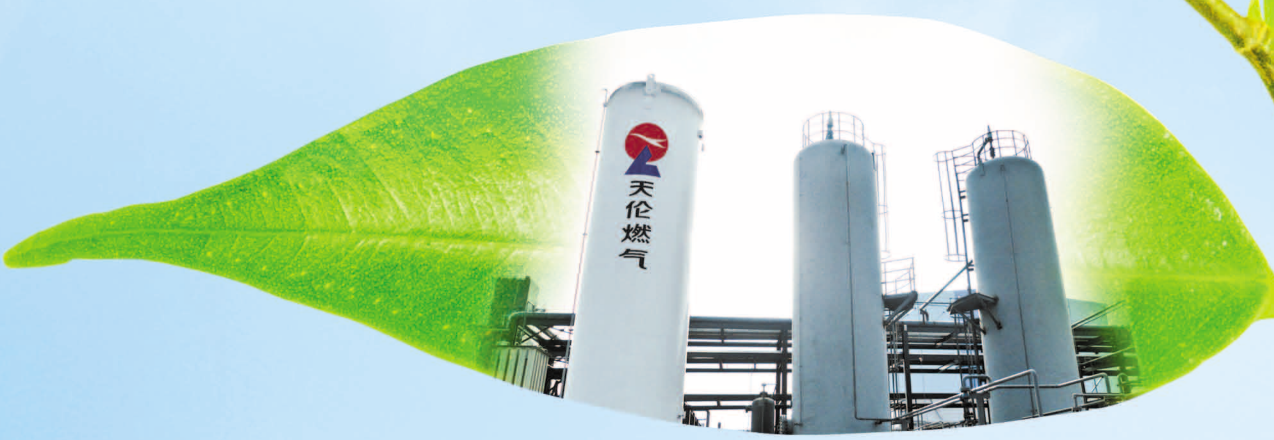
天伦燃气
TIANLUN GAS

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



Annual Report 2011


We are here to
provide clean energy

Contents

Company Profile

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Yingcen *(Chairman)*
Mr. Xian Zhenyuan
Mr. Feng Yi
Mr. Sun Heng

Non-executive Director

Mr. Zhang Daoyuan

Independent Non-executive Directors

Mr. Chang Zongxian
Ms. Zhao Jun
Mr. Zhang Jiaming
Mr. Li Liuqing

AUDIT COMMITTEE

Mr. Li Liuqing *(Chairman)*
Mr. Chang Zongxian
Ms. Zhao Jun

REMUNERATION COMMITTEE

Ms. Zhao Jun
(appointed as the Chairman on 30 March 2012)
Mr. Zhang Yingcen
(resigned as the Chairman on 30 March 2012)
Mr. Zhang Jiaming

NOMINATION COMMITTEE

Mr. Zhang Yingcen *(Chairman)*
Mr. Chang Zongxian
Ms. Zhao Jun

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

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

PRINCIPAL SHARE REGISTRAR AND 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
Room 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 LAW

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

COMPLIANCE ADVISER

CCB International Capital Limited
34th Floor,
Two Pacific Place,
88 Queensway, Hong Kong

PRINCIPAL BANKERS

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

STOCK CODE

01600

INVESTOR RELATIONS

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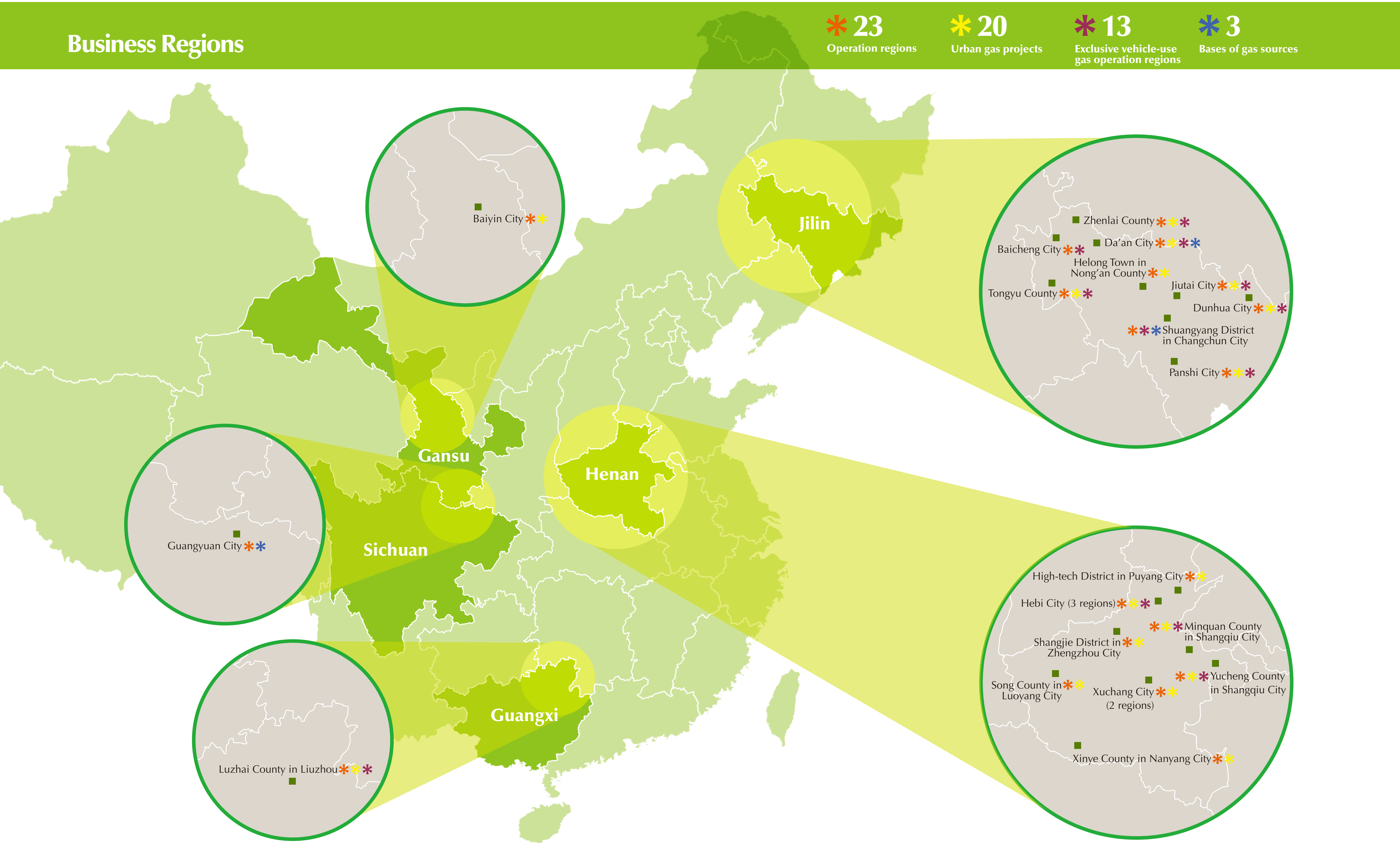
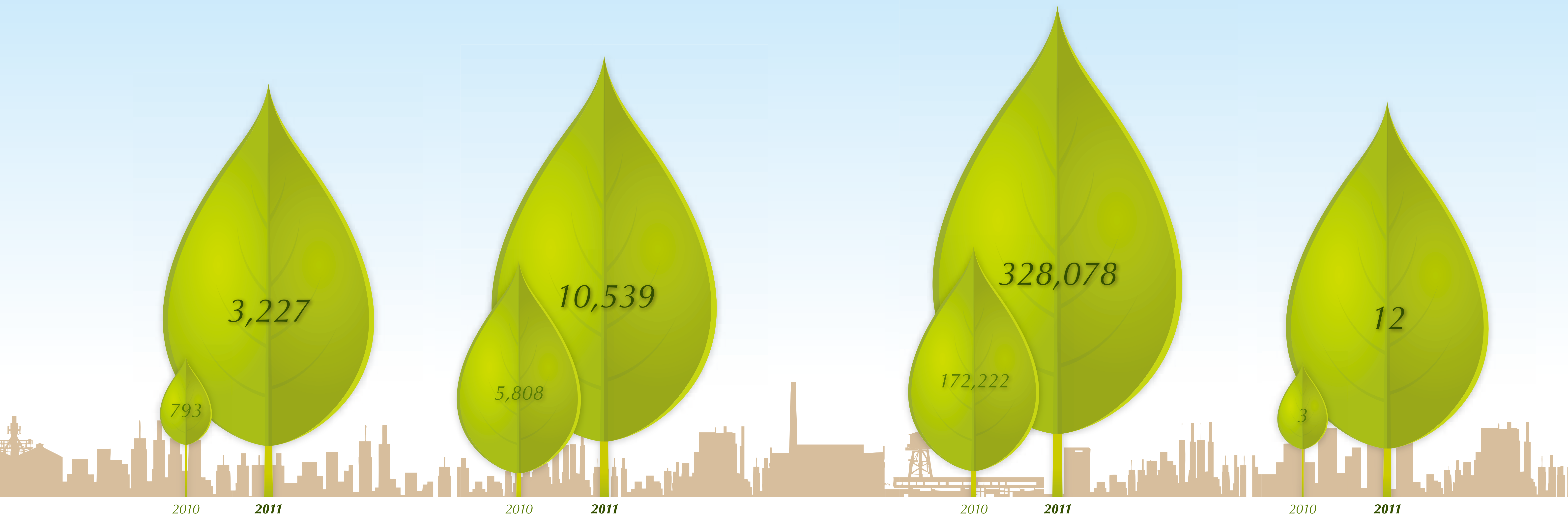
Zip Code:	450003

