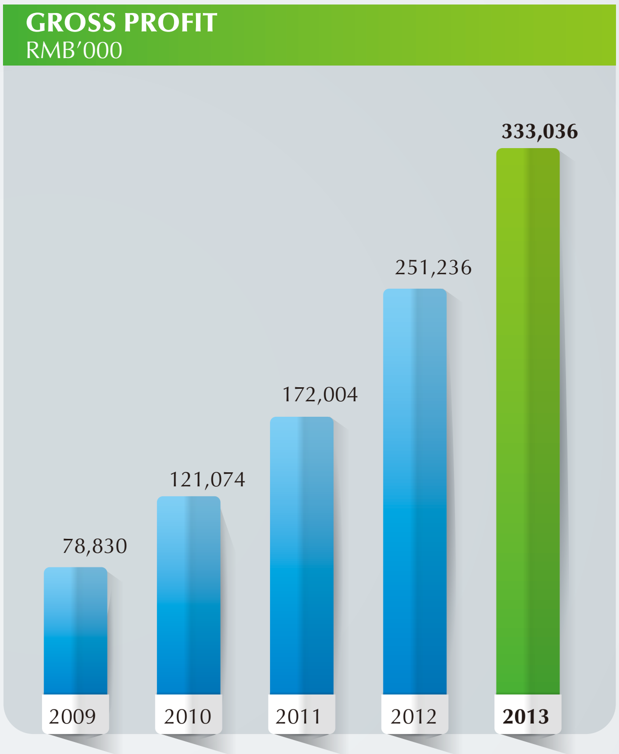



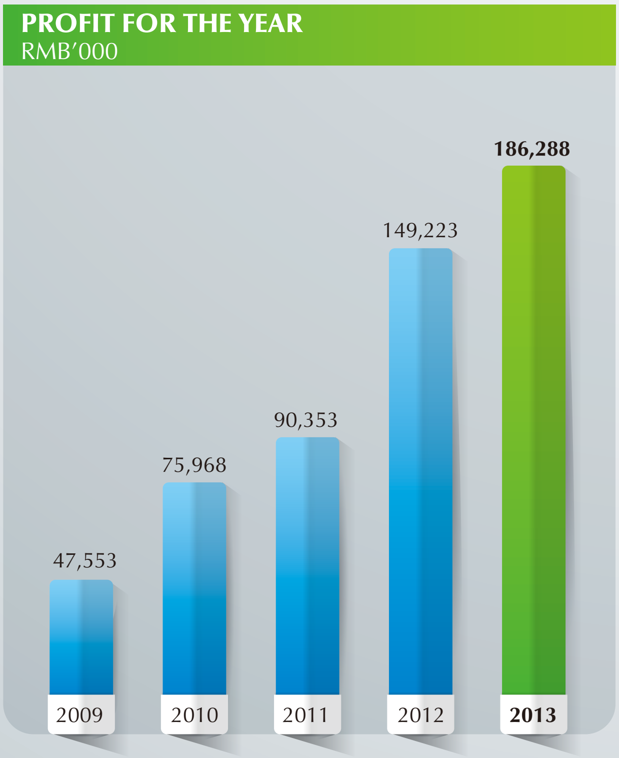

## GAS SALES STRUCTURE

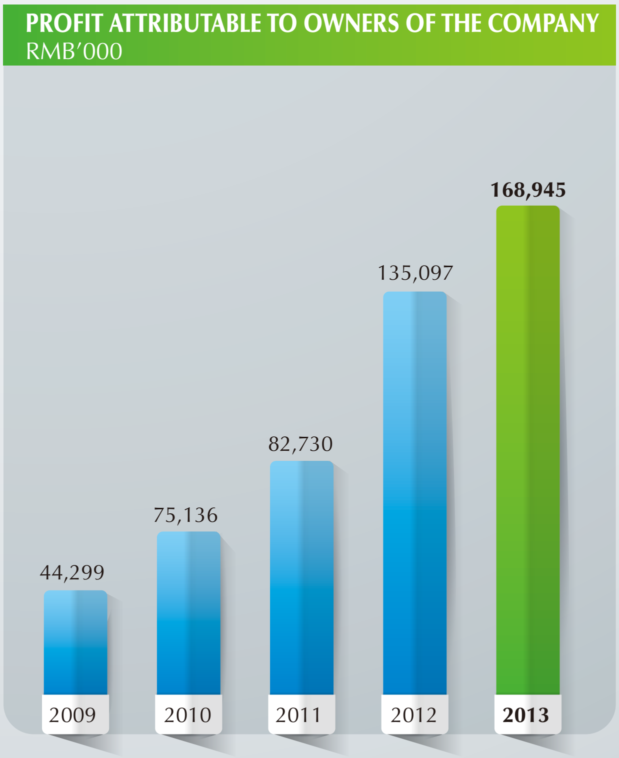
During the year, the volume of gas of the Group sold to residential users, commercial and industrial users and vehicle users accounted for approximately 27.84%, 31.03% and 41.13% of total gas sales, respectively. The gas sales to vehicle users of the Group accounted for approximately 41.13% of total gas sales in 2013, increasing from approximately 30.62% in 2011 and approximately 37.14% in 2012, representing a CAGR of approximately 51.91%.

# FINANCE

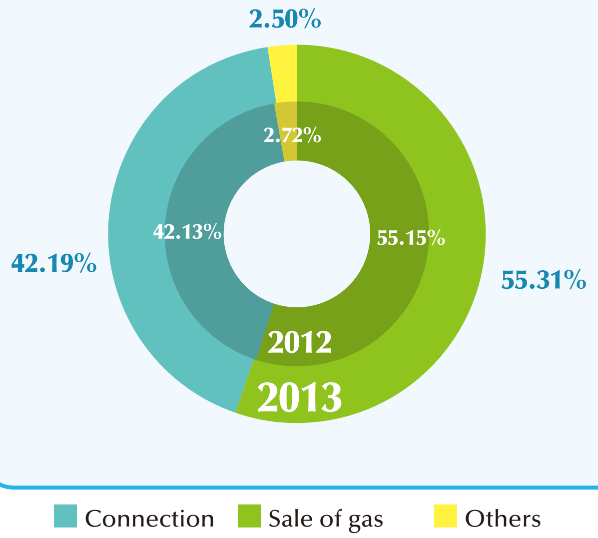

REVENUE
RMB'000
179,223
258,255
450,931
716,362
911,939
2009
2010
2011
2012
2013


GROSS PROFIT
RMB'000
78,830
121,074
172,004
251,236
333,036
2009
2010
2011
2012
2013


PROFIT FOR THE YEAR
RMB'000
47,553
75,968
90,353
149,223
186,288
2009
2010
2011
2012
2013


PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY
RMB'000
44,299
75,136
82,730
135,097
168,945
2009
2010
2011
2012
2013

| | 2012 RMB'000 | **2013 RMB'000** |
|---|---|---|
| **Revenue and profit** | | |
| Revenue | 716,362 | **911,939** |
| Profit before income tax | 202,933 | **246,152** |
| Income tax expense | 53,710 | **59,864** |
| Profit for the year | 149,223 | **186,288** |
| **Assets and liabilities** | | |
| Non-current assets | 1,043,067 | **1,474,948** |
| Current assets | 978,900 | **1,152,440** |
| Non-current liabilities | 209,226 | **845,099** |
| Current liabilities | 916,475 | **691,893** |
| Cash and cash equivalents | 368,940 | **576,402** |
| **Equity** | | |
| Share capital | 7,077 | **7,077** |
| Share premium | 454,188 | **454,188** |
| Equity attributable to owners of the Company | 751,211 | **919,968** |
| Non-controlling interests | 145,055 | **170,428** |
| Total equity | 896,266 | **1,090,396** |
| Earnings per share - basic and diluted | 0.16 | **0.20** |




## REVENUE STRUCTURE

During the year, the revenue from gas pipeline connections operation, transportation and sales of gas operation and other operation of the Group accounted for approximately 42.19%, 55.31% and 2.50% of total revenue, respectively. The revenue from transportation and sales of gas operation increased by approximately 27.65%, accounting for approximately 55.31% of total revenue in 2013, in comparison with approximately 55.15% in 2012.

# CHAIRMAN'S STATEMENT

**With the arrival of a golden era for the natural gas industry to boost China's sustainable economic growth, the Group has made remarkable achievements and new breakthroughs in its various undertakings by making concerted efforts to reinforce its capability and conduct reforms and innovations in 2013. With sustained efficient operation, the Group's results of operation recorded steady growth and its presence continued to expand.**

**Zhang Yingcen**, Chairman

# CHAIRMAN'S STATEMENT

## ANNUAL RESULTS

With years of rapid growth, the Group has transformed itself from a regional company with its foothold in Henan to a large corporation of being based in Henan and spreading to the whole China. The operation regions have been extended from Central China to the key regions such as Northeast China, Northwest China, Southwest China and Southern China. The Group achieved outstanding performance in its operation, development and management. As the Group's overall performance continued to grow and it expanded the network, a new model for cooperation and development was established. Through internal cultivation and selection, the potential of employees were realized. The formalization of the Group's management and control system continued to drive strategic upgrades and in turn facilitates the Group to move towards its strategic development goal in the future.

During the year, with the dedication of the entire staff of the Group, the Company continued to record growth in its operating results. Revenue amounted to approximately RMB911,939,000, representing an increase of 27.30% as compared with the corresponding period in 2012. Profit attributable to owners of the Company amounted to RMB168,945,000, representing an increase of approximately 25.05% as compared with the corresponding period in 2012. The gross profit margin of the Group reached approximately 36.52% in 2013, which was mainly due to the stable growth in the sale of gases of the Group and the increase in the proportion of CNG business which was of higher profit margin. In 2013, the number of new pipeline connections to residential users was 136,398 users, representing an increase of approximately 30.11% as compared with the corresponding period in 2012. As at the end of 2013, the accumulated number of users of various types was 596,421 users.

## CORPORATE MANAGEMENT

Various modules and systems of the Group have been initially formulated and its system and process continued to improve. Management functions of the Group were refined to clarify and improve the relationship between the upper level and the lower level, which had helped to effectively prevent risks and increase operational efficiency. The Group kept a close eye on the progress of its key projects, and the effectiveness of the implementation capability of the Group increased. Through in-depth on-site research of enterprises and consolidating the management experience of industry-leading enterprises, a standardized operational and management model has been amended and is being promoted and duplicated in members the Group. The integrated operation model of the Group is stepping into the right track.

At the same time, an internal talent cultivation model for the Group has been gradually established. The Group provided large-scale trainings on many areas involving market, technology, management, finance and culture throughout the year, through which the expertise of its employees significantly increased. Through position competition and back-up manager training camp, a large number of young talents were identified which had substantially improved the Group's talent reserve. Furthermore, the continuous improvement of the performance assessment mechanism had enabled the connection of the value of position to the market. The special promotion of new employees and the routine remuneration adjustment mechanism, had further stabilized its workforce and motivated and encouraged them.

Adhering to the principle of "develop and enjoy Tian Lun together", the Group considers excellent corporate system as one of its core competitive edges for corporate development. It has further improved its operation management to create a special operation management model with "a mechanism of efficient decision-making, strong execution, flexible operation and exceptional distribution".

# CHAIRMAN'S STATEMENT

## COMPANY AWARDS

On 7 January 2014, Forbes' Chinese edition published the list of "Enterprises with Most Potential in the PRC" for 2014. Among the top 100 listed companies with great potential in the PRC, Tian Lun Gas was the only natural gas industry player, and was included in the list for the second time following 2012, with its ranking rising to No. 26 from No. 40. The obtaining of such award again and further improvement in its ranking has demonstrated the recognition of the Company's growth potential.

## OUTLOOK OF 2014

With the arrival of a golden era for the natural gas industry to boost China's sustainable economic growth, the Group has made remarkable achievements and new breakthroughs in its various undertakings by making concerted efforts to reinforce its capability and conduct reforms and innovations in 2013. With sustained efficient operation, the Group's results of operation recorded steady growth and its presence continued to expand.

Looking ahead in 2014, there will be both opportunities and challenges. From a global perspective, the world's economy has been picking up and has shown a positive prospect in general, and major economies have started to stabilize and recover. The economy of Europe and the United States started to step out of the shadow of recession and Asia maintained positive momentum. In China, as "China Dream" is on the way, comprehensive reform will start a new journey of growth. A series of macroeconomic control policies for the purpose of "ensuring steady growth, adjusting economic structure, advancing reform, and benefiting the people" have released the "new bonus of reform" in various industries. As the progress of urbanization and industrialization continued to speed up and contributed to the rapid recovery of economy, China's macro-economy will enter into a new round of fast growth. As for the natural gas industry, new energy and energy-saving and environment protection industries have received strong government support as strategically important emerging industries. The PRC government is determined to accelerate the cleaning and utilization of energy with high consumption and pollution, phase out obsolete production capacity and improve the utilization rate of clean energy in high energy-consumption industries, so as to guide and facilitate the transformation and upgrade of traditional industries, which will promote the continuous growth of natural gas consumption in the PRC. Further, the domestic production of natural gas gradually increased and the sources of gas supply became more diversified. The west pipeline No.2 and the China-Myanmar pipeline have been fully built and put into production while the construction of the west pipeline No.3 has commenced. As at the end of 2013, the total national pipeline length reached 60,000 kilometres, covering 28 provinces, municipalities and autonomous regions in the PRC. The extensive coverage of the pipeline network constitutes a long-term positive factor for the natural gas industry.

In 2014, the Group will continue to resolutely implement the development strategy of "alliance & cooperation, overall progress and quick victory" and the operational strategy of "increasing capacity and expanding gas sources", carry out various types of safeguards concerning "laying a solid foundation and improving efficiency", and endeavor to repay the shareholders with more excellent results.

## ACKNOWLEDGEMENT

On behalf of the board of directors of the Company, I would like to express my sincere gratitude to our staff members for their contributions in 2013, and extend my appreciation to the shareholders and investors for their support.

**Zhang Yingcen**
*Chairman*
31 March 2014


项目合作签约仪式


云南大通股权转让签约仪式


热烈祝贺天伦燃气集团首批后备经理人训练营圆满闭营

# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY REVIEW

### Structure and Development Trend of China Energy Industry

Accelerated urbanization and industrialization of the PRC and the continuous optimization of and adjustment to energy structure have become long-term positive factors favoring the development of the natural gas industry. The superior features of natural gas have enabled it to become one of the major source of energy for the development of China's low-carbon emission economy.

According to the preliminary audit under the Publication of Statistics of the National Economic and Social Development of the People's Republic of China for 2013 issued by the National Bureau of Statistics of China, the annual energy consumption in 2013 amounted to approximately 3,750 million tons of standard coal equivalent, representing an increase of approximately 3.7% as compared with 2012, among which the consumption of coal, crude oil and electricity increased by approximately 3.7%, 3.4% and 7.5%, respectively as compared with last year, while the growth of natural gas consumption was the fastest and increased by approximately 13.0% as compared with last year. China's energy consumption per unit of gross domestic product per RMB10,000 decreased by approximately 3.7% in 2013.

According to the 2013 Report on Development in the Foreign and Domestic Oil & Gas Industries issued by China National Petroleum Corporation Economics & Technology Research Institute, demand for clean energy contributed to the fast growth of natural gas consumption in the PRC. During the period from 2003 to 2012, the average annual growth rate of China's natural gas consumption was 17.4% and was the fastest among the top 10 natural gas consumption countries. The report estimates that China's demand for natural gas will continue to grow rapidly in 2014 and the apparent natural gas consumption is expected to increase 11% year-on-year to 186 billion $m^3$, accounting for 6.3% of the primary energy consumption.

The Twelfth Five-Year Plan for Energy Development issued by the State Council on 1 January 2013 states that China targets that by 2015, natural gas consumption as a percentage of the primary energy consumption shall increase to 7.5%; the number of urban and rural natural gas user population shall reach 250 million and natural gas production capacity shall reach 156.5 billion $m^3$. It also aims to actively develop distributed energy resources and strengthen the construction of natural gas pipeline network. During the Twelfth Five-Year period, 44,000 kilometres of new natural gas pipelines will be constructed and the receiving capability of liquefied natural gas in coastal areas will increase by over 50 million tons.

As the penetration rate of natural gas continues to increase in China's urban gas field and the pace of replacement of traditional energy with natural gas in industrial, transportation and energy sectors accelerates, there are promising prospects for the development of natural gas market in the future.

### The Policy On Natural Gas Utilization in the PRC

The Action Plan on Prevention and Treatment of Air Pollution (《大氣污染防治行動計劃》) issued by the State Council on 10 September 2013 specifies that, after five years of hard effort, the air quality in China has improved in general and the number of days of serious air pollution has decreased significantly. It strives to gradually eliminate serious air pollution to greatly improve national air quality within another five or more years. In particular, by 2017 the concentration of inhalable particles in cities at prefecture level and above in the PRC shall decrease by more than 10% as compared to 2012 and the number of days of good air quality shall increase every year.

In order to achieve the goals above, a series of specific measures have been introduced in the plan, which include, among other things, comprehensive rectification of small coal-fired furnaces, acceleration of the elimination of heavy polluting yellow label vehicles and old vehicles, strengthening the development of public transportation, and promotion of new energy vehicles. The supply of natural gas, substitute natural gas and coal bed methane will be increased. By 2015, the transmission capacity

# MANAGEMENT DISCUSSION AND ANALYSIS

of new main natural gas pipelines shall exceed 150 billion cubic metres, covering Beijing, Tianjin, Hebei, Yangtze River Delta and Pearl River Delta. The utilization methods of natural gas shall be optimized, and priority shall be given to resident uses or replacement of coal in new natural gas supply. Projects with efficient energy uses such as distributed natural gas shall be encouraged, and the development of natural gas chemical projects shall be restricted. The government will formulate a substitute natural gas development plan to accelerate the industrialization and scale production of substitute natural gas while complying with the strictest environment protection standards and ensuring water supply. The replacement of coal-fired facilities with natural gas-fired ones for the existing industrial enterprises in Beijing, Tianjin, Hebei, Yangtze River Delta and Pearl River Delta shall speed up. By 2017, the natural gas replacement works for coal-fired boilers, industrial furnaces and self-supply coal-fired power plants shall be substantially completed. The area where use of high-pollution fuels is prohibited shall be expanded gradually from the existing urban area to suburbs. In light of the renovation of urban villages, suburbs and their adjacent rural areas, and shanty towns and through policy compensation and the introduction of measures such as separate tariff for peak and valley hours, seasonal tariff pricing, progressive tariff pricing, and pitch-peak tariff, use of coal shall be gradually replaced by natural gas or electricity. Local people's governments shall enhance their policy support to for "coal-to-gas upgrade" projects involving people's livelihood, phasing-out of yellow label vehicles and old vehicles, replacement of low-speed goods vehicles with light goods vehicles, and shall provide guiding finance support to clean production demonstration projects in key industries.

On 5 March 2014, Premier Li Keqiang delivered the government work report at the second meeting of the twelfth session of the National People's Congress. The report states that the construction of ecological civilization is vital for people's lives and the future of the nation. Hazy weather is affecting larger parts of China and environmental pollution has become a major problem, which is nature's red-light warning against the extensive model of development. The government must strengthen protection of the ecological environment and take forceful measures to complete this challenging task. In 2014, the government will take strong measures to strengthen pollution prevention and control, which mainly include the shutting down of 50,000 small coal-fired furnaces and the promotion of new energy vehicles. It will strengthen energy conservation and emissions reduction, and impose a ceiling on total energy consumption. In 2014, it aims to cut energy intensity by more than 3.9%, and the emissions of sulfur dioxide and chemical oxygen demand will both be reduced by 2%. It will strengthen exploration, exploitation and utilization of natural gas, coal seam gas and shale gas.

As hazy weather and air pollution treatment draw growing attention, the introduction of environment protection policies will undoubtedly promote the rapid development of China's natural gas industry and have a positive effect on the change of the overall energy structure in China.

## BUSINESS REVIEW

During the year ended 31 December 2013, the Group continued to actively seek opportunities to expand its business presence by continuing to increase investment in transportation gas projects and gas source bases. As the subsidiaries of the Company strengthened their efforts into developing local gas markets, the number of users for gas distribution and sales significantly increased.

### Development of New Projects

During the year ended 31 December 2013, the Group has obtained a total of another 14 urban gas projects and 2 gas source base projects. 4 projects were obtained through concession agreements with local governments, namely three industrial parks in Weishi County of Kaifeng City in Henan Province, Airport Economic Zone of Changchun City and Yitong Manchu Autonomous County ("Yitong") in Jilin Province, and Guanyang County in Guangxi Zhuang Autonomous Region ("Guangxi"); 10 projects were obtained through mergers and acquisitions, namely Huize County, Gejiu City, Guangnan County, Yanshan County, Ludian County, Honghe Prefecture and Hekou County in

# MANAGEMENT DISCUSSION AND ANALYSIS

Yunnan Province, Gaoxin District and Dongming County of Heze City in Shandong Province, and Ceramic Industrial Park in Chaozhou City of Guangdong Province; a coke oven gas-produced liquefied natural gas ("LNG") source base project in Luoyang City of Henan Province and a gas source base project in Changling County of Jilin Province were obtained through joint venture.

## Urban gas projects of Gangwei New District, Xinwei Industrial Park and Weibei Technology and Food Industrial Park in Weishi County, Kaifeng City, Henan Province

On 28 April 2013, Henan Tian Lun Gas Group Limited (河南天倫燃氣集團有限公司) ("Henan Tian Lun") and the People's Government of Weishi County, Henan Province entered into a pipeline gas concession agreement and a strategic cooperation agreement on comprehensive utilization of natural gas, pursuant to which Henan Tian Lun obtained the urban gas exclusive operation rights and the exclusive operation rights of vehicle-use gas in Gangwei New District, Xinwei Industrial Park and Weibei Technology and Food Industrial Park in Weishi County of Henan Province.

With strategically advantageous locations, Gangwei New District, Xinwei Industrial Park and Weibei Technology and Food Industrial Park in Weishi County will be built into a high-standard industrial park focusing on production and processing of furniture and comprehensive and auxiliary processing of electronic products. They are the core area for undertaking industrial transfer and the development of the central plains economic zone of Henan Province. They serve as a bridge and link for the development of an airport district in Weishi County and the development of employment base, manufacturing base, ecological base and service base in Zhengbian New District. Meanwhile, Gangwei New District is in close proximity to Zhengzhou airport economic comprehensive experimental zone, the first airport economic development zone in the PRC, which will bring valuable development opportunities to the utilization of natural gas in Gangwei New District. The acquisition of the three industrial park gas projects in Weishi County has expanded the regional coverage of the Group's concession operation in Weishi County.

## Urban gas project in the Airport Economic Zone of Changchun City, Jilin Province

On 28 August 2013, Henan Tian Lun entered into an urban gas concession agreement with the Management Committee of Changchun Airport Economic Zone, pursuant to which Henan Tian Lun obtained the pipeline gas exclusive operation rights in Changchun Airport Economic Zone for a term of 30 years.

