

TL NATURAL GAS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8536



Third Quarterly Report

2018



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This report, for which the directors (the “Directors”) of TL Natural Gas Holdings Limited (the “Company”, and together with its subsidiaries, the “Group”, “we” or “our”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this report misleading.

Unless otherwise stated, all monetary figures are expressed in Renminbi (“RMB”).

In the context of this report, compressed natural gas (“CNG”) refers to natural gas that has been compressed to a high density through high pressure and is used as a clean alternative fuel for vehicles. Liquefied natural gas (“LNG”) refers to natural gas that has been converted to liquid form.

This report will remain on the website of GEM at www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of publication and on the website of the Company at www.tl-cng.com.



HIGHLIGHTS

- The Group's revenue amounted to approximately RMB60.6 million for the nine months ended 30 September 2018, representing an increase of approximately RMB13.6 million or approximately 28.9% as compared to approximately RMB47.0 million for the nine months ended 30 September 2017.
- The Group reported a net profit of RMB0.7 million for the three months ended 30 September 2018, compared with a net loss of RMB5.3 million for the same period last year. For the nine months ended 30 September 2018, the Group incurred a loss of approximately RMB0.7 million mainly due to the one-off listing expenses of approximately RMB4.9 million. Excluding the listing expenses, the Group's profit for the nine months ended 30 September 2018 was approximately RMB4.2 million which remained stable when compared with the profit of approximately RMB4.3 million (excluding listing expense of RMB12.1 million) for the corresponding period of 2017.
- Gross profit and gross profit margin amounted to approximately RMB9.0 million and RMB5.7 million, and 14.9% and 12.2% for the nine months ended 30 September 2018 and 2017, respectively. The increase was mainly due to increase in revenue while certain fixed costs included in cost of sales remained relatively stable. In light of the nature of natural gas industry, our fixed cost of operation included depreciation charge of gas refuelling stations and fixed assets.

UNAUDITED THIRD QUARTERLY RESULTS

The board of Directors (the "Board") is pleased to report the unaudited condensed consolidated financial results of the Group for the three months and the nine months ended 30 September 2018 (the "Relevant Period"), together with the unaudited comparative figures for the corresponding period in 2017, are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and the nine months ended 30 September 2018

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
REVENUE	4	20,092	18,320	60,613	47,021
Cost of sales		(17,120)	(15,411)	(51,565)	(41,280)
Gross profit		2,972	2,909	9,048	5,741
Other income and gains	4	11	5	20	17
Selling and distribution expenses		(120)	(97)	(342)	(376)
Administrative expenses		(1,497)	(7,896)	(7,552)	(12,943)
Other expenses		-	-	-	(14)
PROFIT/(LOSS) BEFORE TAX	5	1,366	(5,079)	1,174	(7,575)
Income tax	6	(648)	(213)	(1,824)	(226)
PROFIT/(LOSS) FOR THE PERIOD		718	(5,292)	(650)	(7,801)
OTHER COMPREHENSIVE INCOME					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations		1,798	38	3,414	409
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		1,798	38	3,414	409

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (cont'd)

For the three months and the nine months ended 30 September 2018

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		1,798	38	3,414	409
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		2,516	(5,254)	2,764	(7,392)
Profit/(loss) attributable to:					
Owners of the parent		718	(5,292)	(650)	(7,801)
Non-controlling interests		-	-	-	-
		718	(5,292)	(650)	(7,801)
Total comprehensive income/(loss) attributable to:					
Owners of the parent		2,516	(5,254)	2,764	(7,392)
Non-controlling interests		-	-	-	-
		2,516	(5,254)	2,764	(7,392)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT DURING THE PERIOD					
Basic and diluted (cents)	7	0.14	(1.41)	(0.13)	(2.08)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2018