Business Regions

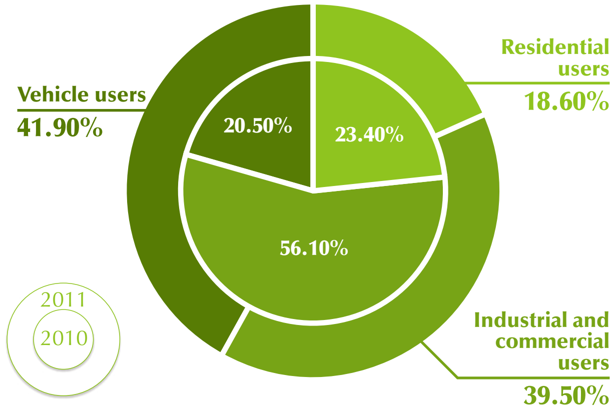
* 23 Operation regions
* 20 Urban gas projects
* 13 Exclusive vehicle-use gas operation regions
* 3 Bases of gas sources



Operation

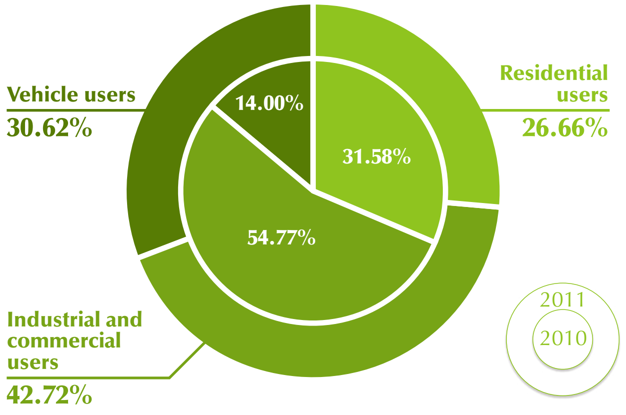


GAS SALES VOLUME TO VEHICLE USERS (0'000 m³) | TOTAL GAS SALES VOLUME (0'000 m³) | AGGREGATE RESIDENTIAL USERS | NUMBER OF GAS FILLING STATIONS



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 18.60%, 39.50% and 41.90% of total revenue from gas sales, respectively. The revenue from gas sales to vehicle users of the Group accounted for approximately 41.90% of total revenue from gas sales in 2011, increased from approximately 14.11%in 2009 and approximately 20.50% in 2010, representing a CAGR of approximately 72.32%.

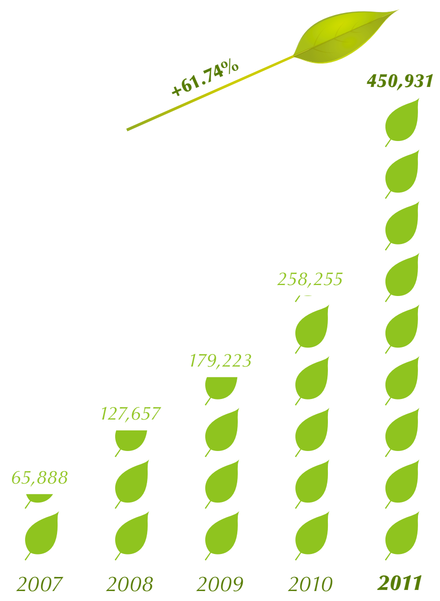


GAS SALES STRUCTURE

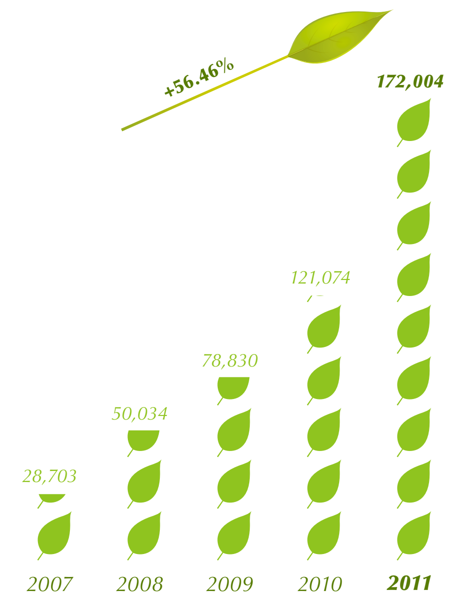
During the year, the volume of gas of the Group sold to residential users, commercial and industrial users and vehicle users accounted for 26.66%, 42.72% and 30.62% of total gas sales, respectively. The gas sales to vehicle users of the Group accounted for approximately 30.62% of total gas sales in 2011, increased from approximately 7.35% in 2009 and approximately 14.00% in 2010, representing a CAGR of approximately 104.11%.

Finance

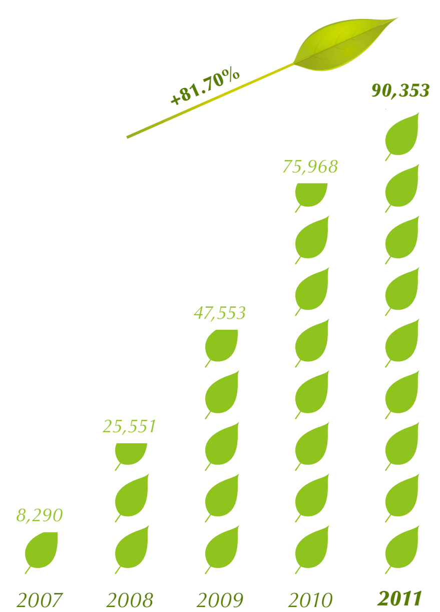
Revenue
RMB'000



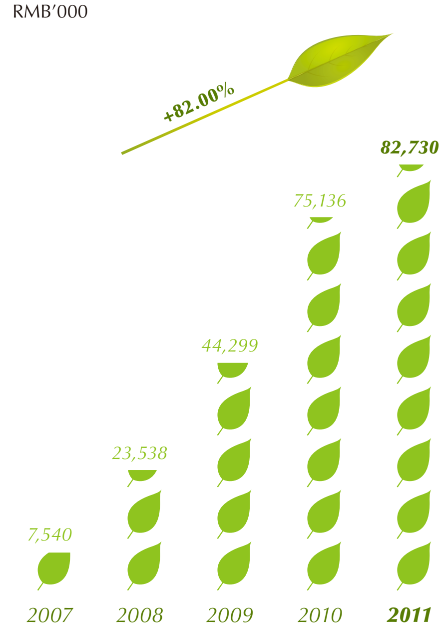
Gross profit
RMB'000



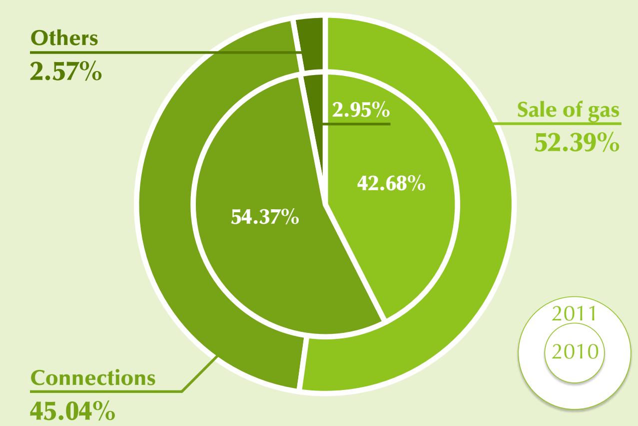
Profit for the year
RMB'000



Profit attributable to owners of the Company
RMB'000



	2010 RMB'000	**2011** **RMB'000**
Revenue and profit		
Revenue	258,255	**450,931**
Profit before income tax	97,683	**117,633**
Income tax expense	21,715	**27,280**
Profit for the year	75,968	**90,353**
Assets and liabilities		
Non-current assets	198,400	**1,051,497**
Current assets	484,978	**524,158**
Non-current liabilities	6,350	**241,262**
Current liabilities	117,783	**550,173**
Cash and cash equivalents	411,926	**310,762**
Equity		
Share capital	7,077	**7,077**
Share premium	454,188	**454,188**
Equity attributable to owners of the Company	556,400	**616,130**
Non-controlling interests	2,845	**168,090**
Total equity	559,245	**784,220**
Earnings per share - basic and diluted	0.12	**0.10**



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 45.04%, 52.39% and 2.57% of total revenue, respectively. The revenue from transportation and sales of gas operation increased by 114.34%, accounted for 52.39% of total revenue in 2011, in comparison with 42.68% in 2010.