Located in a core area covered by three major development strategies, being "Changchun-Jilin-Tumenjiang" "Changchun-Jilin Integration" and "Changdongbei" and along the transportation and economic corridor between two megacities, Changchun City and Jilin City, Changchun Airport Economic Zone is only three kilometres away from the Longjia Airport. Within the area, Changchun-Tumenjiang Railway, Changchun-Jilin North Section, and Airport Expressway (under construction), Changchun-Jilin Intercity Railway, Changchun-Jilin Expressway, Changshi Road and Jiuwan Road constitute a three-dimensional transportation network of "six horizontal lines, three vertical lines and one overhead line" which enjoys great location advantage. Meanwhile, Changchun Airport Economic Zone is a province-level economic development zone and enjoys various favorable policies. In the future, the zone is planned to become an ecological new town focusing on the development of airport-related industries supported by headquarters economy, airport logistics and tourism complex and will comprise five major functional areas, being leisure and tourism resort, high-end commercial and residential properties, culture and innovation industry park, administrative, educational and headquarters economy zone, and modern commercial services and commercial and residential area. The acquisition of the operation right in Changchun Airport Economic Zone will further expand the market share of the Group in the northeastern gas market.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Urban gas project of Guanyang County, Guangxi

On 29 September 2013, Henan Tian Lun entered into an urban pipeline gas concession agreement with the People's Government of Guanyang County, Guangxi Autonomous Region ("Guangxi"), pursuant to which Henan Tian Lun obtained the gas exclusive operation rights in Guanyang County, Guangxi for a term of 30 years. The scope of exclusive operation includes urban pipeline gas and gas refilling stations, etc.

Situated in the northeastern part of Guilin, Guanyang County has Quanzhou to the north, Gongcheng to the south, Xing'an and Lingzhou to the west, and Dao County and Jiangyon County of Hunan Province to the east, and enjoys convenient transportation access. Meanwhile, the Jiangdong New Zone project of Guanyang County, Guangxi, which commenced construction in June 2012, will become an administrative centre, residential community and commercial centre as well as a modern ecological new town comprising administrative, culture, commercial, leisure, commercial and residential functions. There will be broad prospects for development of residential, industrial and commercial users in the area in the future.

## Urban gas project in Yitong Manchu Autonomous County, Jilin Province

On 18 October 2013, Henan Tian Lun entered into a pipeline gas concession agreement with the People's Government of Yitong Manchu Autonomous County of Jilin Province, pursuant to which Henan Tian Lun obtained the pipeline gas exclusive operation rights in Yitong Manchu Autonomous County of Jilin Province for a term of 30 years.

Located in south-central Jilin Province, Yitong Manchu Autonomous County has Shuangyang District, Changchun City to the east, Gongzhuling City to the west, Dongyuan, Dongfeng and Panshi cities to the south and Changchun City to the north, and enjoys a significant location advantage. Yitong County is one of the national top 100 commodity grain producing counties and has rich mining and tourism resources. The Group believes that its obtaining of the exclusive operation project in Yitong Manchu Autonomous County will further enhance the synergies of its existing urban gas projects in northeastern China, expand its scale of operation and bring economic benefits.

## Seven urban gas projects in Yunnan Province

On 25 August 2013, Henan Tian Lun entered into an equity transfer agreement with the then shareholders of Yunnan Datong Natural Gas Limited (雲南大通天燃氣有限公司) ("Yunnan Datong") in relation to the acquisition of 100% equity interest of Yunnan Datong, pursuant to which Henan Tian Lun obtained seven urban gas projects owned by Yunnan Datong.

The seven projects of Yunnan Datong are located in various areas in eastern Yunnan Province, including Huize, Gejiu, Guangnan, Yanshan, Ludian ,Honghe and Hekou, respectively. As a private gas enterprise with a large number of projects and large capacity of gas production, Yunnan Datong occupies an important position and has strong influence in the emerging natural gas market of Yunnan Province. The acquisition of the entire equity interest in Yunnan Datong has enabled the Group to expand its business into the majority area of Yunnan Province and significantly improved the Group's influence in southwestern China. Such has great importance to the Group's facilitation of its strategic planning in southwestern China by laying a solid foundation for the Group's development in the natural gas market in southwestern China.

## Urban gas project in Gaoxin District of Heze City, Shandong Province

On 11 December 2013, Henan Tian Lun entered into an equity transfer agreement with the then shareholder of Heze Guanghe Natural Gas Company Limited (菏澤市廣荷天然氣有限公司) ("Guanghe Gas") in relation to the acquisition of 100% equity interest of Guanghe Gas, pursuant to which Henan Tian Lun obtained the pipeline gas exclusive operation rights in Gaoxin District of Heze City.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Heze-Dongming long-distance natural gas pipeline invested and constructed by Guanghe Gas formally commenced gas transmission in November 2013, with a designed gas transmission capacity of 300,000 $m^3$/day which effectively ensures the supply of natural gas in the area where Guanghe Gas operates. Within such area, especially in Gaoxin District where medicine, food and equipment manufacturing enterprises are concentrated, there is great potential for the industrial gas market. With the commencement of gas transmission by the long-distance natural gas pipeline which guarantees sufficient supply of natural gas, increasingly strict environment protection policies, gradual advancement of the "coal-to-gas upgrade" of local coal-fired boilers and good industrial foundation and unique advantages, there is enormous potential in the natural gas market in the area where Guanghe Gas operates, which will provide strong support for the Group to expand and consolidate gas markets in Shandong Province and its surrounding areas.

## Urban gas project of Dongming County, Shandong Province

On 12 December 2013, Henan Tian Lun entered into an equity transfer agreement with Dongming Wanji Natural Gas Industry Company Limited (東明萬吉天然氣實業有限公司) ("Wanji Gas") in relation to the acquisition of 80% equity interest of Wanji Gas, pursuant to which Henan Tian Lun obtained the pipeline gas exclusive operation rights in Dongming County and the industrial parks under its administration.

Dongming County was ranked among the top GDP districts in Heze City. With a large number of property projects and rapid growth of the urban population, there is great potential for the development of residential, industrial and commercial users. Situated in the hinterland of Zhongyuan Oil Field, Dongming County enjoys "preferential gas pricing for oil zone" and the low level of gas pricing brings strong profitability. The successful acquisition of the Wanji Gas project represented the Group's strategic planning in Shandong Province and will further increase its share of the natural gas market in Shandong Province.

## Gas project of the Ceramic Industrial Park in Chaozhou City

On 25 December 2013, Tian Lun New Energy Limited (天倫新能源有限公司) ("Tian Lun New Energy") , a wholly-owned subsidiary of the Company, entered into an equity transfer agreement (the "Equity Transfer Agreement") with the then shareholders of Wah Shing Century Limited ("Wah Shing Century"), pursuant to which Tian Lun New Energy acquired 100% equity interest of Wah Shing Century. Following the transaction, Tian Lun New Energy indirectly controlled Chaozhou Huamao Energy Distribution Company Limited (潮州市華茂能源配送有限公司) ("Huamao Energy") which was held as to 60% by Wah Shing Century and began to be engaged in the investment in and construction of natural gas pipelines and transmission and sale of natural gas in Fuyang Town, Longhu Town and Dongfeng Town of Chaozhou City. For details, please refer to the Company's announcement dated 27 December 2013.

Chaozhou is the largest production and exporting base of arts and crafts porcelains, daily-used porcelains and sanitary ware in the PRC. It is also one of the few regions in the PRC where LPG (liquefied petroleum gas) and LNG (liquefied natural gas) are heavily used. Currently, LPG is widely used among the ceramic industry users in Chaozhou, accounting for approximately one-sixth of the annual usage in Guangdong Province. Ceramic industry users prefer to use LNG which is cleaner, of superior quality and is more competitive in the market. With the gradual popularity of LNG in recent years, Chaozhou has become one of the top LNG users in the Pearl River Delta area in terms of annual usage. The end-user prices of natural gas in this area are determined by referring to those of LNG. This gives a relative price advantage over LPG, and better room for the gross margin of each unit of gas volume.

With the rapid development of Chaozhou ceramic industry, the ceramic industrial enterprises are gradually moving toward the south-east of Chaozhou (to the direction of Fuyang, Longhu and Dongfeng). With the current ceramic industry foundations in these three towns, there will be a lot of room for the growth of the natural gas market in ceramic production in this area in the future. Huamao

# MANAGEMENT DISCUSSION AND ANALYSIS

Energy has already installed most of the pipelines and facilities needed for natural gas in these three towns. The whole project is expected to be completed in the first half of 2014, at which time the supply of gas to end-users will begin. According to surveys and researches conducted by the Group with the current users of ceramic industry in the three towns, there are no less than 260 companies within the operating area of Huamao Energy. It is expected that gas consumption will reach 600,000 $m^3$/day for the current users of ceramic producers, and the potential market capacity will be over 1,000,000 $m^3$/day. It is expected that after Huamao Energy's gas supply and distribution is in operation, the supply will reach 300,000 $m^3$/day within two years, and exceed 400,000 $m^3$ within three years.

Successful precedent cases with similar business model have been found in other industrial park districts in Chaozhou. Through this acquisition, the Group will hold a controlling interest in Huamao Energy through Wah Shing Century. This is an opportunity for the Group not only to gain access to the natural gas market in the southern part of the PRC, but also provide a solid foundation for the rapid uplifting of natural gas production as well as a continuous and steady income in the sale of gas, and a good platform for the future natural gas business development in the southern part of the PRC.

## Coke Oven Gas-produced LNG Source Base Project of Luoyang City, Henan Province

On 30 December 2013, Henan Tian Lun entered into a co-operation agreement with Luoyang Rongtuo Coking Company Limited (洛陽榕拓焦化有限責任公司) ("Luoyang Rongtuo"), pursuant to which both parties formed a joint venture company for investing and operating a coke oven gas-produced LNG project in Luoyang city. The registered capital of the JV Company is RMB50,000,000, of which RMB40,000,000 would be contributed by Henan Tian Lun in cash, representing 80% of the shareholding interest of the JV Company. The JV Company will develop a coke oven gas-produced LNG project with daily production capacity of LNG of approximately 200,000 cubic metres. It is intended that Henan Tian Lun will underwrite the sale of the LNG produced by the JV Company. For details, please refer to the Company's announcement dated 30 December 2013.

## Gas source base project in Changling County, Jilin Province

On 4 December 2013, Henan Tian Lun established a joint venture in Changling County, Jilin Province with an independent third party. The joint venture has a registered capital of RMB10,000,000, of which RMB7,000,000 was contributed by Henan Tian Lun in cash, and it is held as to 70% by Henan Tian Lun. The joint venture intends to invest in a synthesis welding gas project in proximity to Songyuan Oilfield, Jilin Province. Its main products will be synthesis welding gas or LNG. It has a designed daily production capacity of 300,000 cubic metres of LNG, of which its phase one project has a designed daily production capacity of 100,000 cubic metres of LNG. Currently the project is undergoing planning and approval procedures.

## Investment in Bases of Gas Sources

The coke oven gas-produced LNG source base project with Luoyang Rongtuo was the first coke oven gas-produced LNG project of the Group and marked the entry of the Group into a new gas source area which was of great strategic importance to the Group. The operation of this project not only will expand the natural gas channels of the Group but also will more effectively secure the gas source supply to the Group's gas refilling stations in Henan Province and lower the gas procuring cost of the Group to a certain extent. In addition, apart from self-consumption, the remaining portion of LNG underwritten by the Group will be sold to external customers which will increase the Group's revenue from sale of gas. The construction of the project will commence in the first half of 2014, and it is expected to commence production in the fourth quarter of 2015.

The equipment tender and design of the LNG processing plant with an annual production capacity of 400 million cubic metres of LNG was completed in the Kai County (Chongqing) Industrial Park (70% equity of which is held by Henan Tian Lun). Its construction has commenced and is expected to be completed in the fourth quarter of 2015. Completion of this project will facilitate the business model of the Group to evolve from control of gas sources to development of transport gas projects and form a whole industrial chain.

# MANAGEMENT DISCUSSION AND ANALYSIS

Furthermore, early-stage preparations for the Group's gas source base project in Changling County, Jilin Province is progressing actively and the construction of the project is scheduled to commence during the first half of 2014.

## Investment in Gas Refilling Stations

As at 31 December 2013, the Group had 25 gas refilling stations in operation, and over 13 gas refilling stations under preparation are being constructed in total. The transport gas business has become one of the key development fields of the Group. The Group has established the transport gas division and several regional sub-divisions, formed an experienced professional team so as to make greater efforts to develop the transport gas projects.

## Gas Pipeline Connection Volume

During the year ended 31 December 2013, the Group connected a total of 136,398 residential users to gas pipelines, representing an increase of approximately 30.11% as compared with the corresponding period of last year. As at 31 December 2013, the number of the Group's residential users had increased to 593,332, representing an increase of approximately 29.85% as compared with the corresponding period of last year. The Group had connected a total of 622 users from industrial and commercial and other sectors to gas pipelines. As at 31 December 2013, the Group had a total of 3,089 industrial and commercial users, representing an increase of approximately 25.21% as compared with the corresponding period of last year. Through increasing the efforts on residential users development and actively promoting the development of industrial and commercial users and direct single users, the Group was able to maintain the growth of its gas pipeline connection volume during the year ended 31 December 2013, and safeguard the Group's continuous growth of gas sales volume and gas sales revenue in the future.

## Gas Sales Volume

During the year ended 31 December 2013, the Group sold a total of approximately 181,060,000 $m^3$ of gas, representing a substantial increase of approximately 26,350,000 $m^3$, or approximately 17.03%, as compared with the corresponding period of last year. Gas volume sold to residential users, industrial and commercial users and vehicle users accounted for approximately 27.84%, 31.03% and 41.13% of the total gas sales volume, respectively (the corresponding period of last year: approximately 27.28%, 35.58% and 37.14%, respectively).

The Group has placed transport gas operation, which has a higher gross profit, as the development focus in the future. As at 31 December 2013, the number of the Group's gas refilling stations which are in operation increased to 25. The gas sales volume to vehicle users as a percentage of the total gas sales volume of the Group increased from approximately 37.14% in 2012 to approximately 41.13% in 2013. The gas sales volume to vehicle users as a percentage of the total gas sales volume continued to rise, which will continue to promote the increase of the gross profit margin of the Group's gas sale operations.

As at 31 December 2013, the Group has entered into cooperative agreements with big industrial users in the regions in which it operates, such as the Aluminum Corporation of China Henan Branch project, the potassium permanganate project of Changyuan Chemical in Baiyin City, the Xuchang Tobacco Plant project and the Hebi Science and Education Park project of Foxcoon, in which Aluminum Corporation of China Henan Branch commenced to supply natural gas in 2013 with daily consumption of 50,000 cubic metres, and other industrial users which have signed the agreements will also start to use natural gas. In addition, the Group's gas project of the Ceramic Industrial Park in Chaozhou City will start to supply natural gas to local ceramic users in the first half of 2014. In 2014, gas sales volume from industrial users will significantly increase accordingly. With the commencement of operation of the newly-built refilling stations of the Group, the Group expects its gas sales to achieve relatively rapid growth in the future.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Customer Services

Adhering to the customer service slogan of "use Tian Lun gas to enjoy family happiness" the Group focuses on customer demand, continues to improve the quality of customer service and optimize system of customer service. Each project company within the Group continues to optimize its customer service process and has established service appraisal models to conduct overall assessment and analysis of customer service quality in three areas, being day-to-day appraisal, customer satisfaction survey and management review, so as to constantly strengthen the implementation of its good services standard. Detailed service commitments in respect of customer service hotline, installation application, replacement and pipe connection, gas supply, repair, safety examination and complaint acceptance have been established. Trainings on service protocol are provided to employees on a regular basis to ensure strict compliance with customer service rules. Each project company within the Group continues to expand its customer service channels, from traditional home services and outlet services to expand to multiple service forms such as telephone services and online services, which has helped to effectively improve customer service efficiency and customer satisfaction and strive to provide satisfactory services to customers.

## Safety and Risk Management

The Group attaches great importance to safe operation and management and has in place a strict safety management system and detailed implementation rules, as well as safety protection measures such as emergence response plans and gas volume protection measures. The Group has always been paying great attention to improving the staff's awareness of safety by strengthening safety education and trainings provided to the staff and establishing full-time and part-time safety supervisors in each member and department within the Group. With the aim of maintaining safe operation, all staff of the Group strictly adheres to its various management rules. 24-hour alert hotlines have been established in all members of the Group to ensure prompt handling of gas incidents. Gas use safety is monitored in real time through the SCADA system. The Group examines branch urban pipelines on a daily basis and conducts regular safety checks for industrial and commercial users on a weekly basis and for residential users on an annual basis to ensure gas use safety. The Group has also prepared guidelines on safe use of gas and provides free materials on safe use of gas to end users on a regular basis.

## Operation Management

The Group sticks to its unified, standardized and systematic principles in enterprise operation and management. During the year, a unified VI system and enterprise culture was promoted within the Group, from the headquarters to each project company, in order to further enhance the Group's corporate brand image and reinforce employees sense of cohesion. In addition, as the size and geographical coverage of the Group continue to expand, certain regional centers have been set up to improve the efficiency of management and decision-makings. As a result, the scope of functions and development objectives of each region have been clearly specified, which meets the Group's need to pursue regulated and efficient development. The Group also supplemented its human resources by combining the recruitment of high- and medium-level external talented personnel and fresh graduates with internal talent cultivation and position competition. The Group constantly improves performance management system to fully motivate staff's enthusiasm and their initiative. The system has inspired staff's potential and boosted their morale. By analyzing and duplicating the Group's successful model of operation and management, particularly in respect of business model, costs control and human resources, the Group believes that the operation of its project can be effectively improved.

## Human Resources

As at 31 December 2013, the total number of employees of the Group was 1,506 and the total remuneration was approximately RMB64,067,000 for the year ended 31 December 2013. The Group has always been concerned with the continuous training of the employees of each level and the improvement of their level of business abilities. The Group remunerates its staff according to their individual performance, work experience and prevailing market standard.

# MANAGEMENT DISCUSSION AND ANALYSIS

Those senior management with outstanding performance are recommended by the Group to participate in high-end MBA seminars or obtain EMBA degrees of famous universities in the PRC so as to strengthen their capacity of management. The Group organizes various training activities from time to time to train general employees, which includes corporate culture, service etiquette, fire-protection security and so forth, aiming at improving service and expertise. Meanwhile, the Group is committed to cultivating internal management personnel and carries out backup manager training regularly covering all areas with respect to management. The Group constantly fosters talents of high quality in a variety of ways so as to support the development of the Group in the future.

## FINANCIAL REVIEW

For the year ended 31 December 2013, the Group's revenue amounted to approximately RMB911,939,000, representing an increase of approximately RMB195,577,000 or a rise of approximately 27.30% as compared with the corresponding period of last year; gross profit amounted to approximately RMB333,036,000, representing an increase of approximately RMB81,800,000 or a rise of approximately 32.56% as compared with the corresponding period of last year; profit attributable to owners of the Company amounted to approximately RMB168,945,000, representing an increase of approximately RMB33,848,000 or a rise of approximately 25.05% as compared with the corresponding period of last year.

### Revenue

For the year ended 31 December 2013, the Group's revenue was primarily derived from the gas pipeline connection business and transportation and sales of gas business, accounting for approximately 42.19% and 55.31% of the total revenue (the corresponding period of last year: approximately 42.13% and 55.15%), respectively.

### Revenue from Gas Pipeline Connection

The Group conducts gas pipeline connection operation by providing property developers and industrial and commercial users with gas pipeline laying and installation services in its operating cities. For the year ended 31 December 2013, the Group's gas pipeline connection volume maintained a steady growth, and revenue from gas pipeline connections amounted to approximately RMB384,784,000, representing an increase of approximately 27.49% from approximately RMB301,812,000 for the corresponding period of last year.

### Revenue from Sales of Gas

The Group is engaged in the transportation, distribution and sales of natural gas in its operating cities. For the year ended 31 December 2013, the Group had a significant growth in gas sales volume. Revenue from gas sales amounted to approximately RMB504,357,000, representing an increase of approximately 27.65% from approximately RMB395,106,000 for the corresponding period of last year. For the year ended 31 December 2013, the Group's gross profit from gas sales was approximately RMB80,632,000, representing a significant increase of approximately 49.25% from approximately RMB54,026,000 in 2012.

### Gross Profit and Gross Profit Margin

For the year ended 31 December 2013, the Group achieved gross profit of approximately RMB333,036,000, representing an increase of approximately RMB81,800,000 as compared with the year ended 31 December 2012. Overall gross profit margin of the Group was approximately 36.52%, representing a slight increase of approximately 1.45 percent as compared with the corresponding period of last year, which was mainly attributable to the change in the structure of gas sales business. In 2013, the contribution of sale volume of vehicle users to total sales, which enjoys a relatively high gross profit margin, increased to 41.13% from 37.14% in 2012, while revenue from newly-developed industrial users also increased to a certain extent as compared with the corresponding period of last year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Distribution Cost and Administrative Expenses

With the continuous implementation of cost control policies such as the comprehensive budgeting management system, the Group's proportion of distribution costs and administrative expenses to total revenue in the year ended 31 December 2013 has declined as compared with the corresponding period of last year.

The Group's distribution cost in the year ended 31 December 2013 was approximately RMB13,669,000, accounting for approximately 1.50% of the total revenue, lowered from approximately 1.66% in 2012. The Group's administrative expenses for the year ended 31 December 2013 were approximately RMB65,224,000, accounting for approximately 7.15% of the total revenue, lowered from approximately 7.84% in 2012.

## Financial Position

The Group has been exercising cautious policies in respect of financial resources management, including maintaining an appropriate level of cash and cash equivalents as well as sufficient credit facilities, in order to cope with the needs of daily operation and business development and maintain borrowing at a healthy level.

As at 31 December 2013, the Group's cash and cash equivalents amounted to approximately RMB576,402,000, of which 57.44% was denominated in RMB, 42.11% was denominated in US dollars and the remaining 0.45% was denominated in HK dollars, and its financial assets at fair value through profit or loss of approximately RMB221,824,000 can be realized at any time, safeguarding the needs of project expansion and acquisition of businesses of the Group.

As at 31 December 2013, the Group's total borrowing was approximately RMB1,010,518,000 (among which the borrowing denominated in RMB was approximately RMB529,236,000 and the borrowing denominated in Us dollars was approximately RMB481,282,000), of which approximately 22.70% was accounted for as current liabilities. The loans repayable within one year amounted to approximately RMB229,394,000, of which approximately RMB35,000,000 was secured by the Group's properties. As at 31 December 2013, the Group's gearing ratio was approximately 58.50%, calculated based on the percentage of total liabilities over total assets.

## Foreing Exchange Risk

In general, as all of the Group's businesses were situated in the PRC, substantially all of its income and expenses were denominated in RMB, therefore, there were no significant risks relating to exchange fluctuation. The Group will closely monitor the interest rate and exchange rate of the market and make appropriate responses when necessary.

## Investment in a Trust Scheme

Henan Tian Lun entered into an investment agreement with Zhongyuan Trust Co., Ltd. ("Zhongyuan Trust") on 21 March 2012 (as supplemented by two supplemental agreements dated 4 May 2012 and 21 March 2014, respectively) (the "Investment Agreement"), pursuant to which Henan Tian Lun agreed to invest an amount not exceeding RMB400,000,000 in aggregate in a trust scheme managed by Zhongyuan Trust ("Trust Scheme") for a term of two years commencing from 21 March 2012 (the "Trust Period"), and Zhongyuan Trust agreed to utilize the trust principal to invest in trust products on behalf of and for the benefits of Henan Tian Lun.

During the period from 21 March 2012 to the date of this report (the "Period"), the Group had invested RMB370,000,000 in aggregate in the Trust Scheme. The investment funds were financed by internal resources of the Group. During the Period, the Company had withdrawn RMB150,000,000 in aggregate from the investment in the Trust Scheme according to the Group's requirements for daily operations and expansion.