	Attributable to Owners of the Parent							Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Exchange Fluctuation reserve RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000		
At 1 January 2017	-	-	4,090	279	829	7,329	12,527	-	12,527
Changes in equity for 2017:									
Loss for the period	-	-	-	-	-	(7,801)	(7,801)	-	(7,801)
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	-	-	-	409	-	-	409	-	409
Total comprehensive loss for the period	-	-	-	409	-	(7,801)	(7,392)	-	(7,392)
Acquisition of subsidiaries pursuant to share swap as part of the Reorganisation	-	-	13,260	-	-	-	13,260	-	13,260
Issue of shares	886	-	-	-	-	-	886	-	886
At 30 September 2017	886	-	17,350	688	829	(472)	19,281	-	19,281
At 1 January 2018	886	16,351	17,350	885	1,060	1,681	38,213	-	38,213
Changes in equity for 2018:									
Loss for the period	-	-	-	-	-	(650)	(650)	-	(650)
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	-	-	-	3,414	-	-	3,414	-	3,414
Total comprehensive income for the period	-	-	-	3,414	-	(650)	2,764	-	2,764
Issue of shares by way of share offer (note 1)	1,015	47,722	-	-	-	-	48,737	-	48,737
Capitalisation issue (note 2)	2,234	(2,234)	-	-	-	-	-	-	-
Share issue expense	-	(9,164)	-	-	-	-	(9,164)	-	(9,164)
Transfer from retained profits	-	-	-	-	443	(443)	-	-	-
At 30 September 2018	4,135	52,675	17,350	4,299	1,503	588	80,550	-	80,550

Notes:

- (1) The Company was listed on GEM on 18 May 2018 by way of share offer of 125,000,000 new shares at the offer price of HK\$0.48 per share. The gross proceeds were HK\$60.0 million or approximately RMB48.7 million.
- (2) On 18 May 2018, 274,999,800 new shares were issued pursuant to the Capitalisation Issue as described in note 11 to the condensed consolidated interim financial statements of the Company for the six months ended 30 June 2018.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 24 March 2017. The registered office of the Company is located at the offices of Estera Trust (Cayman) Limited, Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.

The Company is an investment holding company. During the period, the Company's subsidiaries were involved in the sale of CNG.

Pursuant to the reorganisation of the Group (the "Reorganisation") in connection with the listing of shares of the Company (the "Shares") on GEM, the Company became the holding company of the subsidiaries now comprising the Group upon the completion of the Reorganisation. Details of the Reorganisation are set out in the section headed "History, Reorganisation and Corporate Structure – Reorganisation" in the prospectus of the Company dated 8 May 2018 (the "Prospectus").

The Shares were listed on GEM on 18 May 2018 (the "Listing Date").

2 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

These unaudited condensed consolidated financial statements for the nine months ended 30 September 2018 have been prepared in accordance with Hong Kong Accounting Standard 34 "*Interim Financial Reporting*" issued by the Hong Kong Institute of Certified Public Accountants. The unaudited condensed consolidated financial information should be read in conjunction with the historical financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), in Appendix I of the Prospectus.

Prior to the incorporation of the Company, the principal business of the Group has been operated under a major operating subsidiary of the Company, namely Hubei Tonglin Natural Gas Service Company Limited ("Tonglin Gas"). Pursuant to the Reorganisation, the Company became the holding company of companies now comprising the Group. The Reorganisation only involved organising the Company and other newly formed entities with no substantive operations as holding companies of Tonglin Gas and there was no change in the business and operation of Tonglin Gas. Accordingly, the Reorganisation has been accounted for using a principle similar to that for a reverse acquisition, with Tonglin Gas treated as the acquirer for accounting purposes. The unaudited condensed consolidated financial statements for the three months and the nine months ended 30 September 2018 and 2017 have been prepared and presented as a continuation of the financial statements of Tonglin Gas with the assets and liabilities of Tonglin Gas recognised and measured at their historical carrying amounts prior to Reorganisation.

2 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION *(cont'd)*

The preparation of unaudited condensed consolidated results in conformity with HKFRSs requires the management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The adoption of the new and revised HKFRSs has no significant impact on the unaudited condensed consolidated results and financial position of the Group.