Chairman's Statement

As 2011 marks an important year to carry on the tasks during the period of "the Twelfth Five-Year Plan", China's economy continues to maintain a good momentum of vibrant development and a sustainable growth. Driven by the macro economy, the change in way of development of the energy industry has been accelerated and the effort in structural adjustment has been strengthened. The wide application of clean energies such as natural gas has been boosted due to policies on resources and environment and the target for energy-saving and emission-reduction.

Zhang Yingcen, Chairman

ANNUAL RESULTS

2011 is the first year after the successful listing of the Company and is also the first year to launch nationwide business layout and seek strategic upgrade. During this year, Tian Lun continued to carry out its work style of "Rapid response and high efficiency", transforming itself from the regional company with its foothold in Henan to a large corporation of being based in Henan and spreading to the whole China. The Group has gained remarkable results in the three aspects of up-stream gas source base construction project, urban gas project and terminal gas filling station project and has initially realized its nationwide business layout. The Group has recorded a stable growth in its original operation regions, and has increased its customer bases through addition of new projects and continuous expansion of the Group's operation scale. The number of terminal gas filling stations has been increased rapidly, so as to continuously facilitate the Group's strategic upgrade, which in turn facilitates Tian Lun to move forward with a grand goal about for its gas business.

During the year, with the dedication of the entire staff of the Group, the Company recorded substantial growth in its operating results. Revenue amounted to approximately RMB450,931,000, representing an increase of approximately 74.61% as compared with 2010. Profit attributable to owners of the Company amounted to approximately RMB82,730,000, representing an increase of approximately 10.11% as compared with 2010. Gross profit margin of sale of gases of the Group in 2011 was approximately 16.64%. The increase was mainly due to the stable growth in the sale of gases of the Group and the increase in the proportion of CNG business and sale of gases for industrial and commercial uses which were of higher profit margin. In 2011, the number of new pipeline connection to residential users was 74,866 users, representing an increase of approximately 37.06% as compared with 2010. As at the end of 2011, the accumulated number of users of various types was 329,916 users.

CORPORATE MANAGEMENT

The Group has initially established a systematic and strategic performance management system, creating a system of separating goal into small tasks from the development strategy to specific task, from organization to individual and from three-year plan to monthly plan and then implementing these tasks by every staff, so as to fully motivate staffs' enthusiasm and make them to take initiative. The system has inspired our staffs' potentiality and boosted morale.

The Group continued the extension of the application of its information management platform. The information management model was adopted in the operation, administration, finance, capital and investment to enhance corporate management efficiency. Corporate data analysis and information integration for management's decision making were carried out to ensure decision-making efficiency and operation quality.

Meanwhile, the Group continued to strengthen team cooperation and recruitment. The Group provided continuous training to cultivate the expertise and integration ability of staff and offered outstanding staff with opportunities for further studies in related fields. A group of professional young employees with outstanding performance was selected to the management team as the major support for future development of the Group.

Adhering to its principle of "to 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

China Tian Lun Gas Limited was ranked the fortieth in the "2012 the Most Potential Listed Company" list in Forbes.

INTERNATIONAL AWARDS

During the year, 2010 annual report of the Company was given a bronze award in the "Visionary Award" of 2010 Annual Report organized by League of League of American Communications Professionals, an international professional awarding institution, which fully demonstrated that the Company conveyed clear corporate information to the investors and established an effective communication channel with investors through its annual report.

On 4 January 2012, for the first list of 2012 — "the Most Potential Enterprises in the PRC" (中國潛力企業榜) in Forbes Chinese edition magazine that published in Shanghai, the Company was ranked fortieth in the "2012 the Most Potential Listed Company" (2012中國最具潛力上市公司) as the only listed company in the natural gas industry. Such award fully recognized the potential of the Group to record continuous growth.

OUTLOOK OF 2012

In 2011, natural gas consumption in China increased by 12%, representing the fastest growth in terms of major energy consumption. In the next 5 years, the demand for natural gas in China will increase by at least 2.5 times. The proportion of primary energy consumption structure of natural gas will increase from 4.4% in 2010 to 8.3%.

The Twelfth Five-Year Plan of China clearly states that development of clean energy will be accelerated while energy saving and emission reduction will be reinforced. It also states that the supply of natural gas will be enhanced while the establishment of energy transmission and distribution network will be strengthened. It is foreseeable that the natural gas industry will enter a period of rapid development. In 2011, the Second West-East Gas Transmission Pipeline gradually put into operation and the construction of the Third and the Fourth West-East Gas Transmission Pipeline will be commenced. The Group currently has 17 major natural gas pipelines under planning and construction. Projects such as the transport of Russian natural gas to the region and Offshore Gas pipelines (海氣登陸) are also in progress. By focusing on the development of a resource-saving and environmental-friendly society, the PRC government put great effort in adjusting the economic structure and the mode of growth. The government also encouraged capital investment in energy production, transmission and distribution through implementing various policies. These factors will bring new historic development opportunities to the natural gas industry in China.

In view of new historic opportunities in 2012, the Group will continue to facilitate the nationwide business layout, realize the strategic upgrade of the Group and establish a development strategy, namely "providing a comprehensive service combining sales and use of natural gas by forming a highlighted and synergistic business portfolio, on the basis of urban gas, under the support of base of gas sources and focused on transport gas". On one hand, the Group will strengthen the establishment of its gas production base, increase the investment in long distance natural gas transmission and distribution projects, and accelerate the acquisition of urban gas operating projects. Through multi-regional industry consolidation and merger of enterprises through different methods, the governance of the Group will replicated efficiently and the profitability of projects will rapidly increase. On the other hand, the Group changes its strategic focus from the traditional urban gas operation to the transport gas operation, focuses on expediting the development of transport clean energy, makes efforts to create the first brand of transport energy in China and promotes Tian Lun Gas to move forward with its grand goal.

In 2012, the Group's development goal will be clearer and the development prospect will be broader. Facing the new situation, we will experience a new challenge, stride across a new field, carefully adhere to its core value of "creating business and return together", and continue to carry out "hard-working spirit to undertaking, team-work spirit of sincere cooperation, a never-ending pioneering spirit". The Group will enhance confidence and stride forward with its given strategic goals.

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 2011, and extend my appreciation to the shareholders and investors for their support.

Zhang Yingcen
Chairman

30 March 2012

Management Discussion and Analysis

INDUSTRY REVIEW

Structure and Development Trend of China's Energy Industry

China's rapid development of urbanization and industrialization directly stimulated the continuous increase of energy demand. As an economical, efficient and clean energy source, natural gas has become indispensable in the low carbon economic development of China. It has also become one of the major strategic energy sources of China.

Over the last decade, the consumption of natural gas recorded robust growth in China. The consumption of natural gas was only 24.5 billion cubic meters in 2000 and reached 129 billion cubic meters in 2011. 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 2011 of the National Bureau of Statistics of China, the annual energy consumption in 2010 amounted to 3,480 million tons of SCE, representing an increase of 7.0% as compared with last year. The consumption of coal, crude oil, natural gas and electricity increased by 9.7%, 2.7%, 12.0% and 11.7% respectively. China's energy consumption per unit of gross domestic product in RMB10,000 decreased by 2.01%.

The 2011 Report on Development in the Foreign and Domestic Oil & Gas Industries, issued by CNPC Economics & Technology Research Institute, estimated that the consumption of natural gas in China would be expected to surpass 150 billion cubic meters in 2012, and the proportion of natural gas in the primary consumption structure would be in the excess of 5%.