## Loan Agreement and Condition in Respect of Specific Obligations of the Controlling Shareholder

On 15 October 2013, the Company (as borrower) and Mr. Zhang Yingcen (as guarantor) ("Mr. Zhang"), entered into a loan agreement (the "Loan Agreement") with a number of banks (as lenders) (the "Lenders") relating to a credit facility in the amount of US$78,000,000 (the "Loan") with a tenor of three years commencing from the date of the Loan Agreement.

# MANAGEMENT DISCUSSION AND ANALYSIS

Pursuant to the Loan Agreement, if Mr. Zhang fails to (i) be the single largest shareholder of the Company or the chairman of the board of directors of the Company or (ii) have control over the business or management (including financial and/or personnel management) of the Company or the Company and its subsidiaries, this will constitute a breach of terms of the Loan Agreement and may also lead to an event of default under the Loan Agreement. Upon the occurrence of a breach of terms of or an event of default under the Loan Agreement, the Lenders may declare that the Loan be cancelled and/or declare that all outstanding amount including all accrued interest of the Loan be immediately due and payable. As at the date of this report, all terms of the Loan Agreement and the condition in respect of the specific obligations above have been duly complied with. For details, please refer to the Company's announcement dated 15 October 2013.

### Share Option Scheme

During the year ended 31 December 2013, the Company had not granted any share options.

## SUBSEQUENT EVENTS

### Grant of share options

On 27 January 2014, a total of 20,000,000 share options to subscribe for up to a total of 20,000,000 ordinary shares of HK$0.01 each of the Company were granted to the executive Directors and certain employees of the Company under the share option scheme adopted by the Company on 13 October 2010. Among the share options granted above, 7,300,000 share options were granted to the Directors to subscribe for a total of 7,300,000 Shares. For details, please refer to the Company's announcement dated 27 January 2014.

### Extension of the Trust Period of the Trust Scheme

On 21 March 2012, Henan Tian Lun and Zhongyuan Trust Company Limited ("Zhongyuan Trust") entered into a trust investment agreement (the "Investment Agreement") in relation to the investment in a portfolio of trust financial products managed and maintained by Zhongyuan Trust for a term of two years commencing from 21 March 2012 (the "Trust Period"). On 21 March 2014, Henan Tian Lun and Zhongyuan Trust entered into a supplemental agreement (the "Supplemental Agreement") to the Investment Agreement, pursuant to which the Trust Period has been extended for a period of two years until 21 March 2016. For details of the Supplemental Agreement, please refer to the announcement of the Company dated 25 March 2014.

### Contingent Liabilities

For the year ended 31 December 2013, the Group did not have any significant contingent liabilities.

### Pledge of assets of the Group

Details of the Group's pledged assets as at 31 December 2013 are set out in note 28 to the consolidated financial statements.

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**Mr. Zhang Yingcen (張瀛岑先生)**, aged 51, is the founder of the Company and also the Chairman and an Executive Director of the Company. He is responsible for the overall strategic planning and has involved in leading the development and investment of the business of the Group in the PRC. Mr. Zhang has more than fifteen years of management experience, including ten years of experience in the management of gas enterprises. Mr. Zhang received the certificate of graduation in advanced EMBA program from Enterprise Research Center of Peking University (北京大學企業研究中心EMBA課程高級研修班結業證書) in 2001. He is currently the representative of the 12th National People's Congress of the PRC (中華人民共和國第十二屆全國人民代表大會代表) and Vice Chairman of the Industrial and Business Association in Henan Province (河南省工商業聯合會副主席).

**Mr. Xian Zhenyuan (冼振源先生)**, aged 39, is an Executive Director and the General Manager of the Company. He is responsible for the overall management of the Group. Mr. Xian has nine years of experience in the management of gas enterprises. Mr. Xian joined the Group in 2003, and served as an director and general manager of certain subsidiaries successively. Mr. Xian obtained a bachelor's degree majoring in International Trade from Southeast University (東南大學) in the PRC in 1997 and obtained a master's degree majoring in Accounting from Macquarie University in Australia in 2003.

**Mr. Hu Xiaoming (胡曉明先生)**, aged 44, is an Executive Director and Chief Executive of the Company. He is responsible for the operation and management of the Group. Mr. Hu joined the Group in July 2011 as the general manager of Henan Tian Lun Gas Group Limited (河南天倫燃氣集團有限公司), a wholly-owned subsidiary of the Company. Mr. Hu has 13 years of experience in the management of gas enterprises. Prior to joining the Group, he had served as vice-president of ENN Group Co., Ltd. Mr. Hu obtained a master of business administration degree from Tsinghua University (清華大學) in 1999.

# DIRECTORS AND SENIOR MANAGEMENT

**Mr. Feng Yi (馮毅先生)**, aged 35, is an Executive Director and Deputy General Manager of the Company. He is responsible for the strategic investment planning and corporate financing activities of the Group. Mr. Feng has ten years of experience in corporate investment and financing. Mr. Feng joined the Group in 2006 and acted as the assistant to the general manager, deputy general manager and director of Henan Tian Lun Gas Group Limited successively. Prior to joining the Group, Mr. Feng was responsible for investment and financing of Zhengzhou Yutong Bus Co., Ltd. (鄭州宇通客車股份有限公司) and Zhengzhou Branch of 21 Century Real Estate in the PRC (21世紀不動產（中國）鄭州區域分部). Mr. Feng obtained a bachelor's degree in International Trade from Southwestern University of Finance and Economics (西南財經大學) in the PRC in 2002.

**Mr. Sun Heng (孫恒先生)**, aged 56, is an Executive Director and Deputy General Manager of the Company. He is responsible for the operation and management of the Group. He has 18 years of experience in the management of gas enterprises. Mr. Sun joined the Group in 2004 and acted as the general manager and a director of certain subsidiaries of the Company successively. Prior to joining the Group, Mr. Sun was responsible for operation and management of Luoyang Liquidified Gas Co., Ltd (洛陽市液化氣公司). Mr. Sun was qualified as a Registered Senior Consultant for Oil and Gas Business (石油燃氣註冊高級諮詢師) by Henan Consultant Association of Science & Technology (河南省科技諮詢業協會) and Henan Provincial Department of Science and Technology (河南省科學科技廳) in 2006. Mr. Sun received a diploma of Economics from the Party School of the Henan Committee of CPC (中國共產黨河南省委黨校) in 1991.

**Ms. Li Tao (李濤女士)**, aged 42, is an Executive Director and Deputy General Manager of the Company. She joined the Group in April 2011 and is responsible for the financial management of the Group. Ms. Li has years of experience in corporate finance management. Prior to joining the Group, Ms. Li had served as the head of finance of SDIC Henan Coal Transportation & Sales Co., Ltd (國投河南煤炭運銷有限公司). Ms. Li obtained a bachelor's degree in Economics from Henan University of Economics and Law (河南財經政法大學) in the PRC in 1994. She is a senior accountant and a Certified Public Accountant in the PRC.

# DIRECTORS AND SENIOR MANAGEMENT

### Independent Non-executive Directors

**Mr. Cao Zhibin (曹志斌先生)**, aged 69, was appointed as an Independent Non-executive Director on 26 July 2013. Mr. Cao had been the prefectural party committee secretary of Lou Di, Hunan Province, vice secretary general of the provincial party committee of Hunan Province and vice secretary general of the provincial party committee of Heilongjiang Province. From April 2010 to May 2011, Mr. Cao served as an independent director of Macrolink Real Estate Co. Ltd (新華聯不動產股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 000620). Mr. Cao graduated from MBA Management Institute of Hunan University (湖南大學) in 1995.

**Mr. Li Liuqing (李留慶先生)**, aged 40, was appointed as an Independent Non-executive Director of the Company on 13 October 2010. Mr. Li has over ten years of experience in accounting and auditing, and was a senior manager and vice branch manager of Henan Branch of Ascenda Certified Public Accountants Ltd. (天健正信會計師事務所有限公司河南分所) and a director and Chief Financial Officer of Henan Suntront Tech Co., Ltd (河南新天科技股份有限公司). He is currently the branch manager of Henan Branch of Zhongxingcai Guanghua Certified Public Accountants (中興財光華會計師事務所河南分所). Mr. Li obtained a bachelor's degree in Accounting from Henan University of Economics And Law (河南財經政法大學) in 1998 and a postgraduate certificate majoring in Corporate Management from Tianjin University of Finance and Economics (天津財經大學) in 2000. Mr. Li is a Certified Public Accountant on securities, a Certified Public Valuer and a Certified Tax Agent in the PRC.

**Mr. Zhang Jiaming (張家銘先生)**, aged 33, was appointed as an Independent Non-executive Director of the Company on 13 October 2010. Mr. Zhang served as an assistant head of a department in T&T Supermarket Inc. He is currently a deputy general manager of Henan Huaxing Investment Co., Ltd (河南華星投資有限公司). Mr. Zhang obtained a bachelor of management degree from the University of Lethbridge in Alberta, Canada in 2008.

**Ms. Zhao Jun (趙軍女士)**, aged 51, was appointed as an Independent Non-executive Director of the Company on 13 October 2010. Ms. Zhao worked in the Post Office of Zhengzhou City (鄭州市郵政局) and Postal Transportation Bureau of Henan Province (河南省郵政運輸局) and served as a Lecturer, Education Officer (教育主管) and Occupational Testing Officer (職業技能鑒定站主任) successively. Ms. Zhao is currently the director of Beijing Office of Shanghai Shibang Machinery Co., Ltd. (上海世邦機器有限公司). Ms. Zhao obtained a bachelor's degree majoring in Agricultural Machinery Repair from Agricultural Machinery Department of Henan Agricultural University (河南省農學院) in the PRC in 1984.

## SENIOR MANAGEMENT

**Mr. Du Qin (杜欽先生)**, aged 62, is a deputy general manager of Henan Tian Lun Gas Group Limited. Mr. Du has over 37 years of experience in operational management of large state-owned corporations. He was the director and general manager of Xuchang Tian Lun Gas Limited concurrently since he joined the Group in July 2009, responsible for the overall operational management of this company. Prior to joining the Group, Mr. Du worked for Luoyang Copper (Group) Co., Ltd. (洛陽銅加工集團有限公司) and served as the assistant to general manager. Mr. Du obtained a master's degree in Economics from Renmin University of China (中國人民大學) in 1998.

**Mr. Xie Chaoyang (謝朝陽先生)**, aged 51, is the general manager of Baiyin Natural Gas Co., Ltd. (白銀市天然氣有限公司). Mr. Xie has 13 years of experience in management of gas enterprises. Since joining the Group in 2002, he has served as the Vice General Manager and Chief Engineer of Henan Tian Lun Gas Group Limited, the General Manager of Xuchang Tian Lun Gas Limited, the Chairman and General Manager of Xuchang Tian Lun Vehicle-use Gas Limited, and the General Manager of Zhengzhou Shangjie Tian Lun Gas Limited. Prior to joining the Group, he worked for Hebi Coal Gas Co., Ltd. (鶴壁市煤氣公司) and acted as Vice Manager and Vice Secretary of CPC General Branch. Mr. Xie obtained a diploma in Mathematics (數學係數學專業文憑) from Zhengzhou University (鄭州大學) in the PRC in 1986.

**Mr. Zhao Junfeng (趙軍鋒先生)**, aged 37, is the general manager of Henan Luyuan Gas Limited. Mr. Zhao has 10 years of experience in the management of gas enterprises. Since joining the Group in 2003, he has served as the manager of safety and technology department of Xuchang Tian Lun Gas Limited and vice general manager of Zhengzhou Shangjie Tian Lun Gas Limited. Mr. Zhao obtained a bachelor's degree majoring in Construction, Environment and Facilities Engineering from Henan University of Urban Construction in the PRC in 1999. Mr. Zhao is a professional medium-level engineer in urban gas and a registered safety engineer in the PRC.

# DIRECTORS AND SENIOR MANAGEMENT

**Mr. Li Xinjian (李新建先生)**, aged 43, the Chief Financial Officer of the Company, is responsible for the financial management of the Group. Mr. Li has extensive experience in corporate financial management. Prior to joining the Group in 2004, Mr. Li served various positions such as Head and Deputy Head of Capital Division of Financial Department and the Head of Financial Department of Zhong Yuan Environmental Protection Co., Ltd (中原環保股份有限公司). Mr. Li obtained a diploma in Foreign Accounting from Xi'an University of Technology (西安理工大學) in 1994 and a master's degree in Business Administration from the Guangxi University (廣西大學) in the PRC in 2009.

## COMPANY SECRETARY

**Mr. HUNG, Man Yuk Dicson (洪旻旭先生)**, aged 39, is the company secretary of the Company. Mr. Hung was the qualified accountant and company secretary of Zhongtian International Limited (Stock Code: 2379). He is currently the General Manager of Lead & Partners Limited, a secretarial company in Hong Kong; a director of the Professional Consultancy and Advisory Services Department of LEAD CPA Limited, a chartered public accountant firm in Hong Kong; and the company secretary of Come Sure Group (Holdings) Limited (Stock Code: 794). Mr. Hung obtained a master's degree majoring in Finance from Curtin University of Technology in 2002. Mr. Hung was admitted as an associate member of Hong Kong Institute of Certified Public Accountants in 2004 and a fellow member of the Association of Chartered Certified Accountants in United Kingdom in 2006.

# DIRECTORS' REPORT

The Directors are pleased to present the annual report for the year ended 31 December 2013 together with the audited consolidated financial statements to the shareholders of the Company (the "Shareholders").

## PRINCIPAL BUSINESS

The Company is an investment holding company whose subsidiaries are principally engaged in the investment, operation and management of gas pipeline connections, transportation, distribution and sales of gas, construction and operation of gas filling stations, and production and sales of LNG in the People's Republic of China (the "PRC"). Further details of the principal business and subsidiaries of the Company are set out in note 11 to the consolidated financial statements in this annual report.

## SUMMARY FINANCIAL INFORMATION

A summary of the annual results of the Group for the last five financial years is set out on the last page of this report. The summary does not form part of the consolidated financial statements in this annual report.

## FINAL DIVIDEND

The Directors do not recommend the payment of any dividend for the year ended 31 December 2013.

## RESERVES

Details of the movements of reserves of the Company and the Group during the year are set out in note 25 to the consolidated financial statements.

The Group did not have any distributable reserves during the year ended 31 December 2013.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

The biographies of Directors and senior management of the Group are set out in the section headed "Directors and Senior Management" in this annual report.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 26 May 2014 to Wednesday, 28 May 2014 (both dates inclusive) and no transfer of shares will be registered during such period. In order to qualify for the right to attend the annual general meeting which will be convened on Wednesday, 28 May 2014, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 23 May 2014.

## BANK BORROWINGS

Details of bank borrowings of the Group are set out in note 28 to the consolidated financial statements.

# DIRECTORS' REPORT

## DIRECTORS AND SERVICE CONTRACTS

The Directors as at the date of this report are as follows:

### Executive Directors

Mr. Zhang Yingcen *(Chairman)*
Mr. Xian Zhenyuan
Mr. Hu Xiaoming
Mr. Feng Yi
Mr. Sun Heng
Ms. Li Tao

### Independent Non-executive Directors

Mr. Cao Zhibin
Mr. Li Liuqing
Mr. Zhang Jiaming
Ms. Zhao Jun

Each Director has entered into a service contract with the Company. Each of the executive Directors has entered into a service contract with the Company for an initial term of 3 years commencing from 10 November 2013 and subject to termination by either party upon giving no less than 3 months' prior written notice to the other party.

Each of Mr. Li Liuqing, Mr. Zhang Jiaming and Ms. Zhao Jun, independent non-executive Directors, had entered into a service contract with the Company for a term of two years commencing from 10 November 2013 and subject to termination by either party upon giving no less than 3 months' prior written notice to the other party. Mr. Cao Zhibin, an independent non-executive Director, has entered into a service contract with the Company for a term of 2 years commencing from 26 July 2013 and subject to termination by either party upon giving no less than 3 months' prior written notice to the other party.

As at 31 December 2013, none of the Directors of the Company had a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

Save for the exercise of options in respect of Puyang Tian Lun, none of the Company or any of its subsidiaries had entered into any contract of significance in which a Director had a material interest, as at the end of the year or at any time during the year.

## COMPETING INTERESTS

### Investment in LNG Refilling Stations

During the year ended 31 December 2013, Mr. Zhang Yingcen, the chairman of the Company, has reported in writing to the Board on the business opportunities in respect of 5 LNG refilling stations, which are outside of the operating area of the Group. In the opinion of the Board, LNG refilling stations are still at an early stage of development in China, and the Company's experience in the operation of relevant LNG refilling stations has yet to be accumulated, and may require the Group to put in more resources. As such, the Board gave its consent for Mr. Zhang Yingcen to invest in the 5 LNG refilling stations as stated in his report on a trial basis. Mr. Zhang Yingcen also undertook that the Group may purchase such LNG refilling stations from him at fair market value when appropriate.

All independent non-executive Directors had reviewed on an annual basis the non-competition undertakings (the "Non-competition Undertakings") given by Mr. Zhang Yingcen, Ms. Sun Yanxi, Goldshine Development Limited and Tian Lun Group Limited (collectively, the "Covenantors") in the deed of non-competition entered into by, among others, the Covenantors dated 20 October 2010. The Covenantors confirmed that (a) they have provided all information necessary for the enforcement of the deed of non-competition as requested by independent non-executive Directors from time to time; and (b) from the effective date of the Non-competition Undertakings and up to 31 December 2013, they had complied with the Non-competition Undertakings. All independent non-executive Directors also confirmed that they were not aware of any non-compliance with the Non-competition Undertakings by the Covenantors during the same period.

## CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board confirmed that it has received from each of the independent non-executive Directors an annual confirmation of her or his independence and considers, based on the confirmations received, the independent non-executive Directors remain independent.

## REMUNERATION POLICY

The Directors and senior management of the Company receive compensation in the form of fees, salaries, allowances, benefits in kind or discretionary bonuses relating to the performance of the Group. The Group also reimburses the Directors and senior management for expenses which are necessarily and reasonably incurred for providing services to the Group or discharging their duties in relation to the operation of the Group. When reviewing and determining the specific remuneration packages for the executive Directors and senior management, the Remuneration Committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment elsewhere in the Group and desirability of performance-based remuneration.

Details of the remuneration of Directors are set out in note 9 to the consolidated financial statements.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2013, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

### 1. Long Positions in the Shares of the Company (the "Shares"):

| Name of Director | Capacity/Nature of interest | Number of Shares held | Approximate percentage of issued share capital of the Company |
|---|---|---|---|
| Mr. Zhang Yingcen *(Note 1)* | Interest of controlled corporation and interest of spouse | 528,175,500 | 63.79% |
| Mr. Xian Zhenyuan *(Note 2)* | Interest of controlled corporation | 18,442,300 | 2.22% |

# DIRECTORS' REPORT

## 2. Long Positions in the Ordinary Shares of the Associated Corporation:

| Name of Director | Name of Corporation | Capacity/Nature of interest | Number of Shares held | Approximate percentage of interests in the associated corporation |
|---|---|---|---|---|
| Mr. Zhang Yingcen | Tian Lun Group Limited | Interest of controlled corporation | 10 | 100% |

Notes:

(1) The entire issued share capital of Tian Lun Group Limited is held by Gold Shine Development Limited, which is in turn owned by Mr. Zhang as to 60.0%. Tian Lun Group Limited owns 458,725,000 Shares. Therefore, Mr. Zhang is deemed or taken to be interested in all the Shares held by Tian Lun Group Limited for the purposes of the SFO. Mr. Zhang beneficially owns all shares in issue of Chequers Development Limited, which in turn owns 63,728,000 Shares. Therefore, Mr. Zhang is also deemed or taken to be interested in all the Shares held by Chequers Development Limited for the purposes of the SFO. Ms. Sun Yanxi ("Ms. Sun") is the spouse of Mr. Zhang, and Ms. Sun held 5,722,500 Shares through her individual security account; therefore, Mr. Zhang is deemed or taken to be interested in all the Shares held by Ms. Sun for the purposes of the SFO. Mr. Zhang is a director of Tian Lun Group Limited, Gold Shine Development Limited and Chequers Development Limited.

(2) Mr. Xian Zhenyuan beneficially owns 80.0% of the issued share capital of Pleasant New Limited, which in turn owns 18,442,300 Shares. Therefore, Mr. Xian is deemed or taken to be interested in all the Shares held by Pleasant New Limited for the purposes of the SFO. Mr. Xian is the sole director of Pleasant New Limited.

Save as disclosed above, as at 31 December 2013, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" above, at no time during the year was the Company, any of its holding companies, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements which enable the Directors or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' LONG POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

To the knowledge of the Directors, as at 31 December 2013, as recorded in the register required to be kept by the Company under Section 336 of the SFO, the following persons (not being the Directors and chief executive of the Company) had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name | Capacity/Nature of interest | Number of Shares held | Approximate percentage of issued share capital of the Company |
|---|---|---|---|
| Tian Lun Group Limited | Beneficial owner | 458,725,000 | 55.40% |
| Gold Shine Development Limited *(Note 1)* | Interest of controlled corporation | 458,725,000 | 55.40% |
| Chequers Development Limited | Beneficial owner | 59,678,000 | 7.20% |
| Ms. Sun *(Note 2)* | Interest of spouse and beneficial owner | 528,175,500 | 63.79% |

Notes:

(1) The entire issued share capital of Tian Lun Group Limited is held by Gold Shine Development Limited. Tian Lun Group Limited owns 458,725,000 Shares. Therefore, Gold Shine Development Limited is deemed or taken to be interested in all the Shares held by Tian Lun Group Limited for the purposes of the SFO.

(2) The entire issued share capital of Tian Lun Group Limited is held by Gold Shine Development Limited, which is owned by Mr. Zhang as to 60.0%. Tian Lun Group Limited owns 458,725,000 Shares. Therefore, Mr. Zhang is deemed or taken to be interested in all the Shares held by Tian Lun Group Limited for the purposes of the SFO. Mr. Zhang beneficially owns all shares in issue of Chequers Development Limited, which in turn owns 63,728,000 Shares. Therefore, Mr. Zhang is also deemed or taken to be interested in all the Shares held by Chequers Development Limited for the purposes of the SFO. Ms. Sun held 5,722,500 Shares through her individual security account. Ms. Sun is the spouse of Mr. Zhang, therefore Ms. Sun is deemed or taken to be interested in all the Shares in which Mr. Zhang is interested for the purpose of the SFO.

Save as disclosed above, as at 31 December 2013, the Directors were not aware of any interests or short positions in the Shares and underlying shares, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register required to be kept by the Company under Section 336 of the SFO, except those held by directors or chief executives of the Company.

## SHARE OPTION SCHEME

In order to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group, the Company conditionally adopted a share option scheme (the "Scheme") on 13 October 2010 whereby the Board was authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the shares of the Company (the "Shares") to, inter alia, any employees (full-time or part-time), directors, consultants, advisers, major shareholders, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group. The Scheme became unconditional on 10 November 2010 and shall be valid and effective for a period of ten years commencing on 13 October 2010, subject to the early termination provisions contained in the Scheme.

# DIRECTORS' REPORT

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00. The exercise price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.

The Company shall be entitled to issue options, provided that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme does not exceed 10.0% of the shares in issue on the Listing Date. The Company may at any time refresh such limit, subject to the shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue at the time.

During the year ended 31 December 2013, no share options had been granted by the Company. On 27 January 2014, a total of 20,000,000 share options to subscribe for up to a total of 20,000,000 ordinary shares of HK$0.01 each of the Company were granted to the executive Directors and certain employees of the Company.

The total number of securities available for issue under the Scheme as at the date of this report was 62,792,500 Shares which represented 7.58% of the issued share capital of the Company as at the date of this report. The total number of shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1.0% of the Shares in issue.