This quarterly financial report is unaudited, but has been reviewed by the Company's audit and risk management committee.

In the current period, the accounting policies applied are consistent with those of the consolidated financial statements for the year ended 31 December 2017, as described in those consolidated financial statements. The Group has adopted all the new and revised HKFRSs issued that are relevant to its operations and effective for its accounting period beginning on 1 January 2018. The application of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years. The Group has not early applied the new and revised HKFRSs that have been issued but are not yet effective. The Directors anticipate that the application of these new standard(s), amendments and interpretation(s) will have no material impact on the unaudited condensed consolidated financial statements.

3 OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and services and only has one reportable operating segment. The management of the Group monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

During the period, the Group operated within one geographical segment because all of the Group's revenue was generated from customers located in China. All of the non-current assets of the Group were located in China.

3 OPERATING SEGMENT INFORMATION (cont'd)

Major customers

The following are major customers of the Group with revenue equal to or more than 10% of the Group's total revenue:

	Three months ended 30 September		Nine months ended 30 September	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Company A**	4,291	4,496	12,319	13,312
Company B**	4,575	1,845	13,587	4,718
Company C	N/A*	2,846	N/A*	6,989
	8,866	9,187	25,906	25,019

* The corresponding revenue of the customer is not disclosed as the revenue individually did not account for 10% or more of the Group's revenue for the period.

** The customers are state-owned enterprises.

4 REVENUE, OTHER INCOME AND GAINS

During the period, the Group generated revenue from sale of CNG and LNG, while other income and gains mainly represented bank interest income.

An analysis of revenue and other income and gains is as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Revenue				
Sale of CNG and LNG	20,092	18,320	60,613	47,021
Other income and gains				
Bank interest income and others	11	5	20	17

5 PROFIT/(LOSS) BEFORE TAXATION

The following items have been included in arriving at profit/(loss) before taxation:

	Three months ended 30 September		Nine months ended 30 September	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Cost of inventories sold	14,027	12,489	42,307	32,617
Listing expenses	459	7,631	4,863	12,088
Depreciation	971	982	2,908	3,080
Utility expense	773	702	2,281	1,885
Auditor's remuneration	200	-	600	-
Minimum lease payments under operating leases	394	407	1,247	1,221
Transportation expense	115	124	414	327
Amortisation of prepaid land lease payments	10	10	29	29
Bank interest income and others	(6)	(2)	(15)	(14)
Employee benefit expense:				
Wages and salaries	918	784	2,555	2,358
Pension scheme contributions	95	46	287	108

6 INCOME TAX

	Three months ended 30 September		Nine months ended 30 September	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Amount recognised in profit or loss				
Current tax expense/ (credit)				
Current period	648	213	1,824	226

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

The statutory tax rate for the subsidiary in Hong Kong is 16.5%. No Hong Kong profits tax on the Group's subsidiary has been provided as there are no assessable profits arising in Hong Kong during the Relevant Period.

The income tax expense of the Group relates to that of the subsidiary in China where the corporate income tax has been provided at the statutory rate of 25% on the estimated chargeable income arising in China.



7 EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the accounting period.

The weighted average number of ordinary shares is calculated as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Issuance of shares upon incorporation	100,000,000	100,000,000	100,000,000	100,000,000
Issuance of shares on 15 June 2017	100	100	100	100
Issuance of shares on 13 December 2017	100	100	100	100
Capitalisation issue on 18 May 2018	274,999,800	274,999,800	274,999,800	274,999,800
Issuance of shares on 18 May 2018	125,000,000	–	125,000,000	–
	500,000,000	375,000,000	500,000,000	375,000,000

The Company was incorporated on 24 March 2017, and issued and allotted 100,000,000 shares. On 15 June 2017 and 13 December 2017, the Company issued and allotted 100 shares and 100 shares, respectively, as part of the Reorganisation and capitalisation of existing shareholders' loan. In order to present meaningful earnings per share information, (i) the above 100,000,200 shares are regarded as if they have been in issue since January 2017, (ii) in conjunction with the listing of the Company's shares on GEM, the capitalisation of share premium account amounting to HK\$2,749,998 into 274,999,800 shares on 18 May 2018 is deemed to be completed on 1 January 2017 as such capitalisation does not result in a corresponding increase in the resources of the Group, and (iii) the weighted average number of shares for the three months and nine months ended 30 September 2017 and 2018 have been adjusted accordingly.