During the period of "the Twelfth Five-Year Plan", the energy structural adjustment will focus on the following tasks: take effective measures to enhance the energy-saving work in order to improve the utilization level of traditional clean energy; increase the utilization scale of clean energy such as natural gas; expedite to facilitate the development and construction of hydroelectric power and nuclear power as well as do well in conversion and utilization of renewable energies such as wind energy, solar energy and biomass energy; coordinate and plan the key energy bases and speed up construction of transportation pipelines of the regional energies so as to promote the optimization of energy resources. By 2015, the utilization scale of natural gas might reach 260 billion cubic meters, and the proportion of natural gas in the primary consumption structure will increase from 4.4% to 8.3% of 2010, which will be higher than that of hydroelectric power, nuclear power, solar energy and wind power. As natural gas is becoming a significant source of energy for China's urban gas, industrial energy and transport energy development, representing a huge market potential for sustainable development.

China's Policy on the Use of Natural Gas

The PRC government states in 2009 that by 2020, carbon dioxide emissions per unit of GDP will decrease by 40% to 45% as compared with that of 2005; the proportion of non-chemical energy in the primary consumption will reach about 15%; the forest area will increase by 40 million hectares as compared with that of 2005; and the forest growing stock will increase by 1.3 billion cubic meters as compared with that of 2005. In order to achieve such challenging target, China must depend on adjustment of energy utilization structure and development of low-carbon economy.

As clearly stated in the Outline of the Twelfth Five-Year Plan for National Economic and Social development (《我國國民經濟和社會發展十二五規劃綱要》), which was issued in 2011, during the period of the Twelfth Five-Year Plan, China will enhance the management of emission reduction, and facilitate the reform of the production and utilization of energy. It will also strive for energy-saving development and domestic education in energy consumption to diversify its development and protection of the environment. It will also enhance the mutual cooperation with the international markets and optimize energy structure. It will establish a safe, stable, economical and clean modern energy industry. It will facilitate the diversified development of clean energy. Exploration of natural gas will be increased to boost the growth of natural gas production. China will optimize the layout of energy development. The focuses of national energy development layout and establishment will be coordinated. On-spot processing ability will be enhanced to reduce long-distance transportation of large amount of primary energy. Reasonable planning of the establishment of energy reserve facilities will be made to enhance the comprehensiveness of the oil reserve system, improve the establishment of natural gas reserve facilities and strengthen contingent peak loading capacity. China will enhance the energy transportation pipelines by accelerating the construction of strategic oil and gas pipelines in north-western, north-eastern and south-western China and pipelines for imported onshore oil and gas. As such, the major domestic oil and gas pipeline network will be optimized. The government will also coordinate the pipelines for the import of natural gas, LNG stations and major cross-region gas transportation and distribution pipeline networks.

China has attached great importance to utilization of natural gas industry, frequently introducing the relevant policies of optimization of energy structure and encouragement of natural gas development. China focused on the promotion of new energy as represented by natural gas by promulgating various polices including the Medium-to-Long-Term Development Plan for Renewable Energy (《可再生能源中長期發展規劃》), Policies on Natural Gas Utilization, the Notice of Issuing Comprehensive Plan of Energy-saving and Emission Reduction by the State Council (《國務院關於印發節能減排綜合性工作方案的通知》), the Implementation Plan of Public Energy-saving and Emission Reduction (《節能減排全民行動實施方案》), the Guiding Opinion Concerning the Development of Natural Gas Distributed Energy (《關於發展天然氣分散式能源的指導意見》), Comprehensive Scheme on Energy Saving and Emission Reduction during "the Twelfth Five-Year Plan" (《"十二五"節能減排綜合性工作方案》), Work Plan for Greenhouse Gas Emission Control (《控制溫室氣體排放工作方案》) and Opinions on Strengthening Major Environmental Protection Work (《加強環境保護重點工作的意見》). As the major transportation pipeline networks of offshore natural gas have been gradually completed in China, natural gas industry will enter a new stage of rapid development.

In order to effectively monitor particulate matter (PM2.5), the State Council of China agreed to release newly revised Ambient Air Quality Standards which includes PM2.5 monitoring indicators and it is a mandatory monitoring work which has to be conducted in every provinces and cities. Particulate matter (PM2.5) is mainly from vehicle exhaust, fuel dust and coal fly ash. As Chinese citizens have enhanced their awareness of PM2.5, the PRC government has gradually revised the relevant environmental protection polices, which will definitely continue to facilitate the development of natural gas in China, especially the rapid development of transport gas industry.


中国天伦燃气集团
合作签约仪式
庆典仪式

BUSINESS REVIEW

The major businesses of the Group are gas pipeline connection, transportation and sale of gas, construction and operation of vehicle gas filling stations, and operation and sale of LNG.

Development of New Projects

As of the date of this announcement, the group had achieved excellent results in respect of the development of new projects with the rapid growth of the urban gas projects and gas filling stations and have provided a solid foundation for the swift expansion of the Group. The Group has acquired additional 3 bases of gas sources, 17 urban gas concession operation regions, and 13 exclusive vehicle-use gas operation regions. The operation regions have been extended from Central China to the key regions such as Northeast China, Northwest China and Southwest China. It is believed that the completion of these new projects will bring a better growth and development for the Group in the future.

As for base of gas sources, the Group has acquired a large base of LNG gas sources in Guangyuan, Sichuan which ranks high in China in terms of production capacity and two CNG main stations which are near to the large gas field in Jilin Province. By acquiring these bases of gas sources, it will bring massive competitive advantages for the Group's expansion of gas operation to the surrounding provinces. In addition, it is significant to the long term development of the Group as its business entered the upstream of urban natural gas industry through the project.

As for urban gas concession operation rights, the Group, by means of merges and acquisitions, has acquired rights in 11 urban gas exclusive operation regions in total, including high-tech District in Puyang City, Henan Province; Minquan County and Yucheng County in Henan Province; Tongyu County, Dunhua City, Panshi City, Daan City, Jiutai City, Zhenlai County, Helong Town in Nongan County in Jilin Province; Baiyin City in Gansu Province. The Group, by means of direct investment, has additionally acquired 6 urban gas exclusive operation regions in total, including Heqi Industrial district and Shilin Ceramic Industrial district in Hebi City, Song County in Luoyang City, New district in Xuchang City, Xinye County in Nanyang City, Henan Province; Luzhai County in Liuzhou City, Guangxi Province in China.

As for transport gas operation, the Group, by means of the above-mentioned mergers and acquisitions and direct investment, has additionally acquired 13 exclusive vehicle-use gas operation regions, 9 gas filling stations in operation, and several gas filling stations which are prepared for construction approved by government. Currently, the Group has reached cooperation with a public transport company and a transportation group in Hebi, the PRC, a petrochemical company and a large transportation group in Xuchang and a large transportation group in Xingtai, Henan, the PRC in relation to the joint construction of CNG and LNG gas filling stations. These CNG and LNG gas filling stations through point-to-point cooperation are positively progressing. The Group will seek to significantly increase the number of gas filling stations in operation in 2012.

Obtaining of gas exclusive operation rights in Heqi Industry Assemble Zone

On 17 March 2011, Hebi Tian Lun New Energy Limited (鶴壁市天倫新能源有限公司) ("Hebi New Energy"), a wholly owned subsidiary of the Company, and the Management Committee of the Heqi Industry Assemble Zone of Hebi entered into an agreement in relation to gas exclusive operation rights and obtained the gas exclusive operation rights in the Heqi Industry Assemble Zone of Hebi for a term of 30 years, with scope of exclusive licensed operations including: pipelined gas, processing station, CNG main station, gas filling station, storage and distribution station and other relevant businesses.

The industry assemble zone is the first batch of modern industrialized demonstration zones and innovative industry assemble zones in Henan Province. The industrial users in the zone will be the targets in the development and considerable industrial usages will lead to a more prosperous residential market.

Management Discussion and Analysis

Capital Injection to Henan Luyuan Gas Limited

On 31 March 2011, Henan Tian Lun Gas Group Limited (河南天倫燃氣集團有限公司) ("Henan Tian Lun"), a wholly owned subsidiary of the Company, entered into a cooperation agreement with the original shareholders of Henan Luyuan Gas Limited (河南綠源燃氣有限公司, "Henan Luyuan"), pursuant to which Henan Tian Lun agreed to inject RMB25,000,000 into Henan Luyuan. Upon completion of the capital injection, Henan Tian Lun holds 70% of the equity interests in Henan Luyuan.

Shangqiu City is an important industrial region in eastern Henan. Minquan County is an important production base of freezer trucks and Yucheng County is a production base of agricultural by-products of Henan. The fine industrial base lays a solid foundation for the long-term development, and there has been a higher growth in household development and vehicle-use gas market in recent year.