An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

During the period between the date of the listing of shares of the Company on the Main Board of the Stock Exchange and 31 December 2013, no share option has been granted by the Company under the Scheme.

## CONNECTED TRANSACTIONS

The Group entered into a long-term framework agreement of gas pipeline construction and installation with Hebi Hexiang Engineering Limited ("Hexiang Engineering") on 13 October 2010 for a term ending on 31 December 2012. On 18 December 2012, the parties entered into a new framework agreement for a term ending on 31 December 2013, pursuant to which the consideration paid by the Group to Hexiang Engineering on an annual basis under the Hexiang Engineering Construction Agreement will not be more than RMB20,000,000 for the year ended 31 December 2013. The transaction amount with Hexiang Engineering from 1 January 2013 up to 21 June 2013 was approximately RMB5,781,000.

Hexiang Engineering is principally engaged in installation of pipelines and installation of water, electricity and heat supply. It was owned as to 80% and 20% by Henan Tian Lun Investment Holdings Limited ("Henan Tian Lun Holdings") and Henan Tian Lun Gas Engineering Investment Limited ("Henan Tian Lun Engineering Investment"), respectively. Henan Tian Lun Holdings was owned as to 50%, 25% and 25% by Mr. Zhang Yingcen, Mr. Zhang Daoyuan and Ms. Sun Yanxi, respectively. Henan Tian Lun Engineering Investment was owned as to 80% and 20% by Henan Tian Lun Holdings and Henan Tian Lun Real Estate Limited, respectively. Mr. Zhang Yingcen is one of the controlling shareholders of the Company and a Director. Therefore, Hexiang Engineering was a connected person of the Company under the Listing Rules until 21 June 2013. The transaction with Hexiang

# DIRECTORS' REPORT

Engineering mentioned above constitutes a continuing connected transaction under Chapter 14A of the Listing Rules, which is subject to reporting, annual review and announcement requirements but is exempted from the independent shareholders' approval requirement pursuant to Rule 14A.34 of the Listing Rules. On 21 June 2013, Henan Tian Lun Holdings and Henan Tian Lun Engineering Investment had disposed of all of their interest in Hexiang Engineering and Hexiang Engineering ceases to be a connected person of the Company.

The independent non-executive Directors have reviewed the "continuing connected transaction" set out above and have confirmed that the transaction was (i) conducted on normal commercial terms; (ii) carried out in the Group's ordinary and usual course of business, and in accordance with the terms and agreements governing the transactions; and (iii) fair and reasonable, and in the interest of the shareholders of the Company as a whole. The auditor has confirmed to the Board on matters stated in Rule 14A.38 of the Listing Rules in relation to the above continuing connected transaction.

Saved as disclosed above, the Directors consider that those material related party transactions disclosed in Note 36 to the financial statements did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

## MAJOR CUSTOMERS AND SUPPLIERS

In 2013, sales to the largest five customers of the Group accounted for approximately 3.59% of the turnover of the Group, in which the largest customer accounted for approximately 1.15%, while purchases from the five largest suppliers of the Group accounted for approximately 48.96% of the purchases of the Group in which the largest supplier accounted for approximately 19.36%. To the best of the Board's knowledge having made all enquiries with all Directors, neither the Directors, nor their associates, the shareholders owning more than 5% of the Company's issued share capital had any beneficial interests in the Group's five largest customers or suppliers during the year.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2013, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## PRE-EMPTIVE RIGHTS

There are no relevant provisions for pre-emptive rights in the Company's Articles of Association or the laws of Cayman Islands.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the public float of the Company is not less than 25% prescribed under the Listing Rules.

## CORPORATE GOVERNANCE

The Company has implemented the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules. The Company has been in compliance with the Code throughout the year.

## AUDITOR

The Company has appointed PricewaterhouseCoopers as auditor of the Company for the year ended 31 December 2013. A resolution will be proposed in the forthcoming annual general meeting for the re-appointment of PricewaterhouseCoopers as the Company's auditor.

For and on behalf of the Board of
**China Tian Lun Gas Holdings Limited**
**Zhang Yingcen**
*Chairman*

31 March 2014

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICE

The Company recognises the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the confidence of shareholders and the public. The Board strives to adhere to the principles of corporate governance and adopt sound corporate governance practices to meet the legal and commercial standards by focusing on areas such as internal control, fair disclosure and accountability to all shareholders.

The Company has adopted and complied with all code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the period from 1 January 2013 to 31 December 2013.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code of conduct regarding securities transactions by the Directors. Upon specific enquiries of all Directors of the Company, each of them confirmed that they strictly complied with the required standards set out in the Model Code during the year ended 31 December 2013.

## BOARD OF DIRECTORS

### Members of the Board of Directors

As at the date of this annual report, the Board of the Company comprised (i) Mr. Zhang Yingcen (Chairman), Mr. Xian Zhenyuan, Mr. Hu Xiaoming, Mr. Feng Yi, Mr. Sun Heng and Ms. Li Tao as executive Directors; and (ii) Mr. Cao Zhibin (appointed as an independent non-executive Director on 26 July 2013), Mr. Li Liuqing, Mr. Zhang Jiaming and Ms. Zhao Jun as independent non-executive Directors.

The biographies of all the Directors are set out in the section headed "Directors and Senior Management" in this annual report. All executive Directors of the Company have sufficient experiences for their positions to effectively carry out their duties.

The Company has appointed four independent non-executive Directors and at least one of them has accounting expertise to assist the management in formulating development strategies of the Group, and to ensure that the preparation of the financial reports and other mandatory reports by the Board are in strict adherence to appropriate systems in order to protect the interests of the shareholders and the Company. Each independent Director has confirmed in accordance with the guidelines specified in Rule 3.13 of the Listing Rules that they are independent of the Company, and the Company considers that they were independent in accordance with the Listing Rules as at the date of this annual report.

There are no relationships (including financial, business, family or other material/relevant relationship) among the members of the Board, and in particular, between the chairman of the Board and the chief executive of the Company.

## CORPORATE GOVERNANCE DUTIES

The Board is responsible for performing the corporate governance duties as set out in code provision D.3.1. of the Code, During the year ended 31 December 2013, the Board had reviewed and discussed the corporate governance policy of the Group and was satisfied with the effectiveness of the corporate governance policy of the Group.

# CORPORATE GOVERNANCE REPORT

## RESPONSIBILITIES OF DIRECTORS AND PROFESSIONAL DEVELOPMENT

All appointed Directors received comprehensive, formal training on the first occasion of their appointments and were ensured to have a proper understanding of the businesses and development of the Group and that they were fully aware of their responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company. To facilitate the Directors to discharge their responsibilities, they are continuously updated with regulatory developments, business and market changes and the strategic development of the Group. All Directors, namely Mr. Zhang Yingcen, Mr. Xian Zhenyuan, Mr. Hu Xiaoming, Mr. Feng Yi, Mr. Sun Heng, Ms. Li Tao, Mr. Cao Zhibin, Ms. Zhao Jun, Mr. Zhang Jiaming and Mr. Li Liuqing, have participated in a training course on the Listing Rules organized by Messrs. Loong & Yeung, the Hong Kong legal adviser to the Company, to develop and refresh their knowledge and skills and provided their training records for the financial year ended 31 December 2013 to the Company.

During the year ended 31 December 2013, Mr. Cao Zhibin was appointed as an independent non-executive director on 26 July 2013, while other members of the Board remained unchanged.

## SUPPLY OF AND ACCESS TO INFORMATION

In respect of regular Board meetings, and so far as practicable in all other cases, an agenda accompanied by the relevant Board papers are sent to all Directors in a timely manner and at least 3 days before the specified date of a Board meeting. All Directors are entitled to have access to Board papers, Board minutes and related materials.

## THE OPERATION OF THE BOARD

The Board supervises the management of the business and affairs of the Company. The Board's primary duty is to ensure the viability of the Company and to ensure that it is managed in the best interests of the shareholders as a whole while taking into account the interests of other stakeholders. The Group has adopted internal guidelines in setting forth matters that require the Board's approval. Apart from its statutory responsibilities, the Board is also responsible for making decisions of formulating the development targets and strategies, material acquisitions and disposals, material capital investment, dividend policies, the appointment and removal of directors and senior management, remuneration policies and other major operation and financial issues of the Company. The powers and duties of the Board include convening shareholders' meetings and reporting the Board's work at shareholders' meetings, implementing resolutions passed at shareholders' meetings, determining business plans and investment plans, formulating annual budget and final accounts, formulating proposals for profit distributions and for the increase or reduction of registered capital as well as exercising other powers, functions and duties as conferred by the memorandum (the "Memorandum") and articles of association (the "Articles") of the Company. The daily business operations and administrative functions of the Group are delegated to the management.

Code provision A.1.1 stipulates that the Board shall convene meetings regularly with at least 4 board meetings every year (approximately once a quarter).

The Board held 8 meetings during the year ended 31 December 2013.

The attendance of the Directors at the Board meetings is as follows:

# CORPORATE GOVERNANCE REPORT

| Directors | Attendance/Board Meetings held |
|---|---|
| **Executive Directors** | |
| Mr. Zhang Yincen *(Chairman)* | 8/8 |
| Mr. Xian Zhenyuan | 8/8 |
| Mr. Hu Xiaoming | 8/8 |
| Mr. Feng Yi | 8/8 |
| Mr. Sun Heng | 8/8 |
| Ms. Li Tao | 8/8 |
| **Independent non-executive Directors** | |
| Mr. Cao Zhibin (appointed on 26 July 2013) | 4/4 |
| Ms. Zhao Jun | 8/8 |
| Mr. Zhang Jiaming | 8/8 |
| Mr. Li Liuqing | 8/8 |

In general, the notices of meetings of the Board are sent to all Directors through email and fax before the dates of meetings. In order to enable the Directors to consider the issues to be approved in the meetings with adequate time, the notices of regular Board meetings will be sent to all Directors at least 14 days prior to the convening of the meeting while prior notification of the convening of ad hoc Board meetings will be made to Directors in due course. In order to provide all Directors with a full picture of the latest operating conditions of the Company, the management representatives of the Company will report the latest operating conditions of the Company and the implementation of the issues resolved in the last Board meeting to all the Directors before the convening of the meeting.

## COMMITTEES UNDER THE BOARD

The Audit Committee, the Remuneration Committee and the Nomination Committee were established under the Board. These committees perform supervision and control of the Company based on their written terms of reference.

### Audit Committee

The primary duties of the Audit Committee are to make recommendations on the appointment, re-appointment and removal of external auditors, to review financial statements and making recommendations on the financial reporting, and to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee consists of three independent non-executive Directors, namely, Mr. Li Liuqing, Mr. Zhang Jiaming and Ms. Zhao Jun. Mr. Li Liuqing is the chairman of the Audit Committee and has the appropriate professional qualifications. The Audit Committee shall meet at least twice a year.

The Audit Committee had reviewed the Group's internal controls for the financial year ended 31 December 2013. The Group's final results for the year ended 31 December 2013 had been reviewed by the Audit Committee before submission to the Board for approval. The Audit Committee had also reviewed this annual report, and confirmed that this annual report is complete and accurate, and complies with all relevant rules and regulations, including but not limited to the Listing Rules. There is no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors.

The Audit Committee held 2 meetings for the year ended 31 December 2013.

The attendance of the members of the Audit Committee at the committee meetings is as follows:

| Member | Attendance/Committee Meetings held |
|---|---|
| Mr. Li Liuqing *(Chairman)* | 2/2 |
| Mr. Zhang Jiaming | 2/2 |
| Ms. Zhao Jun | 2/2 |

## Nomination Committee

The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of Directors and management of the Board's succession, to ensure that the candidates to be nominated as Directors are experienced, high caliber individuals. The Nomination Committee consists of two independent non-executive Directors, namely, Mr. Zhang Jiaming and Ms. Zhao Jun, and Mr. Zhang Yingcen, an executive Director and the chairman of the Board, who is the chairman of the Nomination Committee.

The Nomination Committee shall meet at least once every year.

The Nomination Committee held 1 meeting during the year ended 31 December 2013 for reviewing the structure of the Board, size and composition of the Board, assessing the independence of the independence non-executive Directors and other related matters.

The attendance of the members of the Nomination Committee at the committee meetings is as follows:

| Member | Attendance/Committee Meetings held |
|---|---|
| Mr. Zhang Yingcen *(Chairman)* | 1/1 |
| Mr. Zhang Jiaming | 1/1 |
| Ms. Zhao Jun | 1/1 |

## Board Diversity

The Stock Exchange introduced certain amendments to the Code set out in Appendix 14 to the Listing Rules which are effective from 1 September 2013 in relation to the Board diversity. In order to achieve the diversity of members of the Board, the Board will take into account a number of factors including gender, age, cultural and educational background and length of service. The term of office of the Nomination Committee has been amended to include its obligation to monitor the implementation of policy on Board diversity by Directors.

The Group has adopted the policy on Board diversity which is summarized as follows:

(1). Election of members of the Board shall be based on a series of diversified bases, including but not limited to gender, age, cultural and educational background, expertise, skills, knowledge and length of service; and

(2). The Nomination Committee will monitor the implementation of diversity policy in order to ensure that the policy produces desirable results.

# CORPORATE GOVERNANCE REPORT

### Remuneration Committee

The primary duties of the Remuneration Committee include mainly: (i) reviewing the terms of the remuneration package of each Director and member of senior management, and making recommendations to the Board regarding any adjustment thereof; and (ii) reviewing and evaluating the performance of individual executive Directors for determining the amount of bonus (if any) payable to them.

The Remuneration Committee comprises two independent non-executive Directors, namely Ms. Zhao Jun and Mr. Zhang Jiaming, and one executive Director, namely Mr. Zhang Yingcen. Ms. Zhao Jun is the chairperson of the Remuneration Committee. The Remuneration Committee shall meet at least once every year for reviewing the remuneration policies.

The Remuneration Committee held 1 meeting during the year ended 31 December 2013.

The attendance of the members of the Remuneration Committee at the committee meetings is as follows:

| Member | Attendance/Committee Meetings held |
|---|---|
| Ms. Zhao Jun *(Chairperson)* | 1/1 |
| Mr. Zhang Yingcen | 1/1 |
| Mr. Zhang Jiaming | 1/1 |

## APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for an initial term of 3 years commencing from 10 November 2013 and subject to termination by either party upon giving no less than 3 months' prior written notice to the other party.

Each of Mr. Li Liuqing, Mr. Zhang Jiaming and Ms. Zhao Jun, independent non-executive Directors, had entered into a service contract with the Company for a term of two years commencing from 10 November 2013 and subject to termination by either party upon giving no less than 3 months' prior written notice to the other party. Mr. Cao Zhibin, an independent non-executive Director, has entered into a service contract with the Company for a term of 2 years commencing from 26 July 2013 and subject to termination by either party upon giving no less than 3 months' prior written notice to the other party.

# CORPORATE GOVERNANCE REPORT

In accordance with Article 108(a) of the Articles of Association, at each annual general meeting, at least one-third of the Directors shall retire from office by rotation. Each Director shall retire at least once every three years and such Directors shall include those who have assumed the longest term of office since their last appointment or re-election.

## GENERAL MEETINGS

The 2013 annual general meeting (the "2013 AGM") was held on 24 May 2013. The attendance record of the Directors at the 2013 AGM were as follows:

| Directors | Attendance/General Meetings held |
|---|---|
| **Executive Directors** | |
| Mr. Zhang Yincen *(Chairman)* | 1/1 |
| Mr. Hu Xiaoming | 1/1 |
| Mr. Xian Zhenyuan | 1/1 |
| Mr. Feng Yi | 1/1 |
| Mr. Sun Heng | 1/1 |
| Ms. Li Tao | 1/1 |
| **Independent Non-executive Directors** | |
| Mr. Cao Zhibin | –/– |
| Mr. Li Liuqing | 1/1 |
| Mr. Zhang Jiaming | 1/1 |
| Ms. Zhao Jun | 1/1 |

The Company's external auditors also attended the 2013 AGM.

## DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

All Directors acknowledge their responsibility for preparing the accounts and the financial statements for the year ended 31 December 2013.

The auditor to the Company acknowledges its reporting responsibilities in the auditor's report on the financial statements for the year ended 31 December 2013. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing financial statements.

## AUDITOR'S REMUNERATION

During the year ended 31 December 2013, the Group's audit expenses amounted to approximately RMB2,900,000. There were no significant non-audit service assignments performed by the auditor of the Group.

## INTERNAL CONTROL

The Board is responsible for maintaining operation of the effective internal control system of the Group. The Board performs annual review of the effectiveness of all material supervision, including financial supervision, operating supervision, compliance supervision and risk management system, through the Audit Committee. Internal review personnel are responsible for assisting the Audit Committee in reviewing the effectiveness of the internal control system. Internal review personnel perform internal review and other relevant review regularly. They report the review results to the Audit Committee and provide the members

# CORPORATE GOVERNANCE REPORT

of the committee with advice to optimize internal control for the Audit Committee's consideration. During the year, internal review personnel mainly reviewed the major risk management systems based on the internal control advice in the report formulated by external audit institutions, and reported the review results to the Board. With the support of the Board, the internal review personnel carried out improvement for the operation of the Group. The Board has conducted a review of the effectiveness of the internal control system of the Company and its subsidiaries during the year ended 31 December 2013.

## PROCEDURES FOR CONVENING AN EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS

Pursuant to Article 64 of the Articles, extraordinary general meetings shall be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, no less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Pursuant to Article 72 of the Articles, the number of Shareholders necessary for putting forward a proposal at a Shareholders' meetings is as follows:

(i). at least 2 Shareholders entitled to vote at any general meeting; or

(ii). any Shareholder or Shareholders representing no less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the general meeting; or

(iii). any Shareholder or Shareholders holding Shares conferring a right to vote at the general meeting being Shares on which an aggregate sum has been paid up equal to no less than one-tenth of the total sum paid up on all the Shares conferring that right.

Pursuant to Article 113 of the Articles, no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

The procedures for shareholders to propose a person for election as a Director is posted on the website of the Company.

# CORPORATE GOVERNANCE REPORT

## INVESTOR RELATIONS

The Group has already set up the Investor Relations Department to be responsible for investor relations management work and established various channels for the communication with investor, including direct line and mail so as to ensure smooth communication between the Company and investors. In addition, in order to provide a full picture of the business development and prospects of the Company to the media, securities analysts, fund managers and investors, the Company held ad hoc call conferences and luncheons for them, organized visits to the Company on a regular basis and answer their inquires in a timely manner.

## COMMUNICATION WITH SHAREHOLDERS

The Company endeavors to maintain an on-going dialogue with its shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation. The Company will ensure that there are separate resolutions for separate issues proposed at the general meetings. The Company will continue to maintain an open and effective investor communication policy and to update investors on relevant information on the Group's business in a timely manner, subject to relevant regulatory requirement.

## PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may at any time put their enquiries to the Board in writing to the Company whose contact details are as follows:

China Tian Lun Gas Holdings Limited
4th Floor, Tian Lun Group Building
No.6 Huang He East Road
Zheng Dong Xin District
Zhengzhou City
Henan Province, the PRC
Email: ir@tianlungas.com
Telephone and Fax no.: 86 371 6397 7151

## MATERIAL CHANGES IN CONSTITUTIONAL DOCUMENTS

There were no material no changes in the Company's constitutional documents during the year ended 31 December 2013.

# INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

**To the shareholders of**
**China Tian Lun Gas Holdings Limited**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of China Tian Lun Gas Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 46 to 119, which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

# INDEPENDENT AUDITOR'S REPORT

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 31 March 2014

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*(All amounts in Renminbi ("RMB"))*

| | Note | Year ended 31 December 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| Revenue | 5 | **911,939** | 716,362 |
| Cost of sales | 8 | **(578,903)** | (465,126) |
| **Gross profit** | | **333,036** | 251,236 |
| Distribution costs | 8 | **(13,669)** | (11,863) |
| Administrative expenses | 8 | **(65,224)** | (56,167) |
| Other income | 6 | **–** | 9,546 |
| Other (losses)/gains – net | 7 | **(214)** | 12,766 |
| **Operating profit** | | **253,929** | 205,518 |
| Finance income | | **28,644** | 32,488 |
| Finance costs | | **(36,421)** | (35,073) |
| Finance costs — net | 10 | **(7,777)** | (2,585) |
| **Profit before income tax** | | **246,152** | 202,933 |
| Income tax expense | 12 | **(59,864)** | (53,710) |
| **Profit for the year** | | **186,288** | 149,223 |
| **Other comprehensive income for the year, net of tax** | | **–** | — |
| **Total comprehensive income for the year** | | **186,288** | 149,223 |
| **Profit and total comprehensive income attributable to:** | | | |
| Owners of the Company | | **168,945** | 135,097 |
| Non-controlling interests | | **17,343** | 14,126 |
| | | **186,288** | 149,223 |
| **Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)** | | | |
| – Basic and diluted | 13 | **0.20** | 0.16 |
| **Dividends** | 30 | **–** | — |

The notes on pages 52 to 119 are an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

*(All amounts in RMB)*

| | | As at 31 December | |
|---|---|---|---|
| | | **2013** | 2012 |
| | Note | **RMB'000** | RMB'000 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Lease prepayments | 15 | **64,833** | 48,141 |
| Property, plant and equipment | 16 | **726,081** | 526,520 |
| Investment properties | 17 | **9,006** | 9,561 |
| Intangible assets | 18 | **650,898** | 441,197 |
| Deferred income tax assets | 29 | **2,599** | 2,237 |
| Trade and other receivables | 20 | **17,788** | 13,336 |
| Other non-current assets | | **3,743** | 2,075 |
| | | **1,474,948** | 1,043,067 |
| **Current assets** | | | |
| Inventories | 21 | **93,330** | 73,674 |
| Trade and other receivables | 20 | **251,739** | 160,303 |
| Financial assets at fair value through profit or loss | 22 | **221,824** | 375,983 |
| Restricted cash | 23 | **9,145** | — |
| Cash and cash equivalents | 23 | **576,402** | 368,940 |
| | | **1,152,440** | 978,900 |
| **Total assets** | | **2,627,388** | 2,021,967 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 24 | **7,077** | 7,077 |
| Share premium | 24 | **454,188** | 454,188 |
| Reserves | 25 | **34,109** | 19,061 |
| Retained earnings | 25 | **424,594** | 270,885 |
| | | **919,968** | 751,211 |
| **Non-controlling interests** | | **170,428** | 145,055 |
| **Total equity** | | **1,090,396** | 896,266 |

# CONSOLIDATED BALANCE SHEET

*(All amounts in RMB)*

| | Note | As at 31 December 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 28 | **781,124** | 165,901 |
| Deferred income tax liabilities | 29 | **63,975** | 43,325 |
| | | **845,099** | 209,226 |
| **Current liabilities** | | | |
| Trade and other payables | 26 | **285,556** | 141,425 |
| Advance from customers | 27 | **152,711** | 114,750 |
| Current income tax liabilities | | **24,232** | 20,476 |
| Borrowings | 28 | **229,394** | 639,824 |
| | | **691,893** | 916,475 |
| **Total liabilities** | | **1,536,992** | 1,125,701 |
| **Total equity and liabilities** | | **2,627,388** | 2,021,967 |
| **Net current assets** | | **460,547** | 62,425 |
| **Total assets less current liabilities** | | **1,935,495** | 1,105,492 |

The notes on pages 52 to 119 are an integral part of these consolidated financial statements.

The financial statements on pages 46 to 119 were approved by the Board of Directors on 31 March 2014 and were signed on its behalf.