7 EARNINGS/(LOSS) PER SHARE *(cont'd)*

The basic earnings/(loss) per share is calculated as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
Profit/(loss) attributable to equity holders of the Company (RMB'000)	718	(5,292)	(650)	(7,801)
Weighted average number of ordinary shares in issue ('000)	500,000	375,000	500,000	375,000
Basic earnings/(loss) per share (cents)	0.14	(1.41)	(0.13)	(2.08)

Diluted earnings/(loss) per share is the same as the basic earnings/(loss) per share as there were no potential dilutive ordinary shares outstanding during the three months and nine months ended 30 September 2018 and 2017.

8 INTERIM DIVIDEND

The Board did not declare the payment of any interim dividend for the three and nine months ended 30 September 2018 (for the three and nine months ended 30 September 2017: Nil).

9 APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These condensed consolidated financial statements were approved by the Board on 8 November 2018.



MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS REVIEW

The Company mainly supplies CNG. The Group's principal place of business is in Jingzhou, Hubei Province, China. The Group derives revenue mainly from the distribution of CNG to both (i) retail customers which are mostly vehicular end-users, and (ii) wholesale customers which are urban gas companies, gas refuelling station operators and industrial users. The principal product offering is CNG which is purchased from the Group's natural gas supplier, PetroChina Company Limited.

For the nine months ended 30 September 2018, the Group's revenue amounted to approximately RMB60.6 million, increased by approximately 28.9% when compared with approximately RMB47.0 million for the corresponding period of 2017. The increase was primarily attributable to increased orders from the existing wholesale customers and the introduction of certain new wholesale customers and expansion of customer base during the nine months ended 30 September 2018.

The Group reported a net profit of RMB0.7 million for the three months ended 30 September 2018, compared with a net loss of RMB5.3 million for the same period last year. For the nine months ended 30 September 2018, the Group incurred a loss of approximately RMB0.7 million mainly due to the one-off listing expenses of approximately RMB4.9 million. Excluding the one-off listing expenses, the Group's profit for the nine months ended 30 September 2018 was approximately RMB4.2 million which remained stable when compared with the profit of approximately RMB4.3 million (excluding the listing expenses of RMB12.1 million) for the corresponding period of 2017.

PROSPECTS

In light of the growing demand from the wholesale customers, the Group's revenue had increased by 28.9% in the nine months ended 30 September 2018 against the corresponding period in 2017. Looking forward, the Group is optimistic on the growth of consumption of CNG along with China improving its energy consumption structure by shifting from coal to cleaner energy such as natural gas and other renewable energy.

In recent years, the PRC government has issued a series of policies to support further development and utilisation of natural gas and natural gas vehicles and to respond to policies issued by the central PRC government. The Jingzhou Municipal Government has followed and implemented various policies to promote the utilisation of natural gas, for example, the Implementation Scheme of Abandonment of Coal-fired Boiler in Jingzhou's Central City Area *(荊州市中心城區淘汰燃煤鍋爐實施方案), under which the use of coal-fired thermal power plant boilers shall be phased out and prohibited. According to the Plan of Jingzhou's Urban Integrated Transportation System (2015-2030)* (荊州市城市綜合交通體系規劃 (2015-2030)), Jingzhou is also going to increase the number of buses and taxis continuously, in the central area of Jingzhou by 2020, of which most of the buses and taxis are expected to be fueled by natural gas.