Acquisition of LNG production and processing base

On 2 April 2011, Henan Tian Lun entered into a capital injection and cooperation agreement with the original shareholders of Cangxi County Datong Natural Gas and Investment Limited (蒼溪縣大通天然氣投資有限公司) ("Cangxi Company"), pursuant to which Henan Tian Lun agreed to inject RMB25,500,000 into Cangxi Company. Upon completion of the capital injection, Henan Tian Lun holds 51% of equity interests in Cangxi Company, adding one more gas production and processing base for the Group. The project is located in Sichuan Province, one of the major sources of natural gas in China. The annual production capacity of the project is 390 million cubic meters of LNG or combined welding-cutting gas (comprise of 99.2% natural gas and a small amount of addictives) and the daily production capacity being approximately 1.2 million cubic meters of LNG, which ranked highly in China in terms of production scale.

In addition to the promising outlook, the project will bring massive competitive advantages for expansion of urban gas business into the surrounding provinces. This will be significant to the long-term development of the Group as its business entered the upstream of urban natural gas industry through the project.

Acquisition of 51% of Equity Interests in Jilin Zhongji Dadi Gas Group Limited

On 21 April 2011, Henan Tian Lun entered into a cooperation agreement with the original shareholders of Jilin Zhongji Dadi Gas Group Limited (吉林省中吉大地燃氣集團有限公司) ("Zhongji Dadi"), pursuant to which Henan Tian Lun agreed to acquire 51% of equity interests in Zhongji Dadi, and inject RMB51,000,000 into Zhongji Dadi after completion of the acquisition; as a result, the Group obtained 6 urban gas exclusive operation rights, 7 exclusive vehicle-use gas operation rights, 6 gas filling stations in operation and 6 gas filling stations under construction in Jilin Province. Meanwhile, the Company also owns 2 main stations supplying CNG in major gas sources in Northeastern China.

Through this project, not only did the Group obtain several urban gas exclusive operation rights and executive vehicle-use gas exclusive operation rights in Northeastern China, but also the extensive experience and qualification in design, construction and consultation services in the natural gas industry. This will enhance the Group's strength in research and development on technology and its leadership in the industry and also provide a good platform for the development of gas business market in Northeast China. It is expected that the Group will have a significant growth in the household development and vehicle-use market in the coming 2 years.

Acquisition of Entire Equity Interests in Puyang Tian Lun Gas Limited

On 29 June 2011, Henan Tian Lun entered into an acquisition agreement in relation to exercising options with the original shareholders of Puyang Tian Lun Gas Limited (濮陽市天倫燃氣有限公司) ("Puyang Tian Lun"), pursuant to which Henan Tian Lun agreed to acquire 100% of equity interests in Puyang Tian Lun at an exercise price of RMB23,000,000.

Puyang Hi-tech Industry Development Zone in Puyang is a province-level Hi-tech Industry Development Zone in Henan Province and has been listed as "The first national Huoju Bio-chemical industry development base (全國首家國家火炬計畫生物化工產業發展基地)". Five leading industries including the petroleum and chemical industry, new material industry, bio-pharmaceutical industry, equipment manufacturing industry and forest and paper industry have been preliminarily formed in the Puyang Hi-tech Industry Development Zone.

Acquisition of gas exclusive operation rights in Song County, Henan

On 1 July 2011, Song County Tian Lun Gas Limited (嵩縣天倫燃氣有限公司) ("Song County Tian Lun"), a wholly owned subsidiary of the Company, and Housing and Urban-Rural Construction Bureau of Song County entered into the "Agreement in relation to the Urban Pipelined Gas Exclusive Operation Rights in Song County", pursuant to which, Song County Tian Lun obtained gas exclusive operation rights for a term of 30 years.

Song County is praised as one of the 8 top gold-producing counties in China where leading industries such as precious metal smelting industry, mining industry and machinery manufacturing industry have been formed. The expansion in new urban area of Song County is under planning, whilst the area will be doubled after the expansion. Meanwhile, as Song County is an important city close to Luoyang City, a major industrial city in China, the emigration of considerable industrial enterprises from Luoyang City will provide a broader market for the development of natural gas business in Song County.

Acquisition of 98.97% equity interests in Gansu Baiyin Gas Company

On 28 July 2011, Henan Tian Lun entered into an acquisition agreement with Shenzhen Desheng Investment Company Limited (深圳市德盛投資有限公司) ("Shenzhen Desheng"), pursuant to which Henan Tian Lun agreed to acquire 98.97% equity interests in Baiyin Gas Company ("Baiyin Company") at the consideration of RMB120,000,000, through acquisition of which, the Group acquired 1 gas filling station in operation and 2 gas filling stations under construction.

Baiyin City of Gansu Province is an emerging industrial city in Northwest China. It is one of the largest nonferrous metal industrial bases in China and an important energy and chemical base in Gansu Province. The vehicle-use gas market of Baiyin Company is mature, considering the quality industrial and enterprise users with a sales volume of natural gas of approximately 100,000 m3 per day. Upon completion of the acquisition, the quality industrial users from company such as Baiyin Nonferrous Metals (Group) Co.,Ltd. will be of significance to the sustainable growth of the Group's sales of gas.

Obtaining of pipeline gas exclusive operation rights in New District of Xuchang City

On 9 September 2011, Xuchang Tian Lun Gas Limited ("Xuchang Tian Lun"), a wholly owned subsidiary of the Company, entered into an agreement in relation to gas exclusive operation with Xuchang Housing and Urban-rural Development (許昌市建設局), pursuant to which, the Group obtained the gas pipeline exclusive operation rights in New Distrct of Xuchang (a district taking Xuchang Zhongyuan Dianqigu as the core) for a term of 30 years.

New District in Xuchang is an industry assemble zone focused on electric power equipment manufacturing industry, including the industries such as wind power, automation of relay protection, civil electromechanical production and control equipment of nuclear power. The Group has laid a relatively improved natural gas pipeline in this region. With such large industries having been put into operation successively, the Group will record a rapid development for gas sales volume in this region.

Obtaining of urban gas exclusive operation rights in Xinye County, Henan

On 16 December 2011, Xinye Tian Lun Gas Company Limited (新野縣天倫燃氣有限公司)("Xinye Tian Lun"), a wholly owned subsidiary of the Company, entered into an agreement in relation to gas exclusive operation with Xinye Housing and Urban-rural Construction Bureau, pursuant to which the Group obtained gas exclusive operation rights in Xinye County for a term of 30 years. Such a significant project has also represented that the project of pipelined natural gas utilization has been property commenced in Xinye County.

Management Discussion and Analysis

Obtaining of gas exclusive operation right in Shilin industry assemble zone, Hebi

On 22 December 2011, Hebi New Energy and the People's Government of Shancheng District, Hebi (鶴壁市山城區人民政府) entered into an agreement in relation to gas exclusive operation in Shilin industry assemble zone, pursuant to which, the Group obtained the gas exclusive operation rights in this assemble zone for a term of 30 years.

Enterprises in Shilin industry assemble zone in Hebi, focused on producing and processing ceramic products, are using self-made gas currently and the gas consumption is high. As the natural gas pipeline networks of the Group have entered this zone, these enterprises will eliminate the self-made gas, and instead, they will use the clean and efficient natural gas. The huge potential of natural gas consumption in the future will continue to contribute revenue to the Group.

Obtaining of gas exclusive operation rights in Luzhai County, Liuzhou, Guangxi Province

On 12 January 2012, Guangxi Luzhai Tian Lun Gas Co., Ltd. (廣西鹿寨天倫燃氣有限公司) ("Luzhai Tian Lun"), a wholly-owned subsidiary of the Company entered into a gas exclusive operation agreement with Housing and Urban-Rural Development Bureau of Luzhai County (鹿寨縣住房和城鄉建設), pursuant to which Luzhai Tian Lun acquired 30-year gas exclusive operation rights in Luzhai County covering the operations such as urban pipelined gas and gas filling station.

Luzhai County is in proximity to Liuzhou City, an industrial city in Guangxi, and is one of the counties with strong comprehensive economic strength in Liuzhou City. As Luzhai County positively undertakes the industry shift of the northern area and Liuzhou City, and is positioned as "the sub-central city of Liuzhou City", it becomes the main direction and new space for expansion of Liuzhou City.

Gas Pipeline Connections Operation

The Group conducts gas pipeline connections operation by providing property developers and commercial and industrial users with laying and installation in its operating cities. During the year, the Group continued to expand the coverage of pipeline network in its originally operating regions and improve the connection rate of gas projects. The new projects provided a large number of connectable users to the Group, which increased the connection volume of the Group in this year.