**Mr. Zhang Yingcen**
*Chairman*

**Mr. Xian Zhenyuan**
*Director*

# BALANCE SHEET

*(All amounts in RMB)*

| | | As at 31 December | |
|---|---|---|---|
| | | **2013** | 2012 |
| | Note | **RMB'000** | RMB'000 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Other receivables | 20 | **7,142** | — |
| Investments in subsidiaries | 11 | **96,002** | 96,002 |
| | | **103,144** | 96,002 |
| **Current assets** | | | |
| Other receivables | 20 | **570,299** | 358,530 |
| Restricted cash | 23 | **9,145** | — |
| Cash and cash equivalents | 23 | **241,778** | 673 |
| | | **821,222** | 359,203 |
| **Total assets** | | **924,366** | 455,205 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 24 | **7,077** | 7,077 |
| Share premium | 24 | **454,188** | 454,188 |
| Accumulated losses | 25 | **(17,155)** | (12,271) |
| **Total equity** | | **444,110** | 448,994 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 28 | **475,558** | — |
| **Current liabilities** | | | |
| Trade and other payables | 26 | **4,698** | 6,211 |
| **Total liabilities** | | **480,256** | 6,211 |
| **Total equity and liabilities** | | **924,366** | 455,205 |
| **Net current assets** | | **816,524** | 352,992 |
| **Total assets less current liabilities** | | **919,668** | 448,994 |

The notes on pages 52 to 119 are an integral part of these financial statements.

The financial statements on pages 46 to 119 were approved by the Board of Directors on 31 March 2014 and were signed on its behalf.

| | |
|---|---|
| **Mr. Zhang Yingcen** | **Mr. Xian Zhenguan** |
| *Chairman* | *Director* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*(All amounts in RMB)*

| | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 Note 24 | Share premium RMB'000 Note 24 | Reserves RMB'000 Note 25 | Retained earnings RMB'000 Note 25 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **Balance at 1 January 2012** | 7,077 | 454,188 | 4,817 | 150,048 | 616,130 | 168,090 | 784,220 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | — | — | — | 135,097 | 135,097 | 14,126 | 149,223 |
| **Transactions with owners** | | | | | | | |
| Appropriation | — | — | 14,260 | (14,260) | — | — | — |
| Acquisition of subsidiaries | — | — | — | — | — | (2,738) | (2,738) |
| Disposal of subsidiaries | — | — | — | — | — | (41,044) | (41,044) |
| Transaction with non-controlling interests | — | — | (16) | — | (16) | (1,984) | (2,000) |
| Capital injection from non-controlling interests | — | — | — | — | — | 7,200 | 7,200 |
| Fair value adjustments on business combination | — | — | — | — | — | 1,405 | 1,405 |
| **Balance at 31 December 2012** | 7,077 | 454,188 | 19,061 | 270,885 | 751,211 | 145,055 | 896,266 |
| **Balance at 1 January 2013** | 7,077 | 454,188 | 19,061 | 270,885 | 751,211 | 145,055 | 896,266 |
| **Comprehensive income** | | | | | | | |
| Profit for the year | — | — | — | 168,945 | 168,945 | 17,343 | 186,288 |
| **Transactions with owners** | | | | | | | |
| Appropriation | — | — | 15,236 | (15,236) | — | — | — |
| Acquisition of subsidiaries (Note 35.1) | — | — | — | — | — | 3,621 | 3,621 |
| Transaction with non-controlling interests (Note 34) | — | — | (360) | — | (360) | (615) | (975) |
| Capital injection from non-controlling interests | — | — | — | — | — | 4,950 | 4,950 |
| Waiver of liability by non-controlling interests (Note 34) | — | — | 172 | — | 172 | 74 | 246 |
| **Balance at 31 December 2013** | **7,077** | **454,188** | **34,109** | **424,594** | **919,968** | **170,428** | **1,090,396** |

The notes on pages 52 to 119 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*(All amounts in RMB)*

| | Note | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| | | **Year ended 31 December** | |
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 31 | **247,045** | 206,210 |
| Interest paid | | **(56,303)** | (47,282) |
| Income tax paid | | **(59,975)** | (36,577) |
| Net cash generated from operating activities | | **130,767** | 122,351 |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment and investment properties | | **(131,370)** | (104,259) |
| Increase in lease prepayments | | **(12,857)** | (19,265) |
| Proceeds from disposal of property, plant and equipment and investment properties | 31 | **3,254** | 2 |
| Purchase of intangible assets | | **(17,029)** | (14,710) |
| Purchases of available-for-sale financial assets | | **(332,000)** | (89,990) |
| Proceeds from disposal of available-for-sale financial assets | | **332,323** | 152,867 |
| Purchases of financial assets at fair value through profit or loss | | **—** | (370,000) |
| Proceeds from disposal of financial assets at fair value through profit or loss | | **150,000** | — |
| Net cash outflow for the acquisition of subsidiaries | 35 | **(109,526)** | (124,729) |
| Net cash inflow on disposal of subsidiaries | | **—** | 92,942 |
| Changes in restricted cash | | **—** | 5,000 |
| Transaction with non-controlling interests | 34 | **(975)** | (2,000) |
| Investment gains derived from financial assets at fair value through profit or loss | | **27,441** | 15,262 |
| Interest received | | **876** | 2,096 |
| Net cash used in investing activities | | **(89,863)** | (456,784) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **1,047,851** | 661,843 |
| Repayments of borrowings | | **(876,795)** | (276,523) |
| Capital injection from non-controlling interests | | **3,000** | 7,200 |
| Changes in restricted cash | | **(9,145)** | — |
| Net cash generated from financing activities | | **164,911** | 392,520 |
| **Net increase in cash and cash equivalents** | | **205,815** | 58,087 |
| Cash and cash equivalents at beginning of the year | | **368,940** | 310,762 |
| Exchange gains on cash and cash equivalents | | **1,647** | 91 |
| **Cash and cash equivalents at end of the year** | 23 | **576,402** | 368,940 |

The notes on pages 52 to 119 are an integral part of these financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 1. GENERAL INFORMATION OF THE GROUP

China Tian Lun Gas Holdings Limited (the "Company") was incorporated on 20 May 2010 in the Cayman Islands under the Companies Law (2010 Revision) of the Cayman Islands as an exempted company with limited liability. The Company is an investment holding company and was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 November 2010.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the gas pipeline connections by providing residential, commercial and industrial users with laying and installation and transportation, distribution and sales of gases including natural gas and compressed natural gas (the "CNG") and production and sales of liquefied natural gas ("LNG") in bulk and in cylinders in certain cities of the People's Republic of China (the "PRC").

The address of the Company's registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

These consolidated financial statements have been approved for issue by the Board of Directors on 31 March 2014.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

#### *2.1.1 Changes in accounting policy and disclosures*

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013 and have a material impact on the Group:

- Amendment to HKAS 1, "Financial statement presentation" regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in "other comprehensive income" (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *2.1.1 Changes in accounting policy and disclosures (continued)*

(a) New and amended standards adopted by the Group *(continued)*

- HKFRS 12, "Disclosures of interests in other entities" includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

- HKFRS 13, "Fair value measurement", aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned between HKFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs.

- Amendments to HKAS 36, "Impairment of assets", on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in HKAS 36 by the issue of HKFRS 13. The amendment is not mandatory for the Group until 1 January 2014, however the Group has decided to early adopt the amendment as of 1 January 2013.

- HKFRS 10, "Consolidated financial statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

- Amendment to HKFRS 7, "Financial instruments: Disclosures", on asset and liability offsetting. The amendments require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the balance sheet, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *2.1.1 Changes in accounting policy and disclosures (continued)*

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- HKFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact. The Group will also consider the impact of the remaining phases of HKFRS 9 when completed by the Board.

- Amendment to HKAS 32, "Financial instruments: Presentation" on asset and liability offsetting. These amendments are to the application guidance in HKAS 32, "Financial instruments: Presentation", and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

- Amendments to HKFRS 10, 12 and HKAS 27 "Consolidation for investment entities". These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an "investment entity" definition and which display particular characteristics. Changes have also been made HKFRS 12 to introduce disclosures that an investment entity needs to make.

- Amendment to HKAS 39 "Financial Instruments: Recognition and Measurement" — Novation of derivatives. This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *2.1.1 Changes in accounting policy and disclosures (continued)*

(b) New standards and interpretations not yet adopted *(continued)*

- HK(IFRIC) 21 "Levies", sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

### 2.2 Subsidiaries

#### *2.2.1 Consolidation*

Subsidiaries are entities (including a structured entity) over which the Group has control. The Group controls entities when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.2 Subsidiaries *(continued)*

#### *2.2.1 Consolidation (continued)*

(a) Business combinations *(continued)*

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 2.8).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

#### *2.2.2 Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the senior executive management team, including the chairman and the chief executive officer, that makes strategic decisions.

### 2.4 Foreign currency translation

*(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within "finance income or cost". All other foreign exchange gains and losses are presented in profit or loss within "other (losses)/gains — net".

Changes in fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.4 Foreign currency translation *(continued)*

#### *(c) Group companies*

The results and financial position of the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

### 2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values at a range of 0% - 5% of the cost over their estimated useful lives, as follows:

| | | |
|---|---|---|
| — | Buildings | 20-30 years |
| — | Equipment and machinery | 5-10 years |
| — | Gas pipelines | 16-25 years |
| — | Office equipment and motor vehicles | 3-8 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.5 Property, plant and equipment *(continued)*

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other (losses)/gains — net" in profit or loss.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost. Cost includes the costs of construction of buildings and costs of plant and machinery. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

### 2.6 Investment property

Investment property, principally office buildings, is held for rental yields and is not occupied by the Group. Investment property is initially recognised at cost and subsequently carried at cost less accumulated depreciation and impairment losses, if any.

Depreciation is calculated using the straight-line method to write-off the cost of the assets to their residual values over their estimated useful lives of 25 years.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are within 'other (losses)/gains — net' in profit or loss.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its cost for accounting purposes.

If an item of property, plant and equipment becomes an investment property because its use has changed, the transfer does not change the carrying amount of the property transferred, nor does it change the cost of that property for measurement or disclosure purposes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.7 Lease prepayments

Lease prepayments represent upfront prepayments made for the land use rights. Lease prepayments are stated at costs and are amortised on a straight-line basis over the remaining period of the land use rights, net of any impairment losses.

### 2.8 Intangible assets

#### *(a) Goodwill*

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

#### *(b) Operating rights for city pipeline network and gas station*

Operating rights for city pipeline network and gas station represent the rights for distribution of gas in certain cities or districts in the PRC, and are stated at cost less accumulated amortisation and impairment losses, if any. The cost incurred for the acquisition of operating rights is capitalised and amortised on a straight-line basis over their estimated useful lives (10 - 50 years).

#### *(c) Computer software*

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 - 5 years).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.9 Impairment of non-financial assets

Assets that have an indefinite useful life — for example, goodwill or intangible assets not ready to use — are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.10 Financial assets

#### *2.10.1 Classification*

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amount that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the consolidated balance sheet (Notes 2.14 and 2.15).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.10 Financial assets *(continued)*

#### *2.10.2 Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within "finance costs — net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss as "other (losses)/gains — net".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognised in the profit or loss as part of other income when the Group's right to receive payments is established.

### 2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.12 Impairment of financial assets

*(a) Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.12 Impairment of financial assets *(continued)*

#### *(b) Assets classified as available-for-sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

### 2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises materials for gas pipelines, spare parts, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.14 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### 2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### 2.17 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### 2.19 Borrowings costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

*(a) Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

*(b) Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.20 Current and deferred income tax *(continued)*

*(c) Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.21 Employee benefits — Pension obligations and other benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit, housing fund, medical insurance and unemployment fund plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised in profit or loss as employee benefit expense when they are incurred.

### 2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of assets are included in non-current liabilities as deferred income and are credited to the profit or loss on a straight-line basis over the expected lives of the related assets.

### 2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

*(a) Connection of gas pipelines*

Revenue in respect of the connection and construction of gas pipelines is recognised using the percentage of completion method, but when the period of construction works is short, the revenue is recognised when the relevant construction works are completed and connection services are rendered. The average time required for the Group to complete a gas pipeline construction project is approximately two to four months.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.23 Revenue recognition *(continued)*

*(b) Sale of gases*

Revenue from the sale of gases, including pipelined gases, CNG and LNG, is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the gas is delivered to customers and title has passed, and is based on the gas consumption derived from metre readings.

*(c) Rental income*

Rental income from investment properties is recognised in profit or loss on a straight-line basis over the period of the leases.

*(d) Service income*

Service income represents income from contracting services provided to customers and is recognised when services are rendered.

### 2.24 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

### 2.25 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

### 2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 3. FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by finance department under the policies approved by the board of directors.

*(a) Market risk*

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar ("USD"). Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Management has set up a policy to require the Group companies to manage their foreign exchange risk against their functional currency.

As at 31 December 2013, if RMB had weakened/strengthened by 1% (2012: 1%) against USD with all other variables held constant, the Group's net profit for the year then ended would have been approximately RMB1,789,000 (2012: RMB45,000) lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD-denominated bank borrowings.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from borrowings and bank deposits. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. As at 31 December 2013, the Group's borrowings of RMB785,559,000 bore interest at variable rates and borrowings of RMB224,959,000 at fixed rates. The Group currently does not use any interest rate swaps to hedge its exposure to interest rate risk.

As at 31 December 2013, if interest rates on borrowings had been 0.3% higher/lower with all other variables held constant, profit before income tax for the year would have been approximately RMB2,357,000 (2012: RMB1,422,000) lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

As at 31 December 2013, if interest rates on all interest-bearing bank deposits had been 0.3% higher/lower with all other variables held constant, profit before income tax for the year would have been approximately RMB1,723,000 (2012: RMB1,104,000) higher/lower, respectively, mainly as a result of higher/lower interest income earned.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 3. FINANCIAL RISK MANAGEMENT *(continued)*

### 3.1 Financial risk factors *(continued)*

#### *(b) Credit risk*

The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables and the financial assets at fair value through profit or loss.

As at 31 December 2013 and 2012, all of the Group's bank deposits are deposited in major financial institutions located in the PRC, Hong Kong and Taiwan, which management believes are of high credit quality without significant credit risk. The Group's bank deposits as at 31 December 2013 and 2012 were as follows:

| **Group** | **As at 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Big four commercial banks (i) | **452,664** | 194,176 |
| Other listed banks | **31,608** | 2,068 |
| Other state-owned banks | **90,079** | 171,676 |
| | **574,351** | 367,920 |

(i) Big four commercial banks include Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China and Bank of China, all being sizable banks in the PRC.

The Group closely monitors the trust investment classified as financial assets at fair value through profit or loss. The Group assesses the credit quality of the trust investment by reviewing the investment report prepared by the trust agency, focusing on the quality of the investment product, past performance and the collateral. The financial department is responsible for such monitoring procedures.

The Group has no significant concentration of credit risk in relation to trade and other receivables, with exposure spread over a number of counterparties and customers.

The Group generally requests advances from customers. In circumstances of credit sales, to manage the credit risk in respect of trade and other receivables, the Group has policies in place to ensure that sales are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers, and generally does not require collateral from the customers on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintains a provision for impairment of receivables and actual losses incurred have been within management's expectation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 3. FINANCIAL RISK MANAGEMENT *(continued)*

### 3.1 Financial risk factors *(continued)*

*(c) Liquidity risk*

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations, borrowings from financial institutions, as well as equity financing through shareholders.

The table below analyses the Group's and Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| Group | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 |
|---|---|---|---|---|
| **At 31 December 2013** | | | | |
| Bank borrowings | **266,847** | **319,009** | **478,823** | **30,925** |
| Other borrowings | **6,582** | **164** | **530** | **4,871** |
| Trade and other payables (i) | **273,889** | **—** | **—** | **—** |
| **At 31 December 2012** | | | | |
| Bank borrowings | 427,313 | 20,125 | 110,387 | 63,725 |
| Other borrowings | 231,440 | 521 | 1,536 | 8,628 |
| Trade and other payables (i) | 136,362 | — | — | — |

(i) Trade and other payables include trade payables, amounts due to related parties, other payables and interest payables as stated in Note 26.

| Company | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 |
|---|---|---|---|---|
| **At 31 December 2013** | | | | |
| Bank borrowings | **17,815** | **176,334** | **323,225** | **—** |
| Other payables | **4,698** | **—** | **—** | **—** |
| **At 31 December 2012** | | | | |
| Other payables | 6,211 | — | — | — |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 3. FINANCIAL RISK MANAGEMENT *(continued)*

### 3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital risk on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt. The Group aims to maintain the gearing ratio at a reasonable level.

The gearing ratios as at 31 December 2013 and 2012 were as follows:

| **Group** | **As at 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Total borrowings (Note 28) | **1,010,518** | 805,725 |
| Less: cash and cash equivalents (Note 23) | **(576,402)** | (368,940) |
| Net debt | **434,116** | 436,785 |
| Total equity | **1,090,396** | 896,266 |
| Total capital | **1,524,512** | 1,333,051 |
| Gearing ratio | **28%** | 33% |

### 3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 3. FINANCIAL RISK MANAGEMENT *(continued)*

### 3.3 Fair value estimation *(continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2013. See Note 22 for disclosure of financial assets at fair value.

| | **Level 1 RMB'000** | **Level 2 RMB'000** | **Level 3 RMB'000** | **Total RMB'000** |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| — Investment in trust | **—** | **—** | **221,824** | **221,824** |
| **Total assets** | **—** | **—** | **221,824** | **221,824** |

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2012.

| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| — Investment in trust | — | — | 375,983 | 375,983 |
| **Total assets** | — | — | 375,983 | 375,983 |

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The valuation technique used to value the financial instrument is discounted cash flow analysis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 3. FINANCIAL RISK MANAGEMENT *(continued)*

### 3.3 Fair value estimation *(continued)*

The following table presents the changes in level 3 instruments for the year ended 31 December 2013.

| | **Financial assets at fair value through profit or loss RMB'000** | **Available-for-sale financial assets RMB'000** | **Total RMB'000** |
|---|---|---|---|
| Balance at 1 January | **375,983** | **—** | **375,983** |
| Additions | **—** | **332,000** | **332,000** |
| Changes in fair value recognised in profit or loss | **(1,733)** | **—** | **(1,733)** |
| Disposals | **(152,426)** | **(332,000)** | **(484,426)** |
| Balance at 31 December | **221,824** | **—** | **221,824** |
| Total gains for the period including in profit or loss for assets held at the end of the reporting period | **27,768** | **323** | **28,091** |

The following table presents the changes in level 3 instruments for the year ended 31 December 2012.

| | Financial assets at fair value through profit or loss RMB'000 | Available-for-sale financial assets RMB'000 | Total RMB'000 |
|---|---|---|---|
| Balance at 1 January | — | 62,000 | 62,000 |
| Additions | 370,000 | 89,990 | 459,990 |
| Changes in fair value recognised in profit or loss | 5,983 | — | 5,983 |
| Disposals | — | (151,990) | (151,990) |
| Balance at 31 December | 375,983 | — | 375,983 |
| Total gains for the period including in profit or loss for assets held at the end of the reporting period | 30,392 | 877 | 31,269 |

The carrying amounts of the Group's financial assets and liabilities including cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables, and current borrowings, approximate their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair value of the non-current borrowings is disclosed in Note 28.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Estimate of impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 18).

### (b) Income taxes

The Group's subsidiaries that operate in the PRC are subject to corporate income tax in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and income tax expense in the period in which such estimate is changed.

As at 31 December 2013, the Group has deferred income tax assets of approximately RMB2,599,000 (2012: RMB2,237,000) (Note 29). To the extent that it is probable that the taxable profit will be available against which the deductible temporary differences will be utilised, deferred income tax assets are recognised for temporary differences arising from provision for impairment of assets, accrued expenses, tax losses and depreciation. Should the Group be required to increase the tax rate, every 1% increment in tax rate would render a further write up of deferred tax assets in the amount of approximately RMB104,000 (2012: RMB89,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

### (c) Purchase price allocation for business combinations other than common control combinations

Accounting for business combinations requires the Group to allocate the cost of the acquisition to the specific assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The Group undertakes a process to identify all assets and liabilities acquired, including any identified intangible assets where appropriate. The judgments made in identifying all acquired assets, determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as assets useful lives, may materially impact the Group's financial position and results of operation. In determining the fair values of the identifiable assets acquired and liabilities assumed, valuations were conducted by an independent valuer and estimated fair values are based on information available near the acquisition date and on expectations and assumptions that have been deemed reasonable by management.

## 5 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the senior executive management team on monthly basis that are used to make strategic decisions.

The senior executive management team considers the business from a "product" perspective only, as geographically all the products are provided within the PRC, which is considered as one geographic location with similar risks and returns.

The reportable operating segments derive their revenue primarily from transportation and sales of gases, and gas pipeline connections.

The revenue from rental income of investment properties and other miscellaneous income, has been reviewed by the senior executive management team, and its results are included in the "all other segments" column.

The senior executive management team assesses the performance of the operating segments based on the measure of gross profit, which is determined by using the accounting policies which are the same as disclosed in Note 2 above. Meanwhile, the Group does not allocate operating costs, assets or liabilities to its segments, as the senior executive management team does not use this information to allocate resources to or evaluate the performance of the operating segments. Therefore, the Group does not report a measure of segment assets and segment liabilities for each reportable segment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 5 SEGMENT INFORMATION *(continued)*

The segment information provided to the senior executive management team for the reportable segments for the year ended 31 December 2013 is as follows:

| | **Transportation and sales of gas RMB'000** | **Gas pipeline connections RMB'000** | **All other segments RMB'000** | **Unallocated RMB'000** | **Total RMB'000** |
|---|---|---|---|---|---|
| Total external revenue | **504,357** | **384,784** | **22,798** | **—** | **911,939** |
| Gross profit | **80,632** | **241,714** | **10,690** | **—** | **333,036** |
| Distribution costs | | | | **(13,669)** | **(13,669)** |
| Administrative expenses | | | | **(65,224)** | **(65,224)** |
| Other losses – net | | | | **(214)** | **(214)** |
| **Operating profit** | | | | | **253,929** |
| Finance costs – net | | | | **(7,777)** | **(7,777)** |
| **Profit before income tax** | | | | | **246,152** |
| Income tax expense | | | | **(59,864)** | **(59,864)** |
| **Profit for the year** | | | | | **186,288** |

The segment information provided to the senior executive management team for the reportable segments for the year ended 31 December 2012 is as follows:

| | Transportation and sales of gas RMB'000 | Gas pipeline connections RMB'000 | All other segments RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Total external revenue | 395,106 | 301,812 | 19,444 | — | 716,362 |
| Gross profit | 54,026 | 187,049 | 10,161 | — | 251,236 |
| Distribution costs | | | | (11,863) | (11,863) |
| Administrative expenses | | | | (56,167) | (56,167) |
| Other income | | | | 9,546 | 9,546 |
| Other gains — net | | | | 12,766 | 12,766 |
| **Operating profit** | | | | | 205,518 |
| Finance costs — net | | | | (2,585) | (2,585) |
| **Profit before income tax** | | | | | 202,933 |
| Income tax expense | | | | (53,710) | (53,710) |
| **Profit for the year** | | | | | 149,223 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 5 SEGMENT INFORMATION *(continued)*

The principal subsidiaries of the Company are domiciled in the PRC. All the revenue from external customers are derived from the PRC, and all the non-current assets are located in the PRC.

For the year ended 31 December 2013, no revenue derived from sales made to a single external customers amounted to 10% or more of the Group's total revenue (2012: nil).