PROSPECTS *(cont'd)*

In that aspect, the Group believes that the favourable government policies and industry trends in China will foster the development of the natural gas sector and stimulate domestic demand for the use of natural gas. The Group will continue to capture the growth potential resulting from policies and industry trends. The Directors are of the view that the Group is achieving sustainable growth and will continue to expand going forward to bring greater return to the shareholders of the Company.

FINANCIAL REVIEW

Revenue

Revenue amounted to approximately RMB60.6 million for the nine months ended 30 September 2018, representing an increase of approximately RMB13.6 million or approximately 28.9% as compared to approximately RMB47.0 million for the nine months ended 30 September 2017. The increase was mainly due to increase in sales of CNG to wholesale customers. Sales of CNG to wholesale customers amounted to approximately RMB32.7 million for the nine months ended 30 September 2018, representing an increase of approximately RMB13.0 million or approximately 66.4% as compared to approximately RMB19.7 million for the nine months ended 30 September 2017. The increase was mainly due to the introduction of certain new wholesale customers and the increase in overall demand from wholesale customers.

Cost of sales

Cost of sales amounted to approximately RMB51.6 million and RMB41.3 million for the nine months ended 30 September 2018 and 2017, respectively. Cost of inventories sold, which amounted to RMB42.3 million and RMB32.6 million for the nine months ended 30 September 2018 and 2017, respectively, represented 82.0% and 79.0% of cost of sales for the respective periods. The overall increase in cost of inventories sold was in line with the increase in sales volume during the nine months ended 30 September 2018.

Gross profit

Gross profit and gross profit margin amounted to approximately RMB9.0 million and RMB5.7 million, and 14.9% and 12.2% for the nine months ended 30 September 2018 and 2017, respectively. The increase was mainly due to increase in revenue while certain fixed costs included in cost of sales remained relatively stable. In light of the nature of natural gas industry, our fixed cost of operation included depreciation charge of gas refuelling stations and fixed assets.



FINANCIAL REVIEW *(cont'd)*

Selling and distribution expenses

Selling and distribution expenses, which mainly represent staff costs, office and travel expenses incurred in our operation department, amounted to RMB0.3 million for the nine months ended 30 September 2018 and remained stable as compared to RMB0.4 million for the nine months ended 30 September 2017.

Administrative expenses

Administrative expenses, which mainly represent the listing expenses and professional fees, decreased by approximately RMB5.4 million or approximately 41.7%, from approximately RMB12.9 million for the nine months ended 30 September 2017 to approximately RMB7.6 million for the nine months ended 30 September 2018. The decrease was primarily due to decrease in listing expenses of RMB7.2 million following the listing of the shares of the Company on GEM on 18 May 2018.

Income tax expense

Income tax expense for the nine months ended 30 September 2017 amounted to approximately RMB0.2 million and is prorated based on the tax assessed on the estimated chargeable income for the full financial year ended 31 December 2017. Income tax expense for the nine months ended 30 September 2018 amounted to approximately RMB1.8 million, based on the estimated income for the nine months ended 30 September 2018 which was adjusted for the effect of non-deductible expenses such as listing expenses, and the prevailing tax rate.

Profit/(loss) for the period

Profit attributable to the owners of the Company for the three months ended 30 September 2018 was approximately RMB0.7 million, compared with a net loss of RMB5.3 million for the same period last year. Loss attributable to the owners of the Company was approximately RMB0.7 million for the nine months ended 30 September 2018, compared to a loss of approximately RMB7.8 million for the corresponding period of 2017, as gross profit increased and administrative expenses decreased.



INTERIM DIVIDENDS

The Board does not recommend the payment of any interim dividend for the nine months ended 30 September 2018 (31 December 2017: Nil).

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The total equity of the Group as at 30 September 2018 was approximately RMB80.6 million. The Group's cash and cash equivalents as at 30 September 2018 was approximately RMB42.5 million. Our working capital represented by net current assets was approximately RMB50.0 million and our current ratio was 8.7. Based on our steady cash inflows from operations, coupled with sufficient cash and bank balances, we have adequate liquidity and financial resources to meet our working capital requirements.