For the years ended 31 December 2011 and 2010, revenue generated from the Group's gas pipeline connections operation amounted to approximately RMB203,103,000 and RMB140,407,000, respectively. In 2011, revenue generated from gas pipeline connections operation increased by approximately 44.65% as compared to the corresponding period of 2010.

In 2011, as the user market maintained continuous growth and the market conditions continued to improve, the new projects provided the Group with a large number of customer bases and the number of user market exceeded the target of the year.

Residential Market

During the year, the Group connected gas pipelines for 74,866 residential users, representing an increase of approximately 37.06% as compared with the new pipeline connections last year. In 2011, as the residential market maintained continuous growth and the market conditions continued to improve, the addition of new projects provide the Group with a large number of customer bases and the number of new residential users exceeded the target of the year. For the year ended 31 December 2011, the accumulated residential users of the Group increased to 328,078, representing an increase of approximately 90.50% as compared with 2010.

Commercial and Industrial Markets

During the year, the Group connected gas pipelines for 339 commercial and industrial and other users. For the year ended 31 December 2011, there are totally 1,838 commercial and industrial users of the projects of the Group, representing an increase of approximately 52.03% as compared with 2010.

The implementation of Circular Economy Promotion Law, execution of the Twelfth Five-Year Plan and the increasing number of industrial enterprises moving towards inland area where abundant human resources are located have created opportunities for the expansion of commercial and industrial markets of the Group. In addition, it is believed the Group can take advantage of its established gas production and processing capabilities to grasp the opportunities to strengthen the development of industrial and commercial markets.

Transportation and Sales of Gas Operation

For the years ended 31 December 2011 and 2010, revenue generated from the transportation and sales of gas operation amounted to approximately RMB236,231,000 and RMB110,214,000, representing approximately 52.39% and 42.68% of the total revenue of the Group, respectively.

During the year, the Group sold 105,390,000 m^3 of gases in total, representing an increase of 47,310,000 m^3 , or significant increase of 81.46% as compared with the corresponding period of last year. The volume of gas sold to residential users, commercial and industrial users and vehicle users accounted for 26.66%, 42.72% and 30.62% of total gas sales.

The Group will focus on transport gas operation with higher gross profit in future. The number of the Group's gas filling stations in operation increased from 3 in 2010 to 12 in 2011. The gas sales to vehicle users of the Group accounted for approximately 30.62% of total gas sales in 2011, increased from approximately 7.35% in 2009 and representing a CAGR of approximately 104.11%. The percentage of sales revenue of natural gas of vehicle users to total gas sales revenue amounted to approximately 41.90% in 2011.

Zhengzhou Shangjie Tian Lun Gas Limited ("Shangjie Tian Lun"), a subsidiary of the Company, strives to complete gas conversion as soon as possible, and then, the Group will only supply natural gas to its end users. As Shangjie Tian Lun greatly expanded its industrial users in 2011, it signed cooperation agreements with several large industrial enterprises and commenced equipment modification. The gas will be supplied to such enterprises immediately upon completion of gas conversion of Shangjie Tian Lun, and Shangjie Tian Lun will achieve better results in gas sale scale in future.

As for the Group's production and processing base of gas sources in Guangyuan, Sichuan, the equipment installation has been basically completed and the image project is close to the end. The Group will commence equipment testing as soon as possible and trial production. After the base of gas sources commences operation, it will result in a substantial increase in the sales of gas of the Group, and will benefit the development of industrial users and investment in gas filling station.

白銀市天然氣有限公司 ("Baiyin Natural Gas Limited") ("Baiyin Company"), a subsidiary of the Company, has achieved a further significant result in increasing industrial users and entered into the cooperation agreements with the large industrial users such as Chrome Salt Plant (鉻鹽廠), Titanium Dioxide Plant (鈦白粉廠) and Fluoride Salt Plant (氟化鹽廠) under Baiyin Nonferrous Metals (Group) Co., Ltd. (白銀有色金屬集團) and since then, the gases have been supplied gradually. Coupled with the expansion of the production scale of original industrial users, Baiyin Company will achieve better results in gas sale scale in 2012.

Along with the increase in new projects, the expansion of operation regions, the base of gas sources successfully commencing production and the newly constructed gas filling stations putting into operation, the Group is expected to achieve even higher growth in the sale of gas in future.

Management Discussion and Analysis

Customer Services

The Group attached great importance to customer services. The Group continued to improve the quality of customer services and established a well-organized system of customer services to maintain good relationships between the customers and the Company. In particular, a 24-hour one-on-one service model was implemented for industrial and commercial users so as to facilitate further development of the Group's businesses.

Each project company of the Group has set up a 24-hour customer service hotline to ensure prompt response to the feedbacks and requests of customers. The project companies of the Group regularly visited the customers to understand their awareness of gas safety and conduct safety inspection for the gas equipment. The project companies also promoted safety use of natural gas through the media, direct communication with customers in the public occasions and regular distribution of safety gas usage manual.

Safety and Risk Management

The Group put emphasis on safety operation and formulated strict quality control standards such as safety system and standards and contingency plans. All of its staffs have strictly complied with the quality control standards to ensure safety operation.

The Group provided education and training for its staff from time to time to strengthen their safety awareness. A 24-hour surveillance system was set up and implemented to monitor any potential gas accidents. Daily inspection for urban branch pipeline network was conducted for maintenance and repair. The Group has also formulated safety rules on gas usages for its users and provided regular educational publicity and instructions to the end-users based on common knowledge gas usages.

Operation Management

The Group has established an efficient management team, members of which possessed over 13 years of experience in urban pipelined gas industry in average. The management team was able to grasp the opportunities for business development in a timely manner, facilitating the Group to expand its business presence rapidly. It also demonstrated strong execution capability to maintain good operation of the project companies.

With the continuous expansion of our operation scale, the Group has introduced and recruited some staffs at middle to senior level in due course, which supplement the human resources for the Group's rapid development.

During the year, the Group has initially established a systematic and strategic performance management system, creating a system of separating goal into small tasks from the development strategy to specific task, from organization to individual and from three-year plan to monthly plan and then implementing these tasks by every staff, so as to fully motivate staffs' enthusiasm and make them to take initiative. The system has inspired our staffs' potentiality and boosted morale.

The Group believes that its operation efficiency of the projects will be able to be improved effectively by integrating and duplicating the management model of Tian Lun, particularly in respect of the operational model, cost control and human resources.

FINANCIAL REVIEW

For the year ended 31 December 2011, the Group's revenue amounted to approximately RMB450,931,000, representing an increase of approximately 74.61%, as compared with approximately RMB258,255,000 in 2010. For the year ended 31 December 2011, gross profit of the Group amounted to approximately RMB172,004,000, representing an increase of approximately 42.07%, as compared with approximately RMB121,074,000 in 2010. For the year ended 31 December 2011, profit for the year of the Group amounted to approximately RMB90,353,000, representing an increase of approximately 18.94%, as compared with approximately RMB75,968,000 in 2010. For the year ended 31 December 2011, profit attributable to owners of the Company amounted to approximately RMB82,730,000, representing an increase of approximately 10.11%, as compared with approximately RMB75,136,000 in 2010. For the year ended 31 December 2011, earnings per share of the

Company was approximately RMB0.1, representing a decrease as compared with approximately RMB0.12 in 2010, which was mainly due to the calculation of earnings per share by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period and the weighted average number of issued ordinary shares in 2010 was lower than that in 2011.

Revenue

The Group's revenue for the year ended 31 December 2011 was primarily generated from its gas pipeline connections operation, transportation and sales of gas operation and other operation, which accounted for approximately 45.04%, 52.39% and 2.57% of the total revenue respectively.

Cost of sales

The Group's cost of sales increased by approximately 103.33% from approximately RMB137,181,000 for the year ended 31 December 2010 to approximately RMB278,927,000 for the year ended 31 December 2011, which is primarily attributable to the increase in business volume and higher cost of sales of some new projects.

Gross profit and gross profit margin

The Group's gross profit for the year ended 31 December 2011 amounted to approximately RMB172,004,000, representing an increase of approximately 42.07% as compared with gross profit of approximately RMB121,074,000 in 2010. Overall gross profit margin decreased to approximately 38.14% as compared to 2010, which was mainly attributable to the difference of the geographical regions and operation mode of the newly acquired enterprises. However, the Group will continuously strive to tighten up the control of the costs incurred by the newly acquired enterprises and that improve the Group's cost control. On the other hand, with the gradual enhancement of the Group's gas sales volume structure, the gross profit margin of the gas sale operation rose to approximately 16.64%, representing an increase of approximately 3.12% as compared with the corresponding period of last year.