## 6. OTHER INCOME

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Government grants | **—** | 9,546 |

## 7. OTHER (LOSSES)/GAINS — NET

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Gains on disposal of available-for-sale financial assets | **323** | 877 |
| Gains on disposal of subsidiaries | **—** | 11,801 |
| Losses on disposal of property, plant and equipment and investment properties (Note 31) | **(798)** | (72) |
| Others | **261** | 160 |
| | **(214)** | 12,766 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 8. EXPENSE BY NATURE

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Raw materials and consumables used | **453,253** | 351,721 |
| Changes in inventories of finished goods and work in progress | **(2,093)** | (3,006) |
| Depreciation on property, plant and equipment (Note 16) | **32,445** | 26,398 |
| Depreciation on investment properties (Note 17) | **489** | 497 |
| Amortisation of lease prepayments (Note 15) | **1,327** | 1,189 |
| Amortisation of intangible assets (Note 18) | **9,703** | 7,401 |
| Employee benefit expense (Note 9) | **64,067** | 53,126 |
| Licensing fee for the operating rights for city pipeline network | **1,100** | 1,100 |
| Engagement of construction and design services | **38,066** | 34,291 |
| Transportation | **5,324** | 13,899 |
| Auditors' remuneration | **3,525** | 3,523 |
| Professional expenses | **1,667** | 1,715 |
| Advertising expenses | **1,513** | 719 |
| Entertainment expenses | **1,867** | 3,696 |
| Office expenses | **5,421** | 3,238 |
| Taxes | **18,121** | 15,080 |
| Energy consumption | **7,221** | 5,440 |
| Other expenses | **14,780** | 13,129 |
| Total cost of sales, distribution costs and administrative expenses | **657,796** | 533,156 |

## 9. EMPLOYEE BENEFIT EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Wages and salaries | **47,119** | 39,685 |
| Pension costs — defined contribution plans | **6,214** | 4,764 |
| Social security benefits costs | **5,282** | 4,864 |
| Others | **5,452** | 3,813 |
| | **64,067** | 53,126 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 9. EMPLOYEE BENEFIT EXPENSE *(continued)*

### (a) Directors' emoluments

For the year ended 31 December 2013 is set out below:

| **Name** | **Basic salaries and allowances RMB'000** | **Discretionary bonuses RMB'000** | **Retirement benefit contributions RMB'000** | **Total RMB'000** |
|---|---|---|---|---|
| Mr. Zhang Yingcen | **200** | **—** | **31** | **231** |
| Mr. Xian Zhenyuan | **180** | **—** | **39** | **219** |
| Mr. Hu Xiaoming | **150** | **—** | **23** | **173** |
| Mr. Sun Heng | **150** | **—** | **2** | **152** |
| Mr. Feng Yi | **150** | **—** | **14** | **164** |
| Ms. Li Tao | **150** | **—** | **14** | **164** |
| Mr. Cao Zhibin* | **30** | **—** | **—** | **30** |
| Mr. Li Liuqing* | **60** | **—** | **—** | **60** |
| Ms. Zhao Jun* | **60** | **—** | **—** | **60** |
| Mr. Zhang Jiaming* | **60** | **—** | **—** | **60** |
| | **1,190** | **—** | **123** | **1,313** |

For the year ended 31 December 2012 is set out below:

| Name | Basic salaries and allowances RMB'000 | Discretionary bonuses RMB'000 | Retirement benefit contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Mr. Zhang Yingcen | 200 | — | 39 | 239 |
| Mr. Xian Zhenyuan | 180 | — | 37 | 217 |
| Mr. Hu Xiaoming | 88 | — | — | 88 |
| Mr. Sun Heng | 150 | — | 2 | 152 |
| Mr. Feng Yi | 150 | — | 13 | 163 |
| Ms. Li Tao | 88 | — | 10 | 98 |
| Mr. Zhang Daoyuan | 60 | — | — | 60 |
| Mr. Chang Zongxian* | 25 | — | — | 25 |
| Mr. Li Liuqing* | 60 | — | — | 60 |
| Ms. Zhao Jun* | 60 | — | — | 60 |
| Mr. Zhang Jiaming* | 60 | — | — | 60 |
| | 1,121 | — | 101 | 1,222 |

* represent the independent non-executive directors

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 9. EMPLOYEE BENEFIT EXPENSE *(continued)*

### (a) Directors' emoluments *(continued)*

As at 26 July 2013, the Company appointed Mr. Cao Zhibin as independent non-executive director.

As at 31 December 2012, Mr. Zhang Daoyuan and Mr. Chang Zongxian had resigned for personal reasons.

For the year ended 31 December 2013, no director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office; no director waived or has agreed to waive any emolument.

### (b) Five highest paid individuals

The five individuals whose emoluments were highest in the Group for the year ended 31 December 2013 included four (2012: four) directors. Their emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individual for the year ended 31 December 2013 (2012: one) are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Basic salaries and allowances | **133** | 192 |
| Retirement benefit contributions | **21** | 20 |
| | **154** | 212 |

The emoluments of the above individual fell within the following bands:

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| Nil to HK$1,000,000 (equivalent to RMB786,000) | **1** | 1 |

No emoluments were paid by the Group to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 10. FINANCE COSTS — NET

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Finance income | | |
| — Interest income derived from bank deposits | **(876)** | (2,096) |
| — Investment gains derived from financial assets at fair value through profit or loss | **(27,768)** | (30,392) |
| | **(28,644)** | (32,488) |
| Finance costs | | |
| — Interest expense on borrowings | **47,353** | 42,362 |
| — Exchange gains | **(1,647)** | (91) |
| — Others | **320** | 1,077 |
| Less: amounts capitalised on qualifying assets | **(9,605)** | (8,275) |
| | **36,421** | 35,073 |
| | **7,777** | 2,585 |

## 11. INVESTMENTS IN SUBSIDIARIES — COMPANY

### (a) Investments in subsidiaries

| | As at 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Investments at cost, unlisted | **96,002** | 96,002 |

The following is a list of the principal subsidiaries as at 31 December 2013:

| Name | Country/ Place and date of incorporation | Type of legal entity | Issued/ paid-in capital (RMB'000) | Effective interest held | Principal activities and place of operation |
|---|---|---|---|---|---|
| Upsky Holdings Limited ("Upsky Holdings") | BVI/ 8 July 2003 | Limited liability company | 7* | 100%** | Intermediary holding company in BVI |
| Tian Lun New Energy Limited ("Tian Lun New Energy") | Hong Kong/ 10 May 2010 | Limited liability company | —* | 100% | Intermediary holding company in HK |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 11. INVESTMENTS IN SUBSIDIARIES — COMPANY *(continued)*

### (a) Investments in subsidiaries *(continued)*

| Name | Country/ Place and date of incorporation | Type of legal entity | Issued/ paid-in capital (RMB'000) | Effective interest held | Principal activities and place of operation |
|---|---|---|---|---|---|
| Hebi Tian Lun New Energy Limited ("Hebi New Energy") (鶴壁市天倫新能源有限公司) | PRC/ 13 May 2010 | Limited liability company | 15,000 | 100% | Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC |
| Henan Tian Lun Gas Group Limited ("Henan Tian Lun Gas") (河南省天倫燃氣集團有限公司) | PRC/ 1 November 2002 | Limited liability company | 430,000 | 100% | Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC |
| Hebi Tian Lun Vehicle-use Gas Limited ("Hebi Tian Lun Vehicle") (鶴壁市天倫車用燃氣有限公司) | PRC/ 29 October 2007 | Limited liability company | 10,000 | 100% | Sale of CNG in the PRC |
| Xuchang Tian Lun Gas Limited ("Xuchang Tian Lun") (許昌市天倫燃氣有限公司) | PRC/ 29 September 2003 | Limited liability company | 25,000 | 100% | Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC |
| Xuchang Tian Lun Vehicle-use Gas Limited ("Xuchang Tian Lun Vehicle") (許昌市天倫車用燃氣有限公司) | PRC/ 12 September 2008 | Limited liability company | 10,000 | 100% | Sale of CNG in the PRC |
| Zhengzhou Shangjie Tian Lun Gas Limited ("Shangjie Tian Lun") (鄭州市上街區天倫燃氣有限公司) | PRC/ 18 July 2007 | Limited liability company | 15,000 | 90% | Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC |
| Baiyin Natural Gas Limited ("Gansu Baiyin") (白銀市天然氣有限公司) | PRC/ 16 June 2003 | Limited liability company | 30,361 | 98.97% | Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC |
| Baiyin Wangtong Gas Limited ("Baiyin Wangtong") (白銀市萬通燃氣有限公司) | PRC/ 15 October 2009 | Limited liability company | 8,500 | 100% | Sale of CNG in the PRC |
| Jilin Zhongji Dadi Gas Group Limited ("Jilin Zhongji") (吉林省中吉大地燃氣集團有限公司) | PRC/ 25 March 2005 | Limited liability company | 140,000 | 51% | Sale of pipelined natural gas, construction and connection of gas pipelines and sale of CNG in the PRC |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 11. INVESTMENTS IN SUBSIDIARIES — COMPANY *(continued)*

### (a) Investments in subsidiaries *(continued)*

| Name | Country/ Place and date of incorporation | Type of legal entity | Issued/ paid-in capital (RMB'000) | Effective interest held | Principal activities and place of operation |
|---|---|---|---|---|---|
| Jiutai Dadi Gas Limited ("Jiutai Dadi") (九台市大地燃氣有限公司) | PRC/ 8 July 2008 | Limited liability company | 500 | 51% | Sale of pipelined natural gas in the PRC |
| Panshi Dadi Gas Limited ("Panshi Dadi") (磐石市大地燃氣有限公司) | PRC/ 26 October 2006 | Limited liability company | 500 | 51% | Sale of pipelined natural gas and CNG in the PRC |
| Da'an Dadi Gas Limited ("Da'an Dadi") (大安市大地燃氣有限公司) | PRC/ 25 January 2008 | Limited liability company | 500 | 51% | Sale of pipelined natural gas and CNG in the PRC |
| Baicheng Dadi Natural Gas Limited ("Baicheng Dadi") (白城市大地天然氣有限公司) | PRC/ 23 March 2006 | Limited liability company | 5,000 | 51% | Sale of CNG in the PRC |
| Zhenlai County Dadi Gas Limited ("Zhenlai County Dadi") (鎮賚縣大地燃氣有限公司) | PRC/ 30 September 2009 | Limited liability company | 500 | 51% | Sale of pipelined natural gas in the PRC |
| Tongyu County Dadi Gas Limited ("Tongyu County Dadi") (通榆縣大地燃氣有限公司) | PRC/ 30 November 2005 | Limited liability company | 2,070 | 51% | Sale of pipelined natural gas in the PRC |
| Puyang Tian Lun Gas Limited ("Puyang Tianlun") (濮陽市天倫燃氣有限公司) | PRC/ 9 November 2009 | Limited liability company | 20,000 | 100% | Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC |
| Dunhua Dadi Gas Limited ("Dunhua Dadi") (敦化市大地天然氣有限公司) | PRC/ 15 January 2007 | Limited liability company | 500 | 51% | Sale of pipelined natural gas in the PRC |
| Baicheng Zhongji Gas Distribution Limited ("Baicheng Zhongji") (白城市中吉燃氣經銷有限公司) | PRC/ 10 November 2007 | Limited liability company | 5,000 | 51% | Natural gas transportation service in the PRC |
| Changchun Zhongji Dadi Trade Limited ("Changchun Zhongji") (長春市中吉大地經貿有限公司) | PRC/ 22 June 2010 | Limited liability company | 100 | 51% | Sale of gas equipment in the PRC |
| Jilin Dadi Technology Consultancy Limited ("Jilin Dadi") (吉林市大地技術諮詢有限公司) | PRC/ 7 March 2002 | Limited liability company | 3,000 | 51% | Engineering design and consulting services in the PRC |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 11. INVESTMENTS IN SUBSIDIARIES — COMPANY *(continued)*

### (a) Investments in subsidiaries *(continued)*

| Name | Country/ Place and date of incorporation | Type of legal entity | Issued/ paid-in capital (RMB'000) | Effective interest held | Principal activities and place of operation |
|---|---|---|---|---|---|
| Xinye County Tian Lun Gas Limited ("Xinye Tian Lun") (新野縣天倫燃氣有限公司) | PRC/ 2 November 2011 | Limited liability company | 10,000 | 100% | Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC |
| Henan Luyuan Gas Limited ("Henan Luyuan") (河南綠源燃氣有限公司) | PRC/ 6 January 2005 | Limited liability company | 33,330 | 70% | Sale of pipelined natural gas, construction and connection of gas pipelines and sale of CNG in the PRC |
| Song County Tian Lun Gas Limited ("Henan Songxian") (嵩縣天倫燃氣有限公司) | PRC/ 24 June 2011 | Limited liability company | 10,000 | 100% | Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC |
| Shangqiu Luyuan Vehicle Gas Limited ("Shangqiu Luyuan Vehicle") (商丘市綠源汽車燃氣有限公司) | PRC/ 22 August 2006 | Limited liability company | 1,060 | 70% | Sale of CNG in the PRC |
| Dongkou Senbo Gas Limited ("Dongkou Senbo") (洞口森博燃氣有限公司) | PRC/ 6 January 2011 | Limited liability company | 10,000 | 100% | Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC |
| Kaifeng Xi'Na Natural Gas Limited ("Kaifeng Xi'Na") (開封西納天然氣有限公司) | PRC/ 28 October 2004 | Limited liability company | 30,000 | 100% | Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC |
| Cao County Zhongtian Gas Limited ("Caoxian Zhongtian") (曹縣中天燃氣有限公司) | PRC/ 9 May 2012 | Limited liability company | 10,000 | 80% | Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC |
| Shan County Zhongtian Gas Limited ("Shanxian Zhongtian") (單縣中天燃氣有限公司) | PRC/ 27 April 2006 | Limited liability company | 12,000 | 80% | Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC |
| Guangxi Luzhai Tianlun Gas Limited ("Luzhai Tianlun") (廣西鹿寨天倫燃氣有限公司) | PRC/ 6 January 2012 | Limited liability company | 30,000 | 100% | Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 11. INVESTMENTS IN SUBSIDIARIES — COMPANY *(continued)*

### (a) Investments in subsidiaries *(continued)*

| Name | Country/ Place and date of incorporation | Type of legal entity | Issued/ paid-in capital (RMB'000) | Effective interest held | Principal activities and place of operation |
|---|---|---|---|---|---|
| Xingtai Tianlun Yunyu Vehicle Gas Limited ("Xingtai Tianlun") (邢臺天倫運興車用燃氣有限公司) | PRC/ 31 May 2012 | Limited liability company | 10,500 | 70% | Sale of CNG in the PRC |
| Gulang Tianlun Gas Limited ("Gulang Tianlun") (古浪天倫燃氣有限公司) | PRC/ 30 November 2012 | Limited liability company | 10,000 | 100% | Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC |
| Chongqing Tianlun Kaida New Energy Gas Limited ("Tianlun Kaida") (重慶天倫凱達新能源燃氣有限公司) | PRC/ 22 October 2012 | Limited liability company | 20,000 | 70% | Sale of liquefied natural gas in the PRC |
| Jilin Changling County Tianlun Gas Limited ("Changling Tianlun") (吉林長嶺縣天倫燃氣有限公司) | PRC/ 4 December 2013 | Limited liability company | 10,000 | 70% | New energy technology development services in the PRC |
| Dongming Wanji Natural Gas Industrial Limited ("Dongming Wanji") (東明萬吉天然氣實業有限公司) | PRC/ 3 June 2005 | Limited liability company | 10,000 | 80% | Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC |
| Heze Guanghe Natural Gas Limited ("Heze Guanghe") (菏澤市廣菏天然氣有限公 司) | PRC/ 24 January 2002 | Limited liability company | 10,000 | 100% | Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC |
| Guangxi Guanyang Tianlun Gas Limited ("Guanyang Tianlun") (廣西灌陽天倫燃氣有限公司) | PRC/ 27 November 2013 | Limited liability company | 10,000 | 100% | Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC |
| Zhengzhou Shangjie Tianlun Vehicle Gas Limited ("Shangjie Tianlun Vehicle") (鄭州市上街區天倫車用燃氣有限公司) | PRC/ 18 April 2013 | Limited liability company | 10,000 | 100% | Sale of CNG in the PRC |
| Yunnan Datong Natural Gas Limited ("Yunnan Datong) (雲南大通天然氣有限公司) | PRC/ 24 March 2013 | Limited liability company | 30,000 | 100% | Engineering design and consulting services in the PRC |
| Huize Datong Natural Gas Limited ("Huize Datong") (會澤縣大通天然氣有限公司) | PRC/ 21 December 2007 | Limited liability company | 8,000 | 100% | Sale of pipelined natural gas; construction and connection of gas pipelines in the PRC |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 11. INVESTMENTS IN SUBSIDIARIES — COMPANY *(continued)*

### (a) Investments in subsidiaries *(continued)*

| Name | Country/ Place and date of incorporation | Type of legal entity | Issued/ paid-in capital (RMB'000) | Effective interest held | Principal activities and place of operation |
|---|---|---|---|---|---|
| Gejiu Datong Natural Gas Limited ("Gejiu Datong") (個舊大通天然氣有限公司) | PRC/ 15 January 2009 | Limited liability company | 10,000 | 100% | Sale of pipelined natural gas; construction and connection of gas pipelines in the PRC |
| Guangnan Datong Natural Gas Limited ("Guangnan Datong") (廣南縣大通天然氣有限公司) | PRC/ 2 September 2010 | Limited liability company | 6,000 | 100% | Sale of pipelined natural gas; construction and connection of gas pipelines in the PRC |
| Hekou Datong Natural Gas Limited ("Hekou Datong") (河口縣大通天然氣有限公司) | PRC/ 24 September 2013 | Limited liability company | 6,000 | 100% | Sale of pipelined natural gas; construction and connection of gas pipelines in the PRC |
| Yanshan Datong Natural Gas Limited ("Yanshan Datong") (硯山縣大通天然氣有限公司) | PRC/ 10 May 2011 | Limited liability company | 5,000 | 100% | Sale of pipelined natural gas; construction and connection of gas pipelines in the PRC |
| Honghe Datong Natural Gas Limited ("Honghe Datong") (紅河大通天然氣有限公司) | PRC/ 25 August 2009 | Limited liability company | 10,000 | 100% | Sale of pipelined natural gas; construction and connection of gas pipelines in the PRC |
| Ludian Datong Natural Gas Limited ("Ludian Datong") (魯甸縣大通天然氣有限公司) | PRC/ 22 July 2010 | Limited liability company | 5,000 | 100% | Sale of pipelined natural gas; construction and connection of gas pipelines in the PRC |
| Jingtai Tianlun Gas Limited ("Jingtai Tianlun") (景泰天倫燃氣有限公司) | PRC/ 22 April 2013 | Limited liability company | 2,000 | 100% | New energy technology development services in the PRC |
| Weishi Tianlun Gas Limited ("Weishi Tianlun") (尉氏縣天倫燃氣有限公司) | PRC/ 30 July 2013 | Limited liability company | 10,000 | 100% | Sale of pipelined natural gas in the PRC |
| Jilin Yitong Tianlun Gas Limited ("Yitong Tianlun") (吉林伊通天倫燃氣有限公司) | PRC/ 26 August 2013 | Limited liability company | 10,000 | 100% | Engineering design and consulting services in the PRC |
| Hong Kong Xin Rong Limited ("HK Xin Rong") (香港信融有限公司) | Hong Kong/ 13 June 2013 | Limited liability company | 610* | 100% | Trading of natural gas equipment in Hong Kong |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 11. INVESTMENTS IN SUBSIDIARIES — COMPANY *(continued)*

### (a) Investments in subsidiaries *(continued)*

* The issued capital of Upsky Holdings is US$1,000.

The issued capital of Tian Lun New Energy is HK$2.

The issued capital of HK Xin Rong is US$100,000.

** Shares hold directly by the Company.

### (b) Material non-controlling interests

The total non-controlling interests for the period is approximately RMB170,428,000, of which approximately RMB14,865,000 is for Henan Luyuan, approximately RMB6,405,000 is attributed to Shangjie Tian Lun and approximately RMB132,449,000 is attributed to Jilin Zhongji. The non-controlling interests in respect of other subsidiaries are not material.

*Summarised financial information on subsidiaries with material non-controlling interests*

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. See Note 34 for transactions with non-controlling interests.

*Summarised balance sheet*

| | Jilin Zhongji As at 31 December | | Henan Luyuan As at 31 December | | Shangjie Tian Lun As at 31 December | |
|---|---|---|---|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 |
| **Current** | | | | | | |
| Assets | **118,860** | 99,598 | **24,707** | 29,694 | **138,973** | 22,458 |
| Liabilities | **156,990** | 109,337 | **8,312** | 11,765 | **112,696** | 17,904 |
| Total current net (liabilities)/assets | **(38,130)** | (9,739) | **16,395** | 17,929 | **26,277** | 4,554 |
| **Non-current** | | | | | | |
| Assets | **229,920** | 173,607 | **28,175** | 20,041 | **37,768** | 36,720 |
| Total non-current net assets | **229,920** | 173,607 | **28,175** | 20,041 | **37,768** | 36,720 |
| Net assets | **191,790** | 163,868 | **44,570** | 37,970 | **64,045** | 41,274 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 11. INVESTMENTS IN SUBSIDIARIES — COMPANY *(continued)*

### (b) Material non-controlling interests *(continued)*

*Summarised statement of comprehensive income*

| | Jilin Zhongji Year ended 31 December | | Henan Luyuan Year ended 31 December | | Shangjie Tian Lun Year ended 31 December | |
|---|---|---|---|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 |
| Revenue | **220,757** | 167,279 | **35,161** | 25,121 | **69,488** | 50,493 |
| Profit before income tax | **35,536** | 27,670 | **8,962** | 6,260 | **30,156** | 16,452 |
| Income tax expense | **(6,640)** | (8,478) | **(2,606)** | (1,618) | **(7,385)** | (4,148) |
| Profit for the year | **28,896** | 19,192 | **6,356** | 4,642 | **22,771** | 12,304 |
| Other comprehensive income | **—** | — | **—** | — | **—** | — |
| Total comprehensive income | **28,896** | 19,192 | **6,356** | 4,642 | **22,771** | 12,304 |
| Total comprehensive income allocated to non-controlling interests | **14,159** | 9,404 | **1,907** | 1,393 | **2,277** | 1,230 |
| Dividends paid to non-controlling interests | **—** | — | **—** | — | **—** | — |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 11. INVESTMENTS IN SUBSIDIARIES — COMPANY *(continued)*

### (b) Material non-controlling interests *(continued)*

*Summarised statement of cash flows*

| | Jilin Zhongji Year ended 31 December | | Henan Luyuan Year ended 31 December | | Shangjie Tian Lun Year ended 31 December | |
|---|---|---|---|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 |
| **Cash flows from operating activities** | | | | | | |
| Cash generated from operations | **38,619** | 25,737 | **8,422** | 2,599 | **28,606** | 17,421 |
| Interest paid | **—** | — | **(909)** | — | **—** | — |
| Income tax paid | **(6,629)** | (6,665) | **(2,685)** | (769) | **(7,348)** | (3,109) |
| Net cash generated from operating activities | **31,990** | 19,072 | **4,828** | 1,830 | **21,258** | 14,312 |
| Net cash used in investing activities | **(18,031)** | (4,601) | **(6,553)** | (2,239) | **(21,358)** | (13,406) |
| Net cash (used in)/ generated from financing activities | **—** | — | **(2,300)** | — | **19** | 37 |
| **Net increase/ (decrease) in cash and cash equivalents** | **13,959** | 14,471 | **(4,025)** | (409) | **(81)** | 943 |
| Cash and cash equivalents at beginning of year | **17,926** | 3,455 | **6,891** | 7,300 | **3,614** | 2,671 |
| Cash and cash equivalents at end of year | **31,885** | 17,926 | **2,866** | 6,891 | **3,533** | 3,614 |

The information above is the amount before inter-company eliminations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 12. INCOME TAX EXPENSE

**(a)** The Company and Upsky Holdings are not subject to profits tax in their respective countries of incorporation.

### (b) Hong Kong profits tax

For the years ended 31 December 2013 and 2012, there is no Hong Kong profits tax applicable to any group entity as no group entity had profit derived from Hong Kong.