COMMITMENTS

The contractual commitment of our Group is the lease of our Group's property as a lessee. As at 30 September 2018, our Group's operating lease commitment as a lessee amounted to approximately RMB12.3 million (31 December 2017: RMB13.4 million).

As at 30 September 2018, our Group had no capital commitments (31 December 2017: Nil).

INDEBTEDNESS

Interest-bearing bank loan

As at 30 September 2018, our Group had no outstanding interest-bearing bank loan (31 December 2017: Nil).

Contingent liabilities and guarantees

As at 30 September 2018, our Group had no significant contingent liabilities and guarantees (31 December 2017: Nil).



INDEBTEDNESS *(cont'd)*

Charge of assets

As at 30 September 2018, our Group has no charge of assets (31 December 2017: Nil).

Foreign currency risk

Our Group carries out its business in China and most of its transactions are denominated in RMB. Our Group did not experience any material impact or difficulties in liquidity on its operations resulting from the fluctuation in exchange rate, and no hedging transaction or forward contract arrangement was made by the Group during the nine months ended 30 September 2018.

Interest rate risk

Our Group has no significant interest rate risk. Our Group currently does not have any specific policies in place to manage interest rate risk and has not entered into any interest rate swap transactions to mitigate interest rate risk but will closely monitor related risk in the future.

Significant investments, material acquisitions and disposals of subsidiaries, associates and joint ventures, and future plans for material investments or capital assets

Save as disclosed in this report and the Prospectus, there were no significant investments held by the Company during the nine months ended 30 September 2018, nor were there any material acquisitions and disposals of subsidiaries, associates and joint ventures during the Relevant Period. Save as disclosed in this report and the Prospectus, there is no plan authorised by the Board for other material investments or additions of capital assets as at the date of this report.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2018, our Group has a total of 87 employees (31 December 2017: 92). Staff costs, including Directors' remuneration, of our Group were approximately RMB2.9 million for the nine months ended 30 September 2018 (nine months ended 30 September 2017: RMB2.5 million). Remuneration is determined with reference to factors such as comparable market salaries, work performance, time commitment and responsibilities of each individual. Employees are provided with relevant in-house and/or external training from time to time. Our Group reviews the performance of employees from time to time.

USE OF PROCEEDS

The Company was listed on GEM on 18 May 2018 and the net proceeds received are approximately HK\$29.2 million. The Company intends to utilise the proceeds based on the strategies as disclosed in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Up to 30 September 2018, we have utilised approximately HK\$1.5 million for general working capital of the Group. Unutilised proceeds were deposited in licensed banks in Hong Kong and China.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY ASSOCIATED CORPORATION

As at 30 September 2018, interests or short positions of the Directors and chief executives 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 (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long positions in ordinary shares of the Company:

Name	Capacity/ Nature of interests	Total number of Shares interested	Approximate percentage of the total issued share capital (%)
Mr. Liu Yong Cheng (Note 1)	Interest in controlled corporation and parties acting in concert	375,000,000	75%
Mr. Liu Yong Qiang (Note 2)	Interest in controlled corporation and parties acting in concert	375,000,000	75%

Save as disclosed above, as at 30 September 2018, none of the Directors nor chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

Notes:

- (1) Mr. Liu Yong Cheng directly owns 100% of Yongsheng Enterprises Limited ("Yongsheng"), which in turn holds 108,750,000 shares or approximately 21.75% of the issued share capital of our Company; therefore he is deemed, or taken to be interested in, all the shares held by Yongsheng for the purpose of the SFO; pursuant to the acting in concert confirmation dated 14 June 2017, in which Mr. Liu Yong Cheng is also deemed to be interested in 266,250,000 Shares or approximately 53.25% of the issued share capital of our Company owned by Hongsheng as a result of being a party acting in concert with Mr. Liu Yong Qiang.
- (2) Mr. Liu Yong Qiang directly owns 100% of Hongsheng Enterprises Limited ("Hongsheng"), which in turn holds 266,250,000 shares or approximately 53.25% of the issued share capital of our Company; therefore he is deemed, or taken to be interested in, all the shares held by Hongsheng for the purpose of the SFO; pursuant to the acting in concert confirmation dated 14 June 2017, in which Mr. Liu Yong Qiang is also deemed to be interested in 108,750,000 Shares or approximately 21.75% of the issued share capital of our Company owned by Yongsheng as a result of being a party acting in concert with Mr. Liu Yong Cheng.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2018, other than the Directors and chief executive of the Company, the following persons/entities have an interest or a short position in the Shares or the underlying Shares as recorded in the register of the Company required to be kept under section 336 of the SFO:

Long position in ordinary shares of the Company:

Name	Capacity/ Nature of interests	Total number of Shares interested	Approximate percentage of the total issued share capital (%)
Yongsheng (Note 1)	Beneficial owner and parties acting in concert	375,000,000	75%
Hongsheng (Note 2)	Beneficial owner and parties acting in concert	375,000,000	75%

Notes:

- Mr. Liu Yong Cheng directly owns 100% of Yongsheng, which in turn holds 108,750,000 shares or approximately 21.75% of the issued share capital of our Company; therefore he is deemed, or taken to be interested in, all the shares held by Yongsheng for the purpose of the SFO; pursuant to the acting in concert confirmation dated 14 June 2017, in which Mr. Liu Yong Cheng is also deemed to be interested in 266,250,000 Shares or approximately 53.25% of the issued share capital of our Company owned by Hongsheng as a result of being a party acting in concert with Mr. Liu Yong Qiang.
- Mr. Liu Yong Qiang directly owns 100% of Hongsheng, which in turn holds 266,250,000 shares or approximately 53.25% of the issued share capital of our Company; therefore he is deemed, or taken to be interested in, all the shares held by Hongsheng for the purpose of the SFO; pursuant to the acting in concert confirmation dated 14 June 2017, in which Mr. Liu Yong Qiang is also deemed to be interested in 108,750,000 Shares or approximately 21.75% of the issued share capital of our Company owned by Yongsheng as a result of being a party acting in concert with Mr. Liu Yong Cheng.



SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(cont'd)*

Save as disclosed above, as at 30 September 2018 and so far as known to the Directors, no person, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executives' Interests and/or Short Positions in the Shares, Underlying Shares and Debentures of the Company and any Associated Corporation" above, had notified the Company of an interest or short position in the Shares or underlying Shares which had been required to be recorded in the register required to be kept by the Company pursuant Section 336 of the SFO.

SHARE OPTION SCHEME

The Company has a share option scheme (the "Share Option Scheme") which was approved and adopted by the shareholders of the Company by way of written resolutions passed on 20 April 2018. Details of the Share Option Scheme are set out in Appendix V to the Prospectus.

No share option has been granted under the Share Option Scheme since its adoption.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save for the Share Option Scheme, at no time from the Listing Date to 30 September 2018 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Shares were listed on GEM on 18 May 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date to 30 September 2018.



COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings from the Listing Date to 30 September 2018.

DEED OF NON-COMPETITION

As disclosed in the Prospectus, the controlling shareholders of the Group (“Controlling Shareholders”) entered into a deed of non-competition on 20 April 2018 (for itself and as trustee for its subsidiaries) (the “Deed of Non-Competition”). Each of the Controlling Shareholders confirmed to the Company that they have complied with the Deed of Non-Competition during the period.