Distribution cost and administrative expenses

The Group's distribution cost for the year ended 31 December 2011 was approximately RMB7,793,000, accounting for approximately 1.73% of total revenue. For the year ended the 31 December 2011, the Group's administrative expenses was approximately RMB48,187,000, accounting for approximately 10.69% of total revenue. As a result of business growth of the Group and the time required for improvement of the cost of new projects, the cost for 2011 was increased, which was also attributable to the current stage of business expansion of the Group. The Group will strive to reduce cost through, among others, the implementation of a comprehensive budgeting system and a central procurement system.

Liquidity and Financial Resources

The Group's primary liquidity requirements are to use cash to invest in facilities and equipment, service its indebtedness, and fund working capital and normal recurring expenses. To date, the Group has financed its cash requirements through a combination of cash generated from operating activities, bank borrowings and proceeds from the Global Offering. The capital management policy of the Group aimed at ensuring the sustainable operation of the Group, providing returns and revenue for the shareholders of the Company and other stakeholders, as well as maintaining a healthy capital structure to reduce financial costs.

The Group's gearing ratio as at 31 December 2011 was approximately 50.23%. Leveraging on its good relationship with banks and its good credit rating, the Group intends to obtain credit limit from banks and other financial institutions, to support the development of new projects with an aim to create better returns for the shareholders.

Management Discussion and Analysis

Cash flow

As at 31 December 2011, the Group's cash and cash equivalents were approximately RMB310,762,000, 98.53% of which was denominated in RMB and the remaining 1.47% in Hong Kong dollars. Net cash generated from operating activities, net cash used in investing activities and net cash generated from financing activities amounted to approximately RMB35,816,000, approximately RMB568,179,000 and approximately RMB432,399,000, respectively. In view of the Group's existing business scale, the Group has sufficient cash flow to meet its daily operational needs, and to fund the development of new projects and investment in construction.

Contingent liabilities

As at 31 December 2011, the Group did not have significant contingent liabilities.

Finance costs

The Group's finance costs increased by approximately 166.67% from approximately RMB5,577,000 for the year ended 31 December 2010 to approximately RMB14,872,000 for the year ended 31 December 2011. The increase in finance costs was primarily due to increase in interest expenses for the Group's continuous expansion in operation scale and increase in bank borrowings attributable to increase in capital reserves.

Income tax expense

For the year ended 31 December 2011, the Group's income tax expense was approximately RMB27,280,000, representing an increase of approximately 25.63% as compared with approximately RMB21,715,000 for the year ended 31 December 2010, the increase was primarily due to the increase in profit before tax.

Capital expenditures

Our principal requirements for capital expenditures are in relation to the expansion of the facilities, major maintenance, modernization of our existing facilities and equipment for operations, as well as business acquisitions. For the year ended 31 December 2011, the total expenditures to the purchases of property, plant and equipment, land use rights and business acquisition were approximately RMB 515,169,000.

Indebtedness

As at 31 December 2011, the total borrowings of the Group amounted to approximately RMB470,751,000, approximately 60.47% of which was recorded as current liabilities. The borrowings of approximately RMB284,677,000 was subject to repayment within a year.

The Group's gearing ratio as at 31 December 2011 calculated by total liabilities divided by total assets was approximately 50.23%. The Group's current ratio as at 31 December 2011, calculated by current assets by current liabilities was approximately 95.27%. The Directors believe that the Group's financial position is solid with healthy working capital management.

Risk in foreign exchange

In general, as all of the Group’s businesses were situated in the PRC, and substantially all of its income and expense were denominated in RMB, there was no significant risk relating to exchange fluctuation. The Group will closely monitor the interest rate and exchange rate of the market and make appropriate responses in due course. In the first half of 2011, The Group adopted a measure that allocated HKD100 million from the proceed of the Global Offer into a 1-month forward settlement/RMB swap, with a view to minimizing the risk of foreign exchange. As at 31 December 2011, the Group had no longer adopted such kind or similar measures.

Pledge of assets of the Group

Details of the Company's pledge assets as at 31 December 2011 are set out in note 20 to the consolidated financial statements.

Employees

As at 31 December 2011, the total number of employees of the Group was 1,328, with a total remuneration of approximately RMB35,429,000 during the reporting period. With the continuous increase in the number of new projects, the number of employees rose correspondingly. The Group remunerates its staffs according to their individual performance, work experience and prevailing market standard.

Development Plans for 2012

After the systematic analysis of internal and external environment and our own advantage and disadvantage analysis, the Group establishes a development strategy, namely "providing a comprehensive service combining sales and use of natural gas by forming a highlighted and synergistic business portfolio, on the basis of urban gas, under the support of base of gas sources and focused on transport gas". The Group has specified the development strategy of "Alliance Cooperation, Quick-development to Win" and the operation strategy of "Speed up the Connection, Increase the Gas Volume", besides the Group has specified a channel focused on "Integrated-Scale-Characteristics" for a company to be advanced in the coming three years.

Expansion of Urban Gas Project

The Group will take priority in merger of grouping and regional gas Group, so that the operation revenue will be increased rapidly and the asset and profit-making scale will be increased rapidly. The Group will take initiative to operate the functional zones and characteristic towns surrounding the Group.

Expansion of Base of Gas Sources Project

The Group will ensure the first phase of LNG production base in Guangyuan, Sichuan to put into operation in time and make the stable output as soon as applicable; and the second phase construction to be successfully commenced as scheduled in the second half of the year. The Group will select a site to construct facilities of LNG production, storage and peaking-loading capacity, so as to satisfy the future gas filling demands from LNG vehicles and the demands for peak-loading capacity in winter.

Expansion of Base of Transport Gas Project

In the long term, there is still certain price gas between nature gas and refined oil, therefore, vehicle-use gas market will have better prospects for development in the future. The group will devote every effort to expand the project oftransport clean energy project and will strive to increase the number of gas filling stations in operation and under construction.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Zhang Yingcen (張瀛岑先生), aged 49, the founder of the Company and also the Chairman and 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 11th National People's Congress of the PRC (中華人民共和國第十一屆全國人民代表大會代表) and the 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 37, 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 the 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. Feng Yi (馮毅先生), aged 33, is an Executive Director and the 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 the 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 54, is an Executive Director and the Deputy General Manager of the Company. He is responsible for the operation and management of the Group. He has 18 years of experience in management of gas enterprises. Mr. Sun joined the Group in 2004 and acted as the general manager and 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 Party School of the Henan Committee of CPC (中國共產黨河南省委黨校) in 1991.

Non-executive Directors

Mr. Zhang Daoyuan (張道遠先生), aged 26, is a Non-executive Director of the Company. Mr. Zhang is the son of Mr. Zhang Yingcen and the Controlling Shareholder of the Company. Mr. Zhang has served as an assistant to General Manager of Henan Tian Lun Real Estate Limited since 2007. Mr. Zhang obtained a bachelor's degree from Griffith University in Australia majoring in finance in 2007.

Independent Non-executive Directors

Mr. Chang Zongxian (**常宗賢先生**), aged 53, was appointed as the Independent Non-executive Director of the Company on 13 October 2010. Mr. Chang has extensive management experience in the gas industry and was the chairman of Zhengzhou Gas (Group) Co., Ltd (鄭州燃氣集團有限公司), the non-executive director and supervisor of Zhengzhou China Resources Gas Co., Ltd. (鄭州華潤燃氣股份有限公司) successively. He is also the chairman of White Dove Group Co., Ltd. (白鴿集團有限責任公司) and the representative of the Tenth People's Congress of Henan Province (河南省第十屆人民代表大會). He is currently the Chief Executive Officer of Samost Photoelectrical Scientific Stock Co., Ltd. (生茂光電科技股份有限公司). Mr. Chang obtained the Master of Science degree of School of Business of Hunan University (湖南大學商學院) in the PRC in 1996.

Mr. Li Liuqing (李留慶先生), aged 38, was appointed as the 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 the 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). He is currently a Director and Chief Financial Officer of Henan Suntront Tech Co., Ltd (河南新天科技股份有限公司). 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 31, was appointed as the 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 49, was appointed as the 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 a Director of Human Resources in 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 60, 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 has been a Managing Director 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 this Group, Mr. Du worked for Luoyang Copper Group (洛陽銅加工集團有限公司) and served as an assistant to general manager. Mr. Du obtained a master degree in Economics from Renmin University of China (中國人民大學) in 1998.