### (c) PRC corporate income tax (the "PRC CIT")

All the Company's subsidiaries incorporated in the PRC are subject to the PRC CIT, which has been provided based on the statutory income tax rate of the assessable income of each of such companies during the years ended 31 December 2013 and 2012, as determined in accordance with the relevant PRC income tax rules and regulations. The PRC CIT rate is 25% (2012: 25%).

The amount of income tax expense charged to profit or loss represents:

| | **Year ended 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Current tax on profits for the year | **63,411** | 51,556 |
| Deferred tax (Note 29) | **(3,547)** | 2,154 |
| | **59,864** | 53,710 |

The difference between the actual income tax charge in profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

| | **Year ended 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Profit before income tax | **246,152** | 202,933 |
| Tax calculated at statutory tax rate applicable to each group entity | **61,258** | 53,267 |
| Others | **(1,394)** | 443 |
| | **59,864** | 53,710 |

The weighted average applicable tax rate for the year ended 31 December 2013 is 25% (2012: 26%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 13. EARNINGS PER SHARE

Basic earnings per share ("EPS") is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| Profit attributable to owners of the Company (RMB'000) | **168,945** | 135,097 |
| Weighted average number of shares in issue (thousands) | **827,925** | 827,925 |
| Basic earnings per share (RMB per share) | **0.20** | 0.16 |

Diluted earnings per share is the same as basic earnings per share as there were no potentially dilutive instruments outstanding.

## 14. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB4,884,000 for the year ended 31 December 2013 (2012: RMB1,777,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 15. LEASE PREPAYMENTS — GROUP

The Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC, the net book values of which are analysed as follows:

| | **As at 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Outside of Hong Kong | | |
| — Lease between 35 and 49 years | **64,833** | 48,141 |

| | **Year ended 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Opening net book value | **48,141** | 29,706 |
| Acquisition of subsidiaries (Note 35.1) | **5,162** | 7,023 |
| Additions | **12,857** | 19,265 |
| Disposal of subsidiaries | **—** | (6,664) |
| Amortisation charge | **(1,327)** | (1,189) |
| Closing net book value | **64,833** | 48,141 |

(a) All the amortisation of the Group's land use rights was charged to administrative expenses.

(b) As at 31 December 2013, the Group was in the process of obtaining the legal title of land use rights with carrying amount of approximately RMB1,722,000 (2012: RMB2,641,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 16. PROPERTY, PLANT AND EQUIPMENT — GROUP

| | Buildings RMB'000 | Equipment and machinery RMB'000 | Gas pipelines RMB'000 | Office equipment and motor vehicles RMB'000 | CIP RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **At 1 January 2012** | | | | | | |
| Cost | 94,983 | 51,480 | 209,435 | 27,859 | 233,317 | 617,074 |
| Accumulated depreciation | (5,529) | (6,262) | (32,730) | (3,980) | — | (48,501) |
| **Net book amount** | 89,454 | 45,218 | 176,705 | 23,879 | 233,317 | 568,573 |
| **Year ended 31 December 2012** | | | | | | |
| Opening net book amount | 89,454 | 45,218 | 176,705 | 23,879 | 233,317 | 568,573 |
| Acquisition of subsidiaries | 12,817 | 6,745 | 27,954 | 846 | 2,804 | 51,166 |
| Additions | 1,606 | 3,275 | 1,612 | 9,692 | 196,969 | 213,154 |
| Transfer from CIP | 20,249 | 9,207 | 33,845 | 106 | (63,407) | — |
| Disposal of subsidiaries | (17,413) | (1,854) | — | (2,096) | (258,538) | (279,901) |
| Disposals (Note 31) | (48) | (3) | — | (23) | — | (74) |
| Depreciation charge | (3,788) | (6,525) | (10,921) | (5,164) | — | (26,398) |
| **Closing net book amount** | 102,877 | 56,063 | 229,195 | 27,240 | 111,145 | 526,520 |
| **At 31 December 2012** | | | | | | |
| Cost | 112,037 | 68,608 | 272,846 | 35,578 | 111,145 | 600,214 |
| Accumulated depreciation | (9,160) | (12,545) | (43,651) | (8,338) | — | (73,694) |
| **Net book amount** | 102,877 | 56,063 | 229,195 | 27,240 | 111,145 | 526,520 |
| **Year ended 31 December 2013** | | | | | | |
| Opening net book amount | **102,877** | **56,063** | **229,195** | **27,240** | **111,145** | **526,520** |
| Acquisition of subsidiaries (Note 35.1) | **4,797** | **3,631** | **30,006** | **2,040** | **32,315** | **72,789** |
| Additions | **1,582** | **9,385** | **2,584** | **6,749** | **142,903** | **163,203** |
| Transfer from CIP | **8,495** | **9,466** | **72,552** | **13** | **(90,526)** | **–** |
| Transfer from investment properties | **56** | **–** | **–** | **–** | **–** | **56** |
| Disposals (Note 31) | **(269)** | **(28)** | **–** | **(3,745)** | **–** | **(4,042)** |
| Depreciation charge | **(4,528)** | **(8,570)** | **(13,471)** | **(5,876)** | **–** | **(32,445)** |
| **Closing net book amount** | **113,010** | **69,947** | **320,866** | **26,421** | **195,837** | **726,081** |
| **At 31 December 2013** | | | | | | |
| Cost | **126,625** | **91,054** | **377,988** | **39,289** | **195,837** | **830,793** |
| Accumulated depreciation | **(13,615)** | **(21,107)** | **(57,122)** | **(12,868)** | **–** | **(104,712)** |
| **Net book amount** | **113,010** | **69,947** | **320,866** | **26,421** | **195,837** | **726,081** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 16. PROPERTY, PLANT AND EQUIPMENT — GROUP *(continued)*

(a) Depreciation expense of approximately RMB27,097,000 (2012: RMB21,559,000) has been charged in cost of sales, RMB212,000 (2012: RMB186,000) in distribution costs and RMB5,136,000 (2012: RMB4,653,000) in administrative expenses.

(b) Bank borrowings were secured by certain buildings of the Group with a net book value of approximately RMB4,641,000 as at 31 December 2013 (2012: RMB4,904,000) (Note 28).

(c) As at 31 December 2013, the Group was in the process of obtaining the legal title of buildings with carrying amount of approximately RMB7,637,000 (2012: RMB7,493,000).

(d) As at 31 December 2013, the CIP mainly comprises the city pipeline network being constructed in the PRC.

(e) During the year, the Group has capitalised borrowing costs amounting to RMB9,605,000 (2012: RMB8,275,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings at 7.63% (2012: 7.54%).

## 17. INVESTMENT PROPERTIES — GROUP

| | **Year ended 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| **At beginning of the year** | | |
| Cost | **12,772** | 12,772 |
| Accumulated depreciation | **(3,211)** | (2,714) |
| Net book amount | **9,561** | 10,058 |
| **For the year** | | |
| Opening net book amount | **9,561** | 10,058 |
| Transfer to property, plant and equipment | **(56)** | — |
| Disposal (Note 31) | **(10)** | — |
| Depreciation charge | **(489)** | (497) |
| Closing net book amount | **9,006** | 9,561 |
| **At end of the year** | | |
| Cost | **12,694** | 12,772 |
| Accumulated depreciation | **(3,688)** | (3,211) |
| Net book amount | **9,006** | 9,561 |
| Fair value at end of the year (a) | **25,767** | 24,844 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 17. INVESTMENT PROPERTIES — GROUP *(continued)*

(a) As at 31 December 2013 and 2012, the fair value of the investment properties measurements at level 3 (Note 3.3). The fair value of the investment properties was arrived at by reference to net rental income allowing for reversionary income potential using the applicable market yields for the property as the discount rate.

The value of investment properties are affected by net rental income and market yield rate. The higher the net rental income, the higher the value. The higher the market yield rate, the lower the value.

(b) The following amounts have been recognised in profit or loss:

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Rental income | **1,799** | 1,556 |
| Direct operating expenses from properties that generate rental income | **(966)** | (1,042) |
| | **833** | 514 |

(c) Depreciation expense of approximately RMB489,000 (2012: RMB497,000) has been charged in cost of sales.

(d) As at 31 December 2013, the Group did not have any unprovided contractual obligations for future repairs and maintenance (2012: nil).

(e) Leasing arrangements

Certain investment properties are leased to tenants under long-term operating leases with rental payable at regular intervals during the year based on the payment terms. Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the consolidated financial statements are receivable as follows:

| | As at 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Within 1 year | **1,172** | 1,010 |
| Later than 1 year but no later than 3 years | **1,155** | 30 |
| | **2,327** | 1,040 |

(f) Bank borrowings were secured by certain of the Group's investment properties with a net book value of approximately RMB7,351,000 as at 31 December 2013 (2012: RMB7,748,000) (Note 28).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 18. INTANGIBLE ASSETS — GROUP

| | Goodwill<br>RMB'000 | Operating rights<br>RMB'000 | Computer software<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| **At 1 January 2012** | | | | |
| Cost | 282,995 | 150,829 | 390 | 434,214 |
| Accumulated amortisation | — | (9,939) | (284) | (10,223) |
| Net book amount | 282,995 | 140,890 | 106 | 423,991 |
| **Year ended 31 December 2012** | | | | |
| Opening net book amount | 282,995 | 140,890 | 106 | 423,991 |
| Acquisition of subsidiaries | 43,274 | 47,739 | — | 91,013 |
| Additions | — | 14,700 | 10 | 14,710 |
| Fair value adjustments on business combination | (1,466) | 4,174 | — | 2,708 |
| Disposal of subsidiaries | (83,824) | — | — | (83,824) |
| Amortisation charge | — | (7,333) | (68) | (7,401) |
| Closing net book amount | 240,979 | 200,170 | 48 | 441,197 |
| **At 31 December 2012** | | | | |
| Cost | 240,979 | 217,442 | 336 | 458,757 |
| Accumulated amortisation | — | (17,272) | (288) | (17,560) |
| Net book amount | 240,979 | 200,170 | 48 | 441,197 |
| **Year ended 31 December 2013** | | | | |
| Opening net book amount | **240,979** | **200,170** | **48** | **441,197** |
| Acquisition of subsidiaries (Note 35.1) | **114,476** | **87,899** | **—** | **202,375** |
| Additions | **—** | **16,905** | **124** | **17,029** |
| Amortisation charge | **—** | **(9,591)** | **(112)** | **(9,703)** |
| Closing net book amount | **355,455** | **295,383** | **60** | **650,898** |
| **At 31 December 2013** | | | | |
| Cost | **355,455** | **322,246** | **460** | **678,161** |
| Accumulated Amortisation | **—** | **(26,863)** | **(400)** | **(27,263)** |
| Net book amount | **355,455** | **295,383** | **60** | **650,898** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 18. INTANGIBLE ASSETS — GROUP *(continued)*

(a) Amortisation of approximately RMB9,703,000 (2012: RMB7,401,000) is included in cost of sales.

(b) Impairment for goodwill

Management reviews the business performance based on subsidiaries and type of business. It has identified Jinlin Zhongji, Puyang Tianlun, Henan Luyuan, Henan Songxian, Dongkou Senbo, Kaifeng Xi'Na, Caoxian Zhongtian, Shanxian Zhongtian, Gansu Baiyin, Yunnan Datong, Heze Guanghe and Dongming Wanji as the main subsidiaries.

Above subsidiaries all engaged in sale of natural gas, and connection of gas pipelines in the PRC. Goodwill is monitored by the management at the operating segment level. The following is a summary of goodwill allocation for each CGU:

| | As at 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Jinlin location | | |
| Jinlin Zhongji | **89,045** | 89,045 |
| Gansu location | | |
| Gansu Baiyin | **86,715** | 86,715 |
| Henan location | | |
| Puyang Tianlun | **6,167** | 6,167 |
| Henan Luyuan | **7,663** | 7,663 |
| Henan Songxian | **8,115** | 8,115 |
| Kaifeng Xi'Na | **10,079** | 10,079 |
| Hunan location | | |
| Dongkou Senbo | **7,572** | 7,572 |
| Yunnan location | | |
| Yunnan Datong | **29,068** | — |
| Shandong location | | |
| Caoxian Zhongtian | **11,401** | 11,401 |
| Shanxian Zhongtian | **14,222** | 14,222 |
| Heze Guanghe | **67,894** | — |
| Dongming Wanji | **17,514** | — |
| | **355,455** | 240,979 |

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the gas business in which the CGU operates.

As the CGUs in the same geography share approximately the same compound annual volume growth rate, long term growth rate and pre-tax discount rate. The CGUs in the same geography had been grouped by location.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 18. INTANGIBLE ASSETS — GROUP *(continued)*

(b) Impairment for goodwill *(continued)*

The key assumptions used for value-in-use calculations in 2013 are as follows:

| | Jilin Location | Gansu Location | Henan Location | Hunan Location | Yunnan Location | Shandong Location |
|---|---|---|---|---|---|---|
| Compound annual volume growth rate | **19%** | **20%** | **13%** | **28%** | **32%** | **12%** |
| Long term growth rate | **3%** | **3%** | **3%** | **3%** | **3%** | **3%** |
| Pre-tax discount rate | **19%** | **18%** | **19%** | **18%** | **19%** | **18%** |

The key assumptions used for value-in-use calculations in 2012 are as follows:

| | Jilin Location | Gansu Location | Henan Location | Hunan Location | Shandong Location |
|---|---|---|---|---|---|
| Compound annual volume growth rate | 20% | 20% | 18% | 24% | 14% |
| Long term growth rate | 3% | 3% | 3% | 3% | 3% |
| Pre-tax discount rate | 19% | 18% | 19% | 18% | 18% |

These assumptions have been used for the analysis of each CGU within the operating segment.

Management determined compound annual volume growth rate for each CGU covering over the five-year forecast period to be a key assumption. The volume of sales in each period is the main driver for revenue and costs. The compound annual volume growth rate is based on past performance and management's expectations of market development. The long term growth rates is based on management's best estimates with consideration of both internal and external factors relating to the CGUs. The discount rates used are pre-tax and reflect specific risks relating to the relevant location.

## 19. AVAILABLE-FOR-SALE FINANCIAL ASSETS — GROUP

(a) Movements of the Group's available-for-sale financial assets are set out as follows:

| | **As at 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| **Balance at 1 January** | **—** | 62,000 |
| Additions | **332,000** | 89,990 |
| Disposals | **(332,000)** | (151,990) |
| **Balance at 31 December** | **—** | — |

(b) All available-for-sale financial assets are denominated in RMB.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 20. TRADE AND OTHER RECEIVABLES — GROUP AND COMPANY

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade receivables (a) | **132,156** | 100,424 | **—** | — |
| Bills receivable | **3,450** | 1,500 | **—** | — |
| Prepayments | **52,946** | 28,936 | **354** | 374 |
| Receivables due from related parties (Note 36) | **16,029** | 6,963 | **566,179** | 358,156 |
| Other receivables | **57,151** | 34,220 | **10,908** | — |
| Value-added-tax to be offset | **7,795** | 1,596 | **—** | — |
| | **269,527** | 173,639 | **577,441** | 358,530 |
| Less: long-term prepayments | **(17,788)** | (13,336) | **(7,142)** | — |
| Current portion | **251,739** | 160,303 | **570,299** | 358,530 |

(a) The credit period generally granted to customers in relation to sales of pipelined gases is from 10 to 90 days. As for the customers in relation to connection of gas pipelines, the Group generally requests advance payments, and in circumstances of credit sales, management closely monitors the credit quality of the customers, and credit period was granted case by case with maximum of 2 years. The ageing analysis of trade receivables is as follows:

| **Group** | **As at 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Less than 30 days | **93,297** | 67,743 |
| 31 days to 90 days | **15,044** | 20,403 |
| 91 days to 1 year | **11,154** | 8,094 |
| Over 1 year | **12,661** | 4,184 |
| | **132,156** | 100,424 |

As at 31 December 2013, trade receivables of approximately RMB129,918,000 (2012: RMB99,091,000) were fully performing.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 20. TRADE AND OTHER RECEIVABLES — GROUP AND COMPANY *(continued)*

(a) *(continued)*

As at 31 December 2013, trade receivables of approximately RMB2,238,000 (2012: RMB1,333,000) were past due but not impaired. These relate to a number of independent customers that have good trading records with the Group. Based on the past experiences, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are considered fully recoverable. The ageing analysis of these trade receivables is as follows:

| **Group** | **As at 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Over 1 year | **2,238** | 1,333 |

(b) The carry amount of the Group and the Company's trade and other receivables were denominated in the following currencies:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| RMB | **269,527** | 173,265 | **577,441** | 358,156 |
| HK$ | **—** | 374 | **—** | 374 |
| | **269,527** | 173,639 | **577,441** | 358,530 |

(c) The other classes within trade and other receivables do not contain impaired assets.

(d) As at 31 December 2013 and 2012, the Group's maximum exposure to credit risk was the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

## 21. INVENTORIES — GROUP

| | **As at 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Materials for gas pipelines | **34,550** | 19,107 |
| Consumables | **176** | 80 |
| Work in progress | **35,834** | 28,683 |
| Finished pipeline network | **22,770** | 25,804 |
| | **93,330** | 73,674 |

The cost of inventories recognised as the Group's expense and included in cost of sales amounted to approximately RMB451,160,000 (2012: RMB348,715,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS — GROUP

| | As at 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Investment in trust | **221,824** | 375,983 |

On 21 March 2012, Henan Tian Lun Gas and Zhongyuan Trust Company Limited ("Zhongyuan Trust") entered into a trust investment agreement (the "Investment Agreement") in relation to the investment in a portfolio of trust financial products managed and maintained by Zhongyuan Trust for a term of two years commencing from 21 March 2012 (the "Trust Period"). On 21 March 2014, Henan Tian Lun Gas and Zhongyuan Trust entered into the supplemental agreement to the investment agreement, pursuant to which the trust period has been extended for a period of two years until 21 March 2016.

Changes in fair values of financial assets at fair value through profit or loss are recorded in 'finance costs — net' (Note 10).

The fair value of the investment in trust is measured by the discounted cash flow model with key assumptions including expected return rate, counter-parties' credit risk and market interest rate.

## 23. CASH AND BANK BALANCES — GROUP AND COMPANY

### (a) Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash in hand | **11,196** | 1,020 | **—** | — |
| Cash at banks | **565,206** | 367,920 | **241,778** | 673 |
| | **576,402** | 368,940 | **241,778** | 673 |

Cash in hand and at banks are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| RMB | **331,100** | 366,552 | **8** | 8 |
| US$ | **242,741** | — | **241,563** | — |
| HK$ | **2,561** | 2,388 | **207** | 665 |
| Cash and cash equivalents | **576,402** | 368,940 | **241,778** | 673 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 23. CASH AND BANK BALANCES — GROUP AND COMPANY *(continued)*

### (a) Cash and cash equivalents *(continued)*

The conversion of the RMB denominated balances into foreign currencies and the remittance of these funds out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

### (b) Restricted cash

As at 31 December 2013, US$1,500,000 (equivalent to approximately RMB9,145,000)(2012: nil) are restricted deposits held at bank as reserve for serving of debt for loans provided by the bank.

## 24. SHARE CAPITAL AND SHARE PREMIUM — GROUP AND COMPANY

| | **Number of Shares** (thousands) | **Ordinary shares** RMB'000 | **Share premium** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|
| Issued and fully paid | | | | |
| **At 1 January 2012** | 827,925 | 7,077 | 454,188 | 461,265 |
| **At 31 December 2012** | 827,925 | 7,077 | 454,188 | 461,265 |
| **At 31 December 2013** | **827,925** | **7,077** | **454,188** | **461,265** |

The total authorised number of ordinary shares is 2,000,000,000 shares (2012: 2,000,000,000 shares) with a par value of HK$0.01 per share (2012: HK$0.01 per share).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 25. RESERVES AND RETAINED EARNINGS — GROUP AND COMPANY

### (a) Reserves

| Group | Capital reserves RMB'000 | Statutory reserves RMB'000 | Total RMB'000 |
|---|---|---|---|
| **At 1 January 2012** | (17,507) | 22,324 | 4,817 |
| Appropriation | — | 14,260 | 14,260 |
| Transaction with non-controlling interests | (16) | — | (16) |
| **At 31 December 2012** | (17,523) | 36,584 | 19,061 |
| | | | |
| **At 1 January 2013** | **(17,523)** | **36,584** | **19,061** |
| Appropriation | **—** | **15,236** | **15,236** |
| Transaction with non-controlling interests | **(360)** | **—** | **(360)** |
| Waiver of liability by non-controlling interests | **172** | **—** | **172** |
| **At 31 December 2013** | **(17,711)** | **51,820** | **34,109** |

*Statutory reserves*

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC now comprising the Group (the "PRC Subsidiaries"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserves fund before distributing the net profit. When the balance of the statutory surplus reserves fund reaches 50% of the registered capital of the PRC Subsidiaries, any further appropriation is at the discretion of shareholders. The statutory surplus reserves fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding, provided that the remaining balance of the statutory surplus reserves fund after such issue is not less than 25% of registered capital.

For the year ended 31 December 2013, approximately RMB15,236,000 (2012: RMB14,260,000) were appropriated to the statutory surplus reserves funds from net profits of certain PRC Subsidiaries.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 25. RESERVES AND RETAINED EARNINGS — GROUP AND COMPANY *(continued)*

### (b) Retained earnings/(Accumulated losses)

| | Group RMB'000 | Company RMB'000 |
|---|---|---|
| **At 1 January 2012** | 150,048 | (10,494) |
| Profit/(loss) for the year | 135,097 | (1,777) |
| Appropriation | (14,260) | — |
| **At 31 December 2012** | 270,885 | (12,271) |
| **At 1 January 2013** | 270,885 | (12,271) |
| Profit/(loss) for the year | 168,945 | (4,884) |
| Appropriation | (15,236) | — |
| **At 31 December 2013** | 424,594 | (17,155) |

## 26. TRADE AND OTHER PAYABLES — GROUP AND COMPANY

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 |
| Trade payables (a and b) | **78,093** | 63,677 | **—** | — |
| Amounts due to related parties (a and b) (Note 36) | **—** | 994 | **1,728** | 5,961 |
| Accrued payroll and welfare | **1,663** | 2,055 | **—** | — |
| Interest payables | **2,720** | 1,023 | **2,720** | — |
| Other taxes payables | **10,004** | 3,008 | **—** | — |
| Other payables (a) | **193,076** | 70,668 | **250** | 250 |
| | **285,556** | 141,425 | **4,698** | 6,211 |

(a) As at 31 December 2013 and 2012, all such trade and other payables of the Group were non-interest bearing and their fair value approximated their carrying amounts due to their short maturities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 26. TRADE AND OTHER PAYABLES — GROUP AND COMPANY *(continued)*

(b) The ageing analysis of the trade payables, including amounts due to related parties which were trade in nature was as follows:

| **Group** | **As at 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Less than 30 days | **23,160** | 27,937 |
| 31 days to 90 days | **26,037** | 11,895 |
| 91 days to 1 year | **9,614** | 13,175 |
| 1 year to 2 years | **15,008** | 10,071 |
| 2 years to 3 years | **4,150** | 900 |
| Over 3 years | **124** | 663 |
| | **78,093** | 64,641 |

The credit terms generally granted by the Group's suppliers ranged from 10 to 90 days.