Pursuant to the Deed of Non-Competition, each of the Controlling Shareholders has irrevocably and unconditionally undertaken to the Company (for itself and as trustee for its subsidiaries) that, subject to certain exceptions, during the period that the Deed of Non-Competition remain effective, each of the Controlling Shareholders shall not, and shall procure that their associates (other than any members of the Group) not to, directly or indirectly, carry on, participate in, be engaged, be interested directly or indirectly, either for their own account or in conjunction with or on behalf of or for any other person in any business in competition with or likely to be in competition with the existing business activity of any member of the Group (“Restricted Business”).

COMPETING INTERESTS

During the nine months ended 30 September 2018, so far as the Directors are aware, none of the Directors, controlling shareholders and substantial shareholders of the Company, neither themselves nor their respective close associates (as defined under the GEM Listing Rules) had held any position or had interest in Restricted Business or any businesses or companies that were materially competing or might materially compete with the business of the Group, or gave rise to any concern regarding conflict of interest.



INTERESTS OF THE COMPLIANCE ADVISER

As at 30 September 2018, as notified by the Company's compliance adviser, Giraffe Capital Limited (the "Compliance Adviser") except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 14 July 2017, neither the Compliance Adviser nor any of its directors, employees or close associates (as defined under the GEM Listing Rules) had any interest in the Group which is required to be notified to the Company pursuant to Rules 6A.32 of the GEM Listing Rules.

CORPORATE GOVERNANCE CODE

As the Shares were listed on GEM of the Stock Exchange on 18 May 2018, the requirements under the Corporate Governance Code (the "CG Code") contained in Appendix 15 of the GEM Listing Rules was not applicable to the Company prior to the Listing Date. The Company has since then adopted and complied with, where applicable, the CG Code from the Listing Date up to the date of this report to ensure that the Group's business activities and decision making processes are regulated in a proper and prudent manner, save for the deviation stipulated below.

According to the code provision A.2.1 of the CG Code, the roles of the chairman and chief executive should be separated and should not be performed by the same individual. Under the current management structure of the Company, Mr. Liu Yong Cheng is the chairman of the Board (the "Chairman") and chief executive officer of the Company (the "Chief Executive Officer"). As Mr. Liu Yong Cheng has been leading the Group as the Chief Executive Officer and actively involved in the core business of Tonglin Gas since its incorporation, and due to his familiarity with the operations of the Group, the Board believes that it is in the best interest of the Group to continue to have Mr. Liu Yong Cheng acting as the Chief Executive Officer and Chairman for effective management and business planning of the Group. Further, the Company has put in place an appropriate check-and-balance mechanism through the Board and three independent non-executive Directors. The Company will consult the Board for any major decisions. Therefore, the Board considers that the deviation from code provision A.2.1 of the CG Code is appropriate in such circumstances.

CHANGE IN INFORMATION OF DIRECTOR

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the change in information of the Director since the Listing Date and up to the date of this report is set out below:–

Mr. Li Wai Kwan was appointed as an independent non-executive Director of China Greenfresh Group Co., Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 6183), on 20 July 2018.



AUDIT AND RISK MANAGEMENT COMMITTEE

The Company has established an audit and risk management committee with written terms of reference in compliance with the code provision C.3.3 of the CG Code. The audit and risk management committee consists of three independent non-executive Directors, namely Mr. Li Wai Kwan as the chairman and Mr. Wong Chun Peng Stewart, and Ms. Li Helen Hoi Lam as its members. The audit and risk management committee has reviewed the unaudited condensed consolidated financial statements of the Group for the nine months ended 30 September 2018 and this report.

FORWARD LOOKING STATEMENTS

This report contains forward looking statements with respect to the financial conditions, results of operations and business of the Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

By order of the Board

TL Natural Gas Holdings Limited

Liu Yong Cheng

Executive Director, Chairman & Chief Executive Officer

Hong Kong, 8 November 2018

As at the date of this report, the Board comprises Mr. Liu Yong Cheng, Mr. Liu Yong Qiang and Mr. Liu Chunde as executive Directors; Mr. Wong Chun Peng Stewart, Mr. Li Wai Kwan and Ms. Li Helen Hoi Lam as independent non-executive Directors.