(c) The carrying amount of the Group and the Company's trade and other payables were denominated in the following currencies:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| RMB | **285,556** | 141,175 | **4,698** | 5,961 |
| HK$ | **—** | 250 | **—** | 250 |
| | **285,556** | 141,425 | **4,698** | 6,211 |

## 27. ADVANCE FROM CUSTOMERS — GROUP

| | **As at 31 December** | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Advance from customers | **152,711** | 114,750 |

Advance from customers mainly represents payments received from customers for connections of gas pipeline.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 28. BORROWINGS — GROUP AND COMPANY

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Non-current** | | | | |
| Bank borrowings | | | | |
| — pledged (a) | **100,000** | — | **—** | — |
| — guaranteed (b) | **475,558** | — | **475,558** | — |
| — unsecured | **200,000** | 160,000 | **—** | — |
| Other borrowings (c) | **5,566** | 5,901 | **—** | — |
| Total non-current borrowings | **781,124** | 165,901 | **475,558** | — |
| **Current** | | | | |
| Bank borrowings | | | | |
| — pledged (a) | **55,000** | 35,000 | **—** | — |
| — guaranteed (b) | **108,500** | 60,000 | **—** | — |
| — unsecured | **60,000** | 314,000 | **—** | — |
| Other borrowings (c) | **5,894** | 230,824 | **—** | — |
| Total current borrowings | **229,394** | 639,824 | **—** | — |
| **Total borrowings** | **1,010,518** | 805,725 | **475,558** | — |

(a) As at 31 December 2013 and 2012, the current bank borrowings were secured by certain of the Group's property, plant and equipment and investment properties (Note 16 and 17); the non-current bank borrowings were secured by the gas charging rights of Henan Tian Lun Gas and the operating rights of Heze Guanghe.

(b) As at 31 December 2013, the current bank borrowings were guaranteed by Henan Tian Lun Gas and Dongming Yun Ding Company Ltd., an independent third-party; the non-current bank borrowings were guaranteed by Mr. Zhang Yingcen, one of the controlling shareholders of the Company.

(c) As at 31 December 2013, such borrowings mainly represented (i) borrowings of RMB5,725,000 from local government assumed by the Group to acquire the operating rights for city pipeline network in Xuchang City of Henan Province in 2003; and (ii) borrowings due to certain employees of the Group and other individuals of RMB5,735,000 which were unsecured, bore interests at rate of 12% per annum.

As at 31 December 2012, such borrowings mainly represented (i) borrowings of RMB6,059,000 from local government assumed by the Group to acquire the operating rights for city pipeline network in Xuchang City of Henan Province in 2003; (ii) borrowings due to certain employees of the Group and other individuals of RMB11,445,000 which were unsecured, bore interests at rate ranging from 8.75% to 12% per annum; and (iii) borrowings due to an independent third-party of RMB219,221,000 which were unsecured and bearing no interest.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 28. BORROWINGS — GROUP AND COMPANY *(continued)*

(d) The maturities of the Group and Company's borrowings at respective end of reporting period are set out as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| — Within 1 year | **229,394** | 639,824 | **—** | — |
| — Between 1 and 2 years | **288,685** | 10,164 | **158,519** | — |
| — Between 2 and 5 years | **457,569** | 90,527 | **317,039** | — |
| — Over 5 years | **34,870** | 65,210 | **—** | — |
| | **1,010,518** | 805,725 | **475,558** | — |

(e) The carrying amount of the Group and Company's borrowings are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| RMB | **529,236** | 799,666 | **—** | — |
| US$ | **481,282** | 6,059 | **475,558** | — |
| | **1,010,518** | 805,725 | **475,558** | — |

(f) The carrying amount and fair value of the non-current borrowings are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Carrying amount | **781,124** | 165,901 | **475,558** | — |
| Fair value | **785,271** | 167,763 | **486,779** | — |

The carrying amount of current borrowings approximated their fair value, as the impact of discounting was not significant.

The fair value of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group and the Company for financial instruments with substantially the same terms and characteristics, which was 7.08% and 3.75% as at 31 December 2013, respectively (2012: 7.62% and nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 28. BORROWINGS — GROUP AND COMPANY *(continued)*

(g) The effective interest rates of the Group and Company's borrowings denominated in RMB and US$ at the end of each reporting date are set out as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| RMB | **6.00%~12.00%** | 6.55%~12.00% | **—** | — |
| US$ | **3.75%~6.55%** | 6.09% | **3.75%** | — |

## 29. DEFERRED INCOME TAX — GROUP

(a) The analysis of deferred income tax assets and liabilities is as follows:

| | As at 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Deferred tax assets | | |
| — Deferred tax assets to be recovered after more than 12 months | **1,550** | 1,217 |
| — Deferred tax assets to be recovered within 12 months | **1,049** | 1,020 |
| | **2,599** | 2,237 |
| Deferred tax liabilities: | | |
| — Deferred tax liability to be recovered after more than 12 months | **(60,440)** | (41,238) |
| — Deferred tax liability to be recovered within 12 months | **(3,535)** | (2,087) |
| | **(63,975)** | (43,325) |
| **Deferred tax liabilities (net)** | **(61,376)** | (41,088) |

The gross movement on the deferred income tax account is as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| At beginning of year | **(41,088)** | (28,271) |
| Acquisition of subsidiaries (Note 35.1) | **(23,835)** | (9,620) |
| Fair value adjustments on business combination | **—** | (1,043) |
| Credited/(charged) to profit or loss | **3,547** | (2,154) |
| At end of year | **(61,376)** | (41,088) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 29. DEFERRED INCOME TAX — GROUP *(continued)*

(b) The analysis of deferred tax assets and deferred tax liabilities is as follows:

### Deferred tax assets

| | Provision for impairment of assets RMB'000 | Accrued expenses RMB'000 | Tax losses RMB'000 | Depreciation RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| As at 1 January 2012 | 221 | 708 | 52 | 936 | 1,917 |
| Acquisition of subsidiaries | 2,544 | — | — | — | 2,544 |
| (Charged)/credited to profit or loss | (2,618) | 164 | — | 230 | (2,224) |
| As at 31 December 2012 | 147 | 872 | 52 | 1,166 | 2,237 |
| (Charged)/credited to profit or loss | — | 154 | (22) | 230 | 362 |
| **As at 31 December 2013** | **147** | **1,026** | **30** | **1,396** | **2,599** |

### Deferred tax liabilities

| | Fair value adjustments RMB'000 |
|---|---|
| As at 1 January 2012 | 30,188 |
| Acquisition of subsidiaries | 12,164 |
| Fair value adjustments on business combination | 1,043 |
| Credited to profit or loss | (70) |
| As at 31 December 2012 | 43,325 |
| Acquisition of subsidiaries (Note 35.1) | 23,835 |
| Credited to profit or loss | (3,185) |
| **As at 31 December 2013** | **63,975** |

As at 31 December 2013, deferred income tax liabilities of approximately RMB40,537,000 (2012: RMB23,283,000) had not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled approximately RMB405,366,000 as at 31 December 2013 (2012: RMB232,829,000). The Group does not intend to remit these unremitted earnings from the relevant subsidiaries to the Hong Kong holding entity in the foreseeable future.

(c) There were no significant unrecognised deferred tax assets as at 31 December 2013 and 2012.

## 30. DIVIDENDS

Pursuant to the resolution of the Board of Directors dated 31 March 2014, the directors of the Company proposed not to recommend any dividend for the year ended 31 December 2013 (2012: nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 31. CASH GENERATED FROM OPERATIONS

### (a) Reconciliation of profit before income tax to cash generated from operations

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Profit before income tax | **246,152** | 202,933 |
| Adjustments for: | | |
| — Depreciation of property, plant and equipment and investment properties | **32,934** | 26,895 |
| — Amortisation of intangible assets and lease prepayments | **11,030** | 8,590 |
| — Finance income | **(28,644)** | (32,488) |
| — Finance costs | **36,101** | 33,996 |
| — Gains on disposal of available-for-sale financial assets | **(323)** | (877) |
| — Gains on disposal of subsidiaries | **—** | (11,801) |
| — Losses on disposal of property, plant and equipment and investment properties (b) | **798** | 72 |
| | **298,048** | 227,320 |
| Changes in working capital: | | |
| — Inventories | **(14,348)** | (9,515) |
| — Trade and other receivables | **(49,284)** | (48,211) |
| — Trade and other payables | **(19,175)** | 32,272 |
| — Advance from customers | **31,804** | 4,344 |
| | **(51,003)** | (21,110) |
| Cash generated from operations | **247,045** | 206,210 |

### (b) Proceeds from disposal of property, plant and equipment and investment properties

In the consolidated statements of cash flows, proceeds from disposal of property, plant and equipment and investment properties comprise:

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Net book amount (Note 16 and 17) | **4,052** | 74 |
| Losses on disposal of property, plant and equipment and investment properties (Note 7) | **(798)** | (72) |
| Proceeds from disposal of property, plant and equipment and investment properties | **3,254** | 2 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 32. CONTINGENCIES

As at 31 December 2013, the Group did not have any material contingent liabilities.

## 33. COMMITMENTS

### (a) Capital commitments

Capital expenditure contracted for at the end of each reporting period, but not yet incurred is as follows:

| | As at 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Capital contribution for establishing a new company | **40,000** | — |
| Business combination | **432,000** | — |
| Property, plant and equipment | **—** | 11,688 |
| | **472,000** | 11,688 |

### (b) Operating lease commitments

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

| | As at 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Not later than one year | **630** | 160 |
| Later than one year and no later than five years | **735** | 160 |
| | **1,365** | 320 |

### (c) Licensing fee commitments

| | As at 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Not later than one year | **1,100** | 1,100 |
| Later than one year and no later than five years | **4,400** | 4,400 |
| Later than five years | **15,400** | 16,500 |
| | **20,900** | 22,000 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 34. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

### (a) Acquisition of additional interest in a subsidiary

On 31 May 2013, the Group acquired an additional 3.25% of the equity interests of Jilin Dadi for a consideration of RMB975,000. The carrying amount of the non-controlling interests on the date of acquisition was approximately RMB615,000. The effect of changes on the equity attributable to owners of the Company during the year is summarised as follows:

| | **As at 31 May 2013 RMB'000** |
|---|---|
| Carrying amount of non-controlling interests acquired | **615** |
| Consideration paid to non-controlling interests | **(975)** |
| Excess of consideration paid recognised within equity | **(360)** |

### (b) Effects of transactions with non-controlling interests on the equity attributable to owners of the Company for year ended 31 December 2013

| | **RMB'000** |
|---|---|
| Changes in equity attributable to owners of the Company arising from: | |
| — Acquisition of additional interests in a subsidiary | **(360)** |
| — Waiver of liability by non-controlling interests | **172** |
| Net effect for transactions with non-controlling interests on equity attributable to owners of the Company | **(188)** |

## 35. BUSINESS COMBINATION

### 35.1 Business combination through purchase of subsidiaries in 2013

On 31 October 2013, the Group acquired 100% of the equity interests of Yunnan Datong, an independent third party established in the PRC with limited liability, which is principally engaged in the gas business in Huize County, Gejiu County, Guangnan County, Hekou County, Yanshan County, Honghe County and Ludian County in Yunnan Province. The total consideration was RMB80,000,000 and liabilities generated before the completion date which will be repaid separately by former shareholders of Yunnan Datong.

On 31 December 2013, the Group acquired 80% of the equity interests of Dongming Wanji, an independent third party established in the PRC with limited liability, which is principally engaged in the gas business in Shandong Province. The total consideration was approximately RMB32,000,000.

On 31 December 2013, the Group acquired 100% of the equity interests of Heze Guanghe, an independent third party established in the PRC with limited liability, which is principally engaged in the gas business in Shandong Province. The total consideration was approximately RMB105,000,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 35. BUSINESS COMBINATION *(continued)*

### 35.1 Business combination through purchase of subsidiaries in 2013 *(continued)*

As a result of the abovementioned acquisitions, the Group is expected to increase its presence in these markets. Based on the provisional fair value of the assets acquired, liabilities assumed and the non-controlling interests, the goodwill of approximately RMB114,476,000 arising from the acquisitions are attributable to the pre-existing, well positioned business operating in competitive markets and the expected synergies acquired through combining a highly skilled workforce and ultimately obtain the economies of scale.

The following table summarises the consideration paid for the acquisitions, the provisional fair value of assets acquired, liabilities assumed and the non-controlling interests at the respective acquisition dates.

| | **Yunnan Datong as at 31 October 2013** | **Dongming Wanji as at 31 December 2013** | **Heze Guanghe as at 31 December 2013** | **Total** |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Consideration** | | | | |
| — Cash | 45,000 | 12,800 | 57,750 | 115,550 |
| — Contingent consideration | 35,000 | 19,200 | 47,250 | 101,450 |
| **Total consideration** | 80,000 | 32,000 | 105,000 | 217,000 |
| In respect of indebtedness arrangement | (8,988) | — | — | (8,988) |
| **Purchase consideration for acquisition** | 71,012 | 32,000 | 105,000 | 208,012 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 35. BUSINESS COMBINATION *(continued)*

### 35.1 Business combination through purchase of subsidiaries in 2013 *(continued)*

| | Yunnan Datong Provisional fair value as at 31 October 2013 RMB'000 | Dongming Wanji Provisional fair value as at 31 December 2013 RMB'000 | Heze Guanghe Provisional fair value as at 31 December 2013 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Recognised amounts of identifiable assets acquired and liabilities assumed: | | | | |
| Cash and cash equivalents | 7,509 | 195 | 4,171 | 11,875 |
| Property, plant and equipment | 18,629 | 9,421 | 44,739 | 72,789 |
| Intangibles: | | | | |
| — Operating rights | 34,919 | 13,570 | 39,410 | 87,899 |
| Lease prepayments | 5,000 | — | 162 | 5,162 |
| Inventories | 894 | 2,391 | 2,023 | 5,308 |
| Trade and other receivables | 1,095 | 11,656 | 1,688 | 14,439 |
| Other non-current assets | 446 | — | — | 446 |
| Borrowings | — | (13,737) | (20,000) | (33,737) |
| Current income tax liabilities | — | — | (320) | (320) |
| Trade and other payables | (17,838) | (3,208) | (15,666) | (36,712) |
| Advance from customers | (114) | (150) | (5,893) | (6,157) |
| Net deferred tax liability | (8,596) | (2,031) | (13,208) | (23,835) |
| Total identifiable net assets acquired | 41,944 | 18,107 | 37,106 | 97,157 |
| Non-controlling interests | — | (3,621) | — | (3,621) |
| Goodwill | 29,068 | 17,514 | 67,894 | 114,476 |
| | 71,012 | 32,000 | 105,000 | 208,012 |

| | Yunnan Datong RMB'000 | Dongming Wanji RMB'000 | Heze Guanghe RMB'000 | Prior years acquisitions RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Outflow of cash to acquire businesses, net of cash acquired | | | | | |
| — cash paid | 45,000 | 12,800 | 57,750 | 5,851* | 121,401 |
| — cash and cash equivalents in subsidiaries acquired | (7,509) | (195) | (4,171) | — | (11,875) |
| Cash outflow on acquisition | 37,491 | 12,605 | 53,579 | 5,851 | 109,526 |

* For the year ended 31 December 2013, such cash consideration paid out included the amount of approximately RMB1,286,000, RMB2,000,000, RMB2,325,000 and RMB240,000 for the acquisition of Dongkou Senbo, Gansu Baiyin, Kaifeng Xi'Na and Henan Songxian, respectively in prior years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 35. BUSINESS COMBINATION *(continued)*

### 35.1 Business combination through purchase of subsidiaries in 2013 *(continued)*

*(a)* Acquisition-related costs of approximately RMB18,000 have been charged to administrative expenses in the profit or loss for the year ended 31 December 2013.

*(b)* *Contingent consideration*

According to the acquisition agreement, the Group will pay RMB35 million as part of the consideration to the vendor under the condition that within one year of the equity transfer of Yunnan Datong, no dispute on the legal right of the equity and assets, no undisclosed obligations or unrecorded liabilities to be discovered by the Group.

According to the acquisition agreement, the Group will pay RMB19.20 million as part of the consideration to the vendor under the condition that within one year of the equity transfer of Dongming Wanji, no dispute on the legal right of the equity and assets, no undisclosed obligations or unrecorded liabilities to be discovered by the Group.

According to the acquisition agreement, the Group will pay RMB47.25 million as part of the consideration to the vendor under the condition that within one year of the equity transfer of Heze Guanghe, no dispute on the legal right of the equity and assets, no undisclosed obligations or unrecorded liabilities to be discovered by the Group.

The fair value of the contingent consideration approximates their carrying amounts due to their short term maturity. The contingent consideration is included in other payables in the consolidated balance sheet.

*(c)* *Acquired receivables*

The provisional fair value of trade and other receivables is approximately RMB14,439,000 and includes trade receivables with a provisional fair value of approximately RMB2,421,000, which is the gross contractual amount of the trade receivables.

*(d)* *Non-controlling interests*

The Group has chosen to recognise the non-controlling interests on a non-controlling interests proportion of the fair value for the acquisition.

*(e)* *Revenue and profit contribution*

The acquired businesses contributed aggregated revenues of approximately RMB11,000 and aggregated net loss of approximately RMB1,260,000 to the Group for the periods from the respective acquisition dates to 31 December 2013.

If the acquisition had occurred on 1 January 2013, consolidated revenue and consolidated net loss of the Group for the year ended 31 December 2013 would have been approximately RMB51,000 and approximately RMB5,581,000 respectively, excluding the impact of Dongming Wanji and Heze Guanghe since the Group cannot obtain its pre-acquisition results from the vendors, it is impracticable to disclose their pre-acquisition revenue and profit.

*(f)* *Provisional fair value of acquired identifiable assets and liabilities*

The Group has engaged an independent valuer to identify the fair value of identifiable assets and liabilities acquired. The valuation of Yunnan Datong, Dongming Wanji and Heze Guanghe have not yet been completed and the provisional fair value represents management's current best estimates of the fair values at acquisition, which are subject to change.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 36. RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The Group is controlled by Tian Lun Group Limited, a company incorporated in the British Virgin Islands ("BVI"), a direct wholly-owned subsidiary of Gold Shine Development Limited in the BVI, and it is ultimately controlled by Mr. Zhang Yingcen and his family members comprising his wife and eldest son ("Controlling Shareholders").

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2013 and 2012, and balances arising from related party transactions as at 31 December 2013 and 2012.

### (a) Name and relationship with related parties

| Name of related party | Relationship |
|---|---|
| Henan Tian Lun Real Estate Limited ("Henan Tian Lun Real Estate") | Controlled by the Controlling Shareholders |
| Henan Tian Lun Engineering Investment Limited ("Henan Tian Lun Engineering Investment") | Controlled by the Controlling Shareholders |
| Hebi Hexiang Engineering Limited ("Hexiang Engineering") | Controlled by the Controlling Shareholders (before 21 June 2013) |

### (b) Significant related party transactions

The Group had the following significant transactions with related parties.

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| **Purchase of construction service** | | |
| — Hexiang Engineering | **5,781** | 9,895 |

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| **Rendering of service** | | |
| — Henan Tian Lun Engineering Investment | **150** | 200 |

These transactions are carried out on terms agreed with the counter parties in the ordinary course of business.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 36. RELATED PARTY TRANSACTIONS *(continued)*

### (c) Balances with related parties

| | Group | | Company | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Trade and other receivables** | | | | |
| Other receivables due from | | | | |
| — Henan Tian Lun Engineering Investment | **16,029** | 6,963 | **—** | — |
| — Henan Tian Lun Gas | **—** | — | **205,767** | — |
| — Upsky Holdings | **—** | — | **247,486** | 247,486 |
| — Tian Lun New Energy | **—** | — | **112,926** | 110,670 |
| | **16,029** | 6,963 | **566,179** | 358,156 |
| **Trade and other payables** | | | | |
| Trade payables due to | | | | |
| — Hexiang Engineering | **—** | 964 | **—** | — |
| Other payables due to | | | | |
| — Hexiang Engineering | **—** | 30 | **—** | — |
| — Upsky Holdings | **—** | — | **642** | — |
| — Henan Tian Lun Gas | **—** | — | **1,086** | 5,961 |
| | **—** | 994 | **1,728** | 5,961 |

### (d) Key management compensation

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Basic salaries and allowances | **3,218** | 3,898 |
| Discretionary bonuses | **587** | 296 |
| Retirement benefit contributions | **434** | 423 |
| | **4,239** | 4,617 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2013*
*(All amounts in RMB unless otherwise stated)*

## 37. EVENT AFTER THE BALANCE SHEET DATE

(i) On 25 December 2013, the Group has entered into an acquisition agreement with Mr. Chen Jianquan to purchase the entire issued share capital of Wah Shing Century Limited and its 60% equity interest in Chaozhou Huamao Energy Distribution Company Limited which engages in the investment and construction of natural gas pipelines, and the distribution and sales of natural gas. The total consideration is RMB432,000,000 and the acquisition was completed in January 2014. The acquiree is under valuation by a third-party valuer, and the valuation results have not been obtained up to date.

(ii) On 30 December 2013, the Group has entered into a co-operation agreement with Luoyang Rongtuo Coking Company Limited to establish a company for investing and operating a coke oven gas-produced liquefied natural gas project in Luoyang city. The registered capital of the company will be RMB50,000,000, of which RMB40,000,000 will be contributed by the Group in cash, representing 80% of the equity interest of the company.

(iii) On 27 January 2014, the board of directors of the Company has granted 20,000,000 share options to several individuals ("Grantees") for their subscription of new ordinary shares of HK$0.01 per share of the Company under the Share Option Scheme (the "Scheme") adopted by the Company on 13 October 2010, subject to the acceptance of the Grantees.

These share options are exercisable at HK$7.142 per share, subject to the rules of the Scheme, 50% of the share options may be exercised within the period from 27 January 2016 to 26 January 2017 and the remaining 50% of the share options may be exercised within the period from 27 January 2017 to 26 January 2018. All of the share options have no vesting condition. Among the 20,000,000 share options granted, 7,300,000 share options were granted to five directors of the Company.

Management is in the process of evaluating the fair value of the share options and its financial impact on the Group.

# FIVE YEAR FINANCIAL SUMMARY

| **RESULTS** | **Year ended 31 December** | | | | |
|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 | 2009 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | | Restated | |
| Revenue | **911,939** | 716,362 | 450,931 | 258,255 | 179,223 |
| Gross profit | **333,036** | 251,236 | 172,004 | 121,074 | 78,830 |
| Profit before income tax | **246,152** | 202,933 | 117,633 | 97,683 | 61,545 |
| Income tax expense | **(59,864)** | (53,710) | (27,280) | (21,715) | (13,992) |
| Profit for the year | **186,288** | 149,223 | 90,353 | 75,968 | 47,553 |

| **ASSETS, LIABILITIES AND EQUITY** | **As at 31 December** | | | | |
|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 | 2009 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | | Restated | |
| Total assets | **2,627,388** | 2,021,967 | 1,575,655 | 683,378 | 271,003 |
| Total liabilities | **1,536,992** | 1,125,701 | 791,435 | 124,133 | 160,380 |
| Total equity | **1,090,396** | 896,266 | 784,220 | 559,245 | 110,623 |