Directors and Senior Management

Mr. Xie Chaoyang (謝朝陽先生), aged 49, is the general manager of Zhengzhou Shangjie Tian Lun Gas Limited. 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. 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. Wang Jun (王軍先生), aged 61, is the Chief Engineer of Henan Tian Lun Gas Engineering Investment Limited, responsible for general technology and engineering management. Mr. Wang has extensive experience in technical services and business planning of large gas corporation. Prior to joining the Group in 2009, Mr. Wang was the Chief Engineer and the Head of Equipment Management Department for Zhengzhou China Resources Gas Co., Ltd. (鄭州華潤燃氣股份有限公司); and a technical consultant for Zhongyu Gas Holdings Ltd. successively. Mr. Wang obtained a bachelor's degree majoring in Chemical Machinery from Zhengzhou University of Technology (鄭州工學院) in the PRC in 1975.

Mr. Li Xinjian (李新建先生), aged 41, the Chief Financial Officer of the Company, 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 Xian University of Technology (西安理工大學) in 1994 and a master 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 37, 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; the Director to 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 The 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 2011 together with the audited consolidated financial statements to 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' Republic of China (the "PRC")

SUMMARY FINANCIAL INFORMATION

A summary of the annual results of the Group for the last five financial years is set out on last page of this report. This 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 2011.

USE OF PROCEEDS FROM GLOBAL OFFERING

The proceeds received by the Company from the Global Offering on 10 November 2010, after deducting the relevant costs of the Global Offering, together with the proceeds from the exercise of over allotment option on 29 November 2010, amounted to approximately HK$425.1 million in total. The Company has used the proceeds for the proposed use of proceeds as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 27 October 2010 (the "Prospectus"). For the year ended 31 December 2011, the use of proceeds is as follows:

Usage	**Proposed use of proceeds as set out in the Prospectusin HK$ million**	**Accumulated use of proceeds as of 31 December 2011 in HK$ million**
Construction of gas processing stations, gas pipeline networks and other gas supply facilities in the operating cities	74.8	68.2
Acquisition or development of new urban gas projects	214.7	200.0
Investment in construction of a new gas filling station	25.5	5.0
Investment in LNG and biofuel business opportunities	67.6	67.6
Working capital an other general corporate purposes	42.5	42.5
Total	**425.1**	**383.3**

Directors' Report

The unutilized balance of the proceeds is temporarily placed as short term deposits with licensed banks in Hong Kong and the PRC.

RESERVES

The details of the movements of reserves of the Company and the Group during the year are set out in note 17 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, 28 May 2012 to Wednesday, 30 May 2012 (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, 30 May 2012, all transfer instruments accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 25 May 2012.

BANK BORROWINGS

Details of bank borrowings of the Group are set out in note 20 to the consolidated financial statements.

DIRECTORS AND SERVICE CONTRACTS

The Directors up to the date of this report are set as follows:

Executive Directors	Mr. Zhang Yingcen *(Chairman)* Mr. Xian Zhenyuan Mr. Feng Yi Mr. Sun Heng
Non-executive Director	Mr. Zhang Daoyuan
Independent non-executive Directors	Mr. Chang Zongxian Ms. Zhao Jun Mr. Zhang Jiaming Mr. Li Liuqing

Each Director has entered into a service contract with the Company. The service term of executive Director and non-executive Director is from 10 November 2010 to 9 November 2013 whereas the service term of independent non-executive Director is from 10 November 2010 to 9 November 2012. These service contracts may be terminated by either party giving not less than three months' prior notice in writing. For the year ended 31 December 2011, none of the Directors of the Company has a service contract with the Company which is not determinable within one year without payment compensation, other than statutory compensation.

Mr. Chang Zongxian ("Mr. Chang") will not offer himself for re-election as an independent non-executive Director at the forthcoming annual general meeting (the "AGM") of the Company, and will resign as an independent non-executive Director with effect from the close of the AGM, as more time is required for other personal affairs. Mr. Chang has confirmed that (i) he has no claim against the Company in respect of his resignation; (ii) there is no disagreement between him and the Board; and (iii) there is no matter in relation to his resignation that needs to be brought to the attention of The Stock Exchange of Hong Kong Limited and the shareholders of the Company.

The Board has also resolved to propose to appoint Mr. Hu Xiaoming (胡曉明) ("Mr. Hu") and Ms. Li Tao (李濤) ("Ms. Li") both as executive Directors. The aforesaid proposed appointments are subject to the approval of the shareholders of the Company at the AGM. For details of the aforesaid proposed appointments and details of biography of Mr. Hu and Ms. Li, please see the announcement of the Company dated 30 March 2012.

DIRECTORS' INTERESTS IN CONTRACTS

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

COMPETING INTERESTS

On 20 December 2011, Mr. Zhang Yingcen, the chairman, gave a written report to the Board of the Company that there will be a business opportunity of vessel-use LNG filling stations. The Board considers that the industry of vessel-use LNG filling stations is currently in the initial stage in China, so the technical regulations are not improved and the market prospect is uncertain as for the vessel-use LNG filling stations. The Board decided not to engage in vessel-use LNG filling business temporarily, but agreed that Mr. Zhang Yingcen can invest in such business/such category of businesses by himself and explore the business of vessel-use LNG filling stations for the Group. The aforesaid decision had been approved by all the independent non-executive Directors who did not have any interest in the proposed transactions. The Board confirmed that the decision of not to take up such business opportunity complied with all the requirements and procedures as set out in the non-competition deed entered into between the Company, among others, and Mr. Zhang Yingcen dated 20 October 2010 and the section headed "Relationship with our controlling shareholders and their associates" in the Prospectus. Mr. Zhang Yingcen undertakes that the Group can acquire such business at the fair market price when the development prospect of vessel-use LNG project becomes certain and the relevant industrial regulations and the relevant standards are basically clear in future.

In addition to this, none of the Directors, and the substantial shareholders had any interest in any business, which competed with or might compete with the business of the Group.

All the independent non-executive Directors of the Board review on an annual basis of the non-competition undertakings (the "Non-competition Undertakings") given by Mr. Zhang Yingcen, Mr. Zhang Daoyuan, Ms. Sun Yanxi, Chequers Development Limited, Goldshine Development Limited, 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 the non-competition as requested by the Committee from time to time; and (b) from the effective date of the Non-competition Undertakings and up to 31 December 2011, they had complied with the Non-competition Undertakings. The Committee also confirmed that they did not aware of any non-compliance with the Non-competition Undertakings by the Covenantors during the same period.

On 29 June 2011, pursuant to the exercise of an option to acquire the entire equity interests in Puyang Tian Lun Gas Limited (濮陽市天倫燃氣有限公司) (formerly known as Puyang Tian Lun Gas and Thermal Limited) (濮陽市天倫燃氣熱力有限公司) ("Puyang Tian Lun") exercisable by the Company under the deed of non-competition dated 20 October 2010 entered into, among others, Mr. Zhang Yingcen, Henan Tian Lun Gas Engineering Investment Limited (河南省天倫燃氣工程投資有限公司) and Mr. Zhang Daoyuan in favor of the Company, 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, entered into a transfer of equity interest agreement with the shareholders of Puyang Tian Lun for acquisition of the entire interest in Puyang Tian Lun.

The Directors (including all the independent non-executive Directors) considered that, through the aforesaid acquisition, the Group could obtain the concession rights for urban pipelined gas operation in Puyang Hi-tech Industry Development Zone in Puyang, Henan to further increase the number of regions where the Group operates. Furthermore, the quality industrial customer base and adequate source of gas of Puyang Hi-tech Industry Development Zone in Puyang, Henan will secure a continuous profit contribution from Puyang Tian Lun to the Group, as well as support the market expansion of gas business of the Group in Yubei District in China. Further details of the above transaction are set out in the paragraph headed "Connected transactions" below and the announcement of the Company dated 29 June 2011.

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 operations 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 28 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 2011, the interests and 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 (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 ("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	571,625,000	69.04%
Mr. Xian Zhenyuan (Note 2)	Interest of controlled corporation	40,099,500	4.84%

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 Yingcen as to 60.0%. Tian Lun Group Limited owned 508,725,000 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 owned 57,177,500 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 the 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 owned 40,099,500 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 2011, none of the Directors or chief executives 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 of "Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" in the 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 to 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 2011, as recorded in the register required to be kept by the Company under Section 336 of the SFO, the following persons (except the Directors and chief executives 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	508,725,000	61.45%
Gold Shine Development Limited (Note 1)	Interest of controlled corporation	508,725,000	61.45%
Chequers Development Limited	Beneficial owner	57,177,500	6.90%
Ms. Sun (Note 2)	Interest of spouse and beneficial owner	571,625,000	69.04%

Notes:

(1) The entire issued share capital of Tian Lun Group Limited is held by Gold Shine Development Limited. Tian Lun Group Limited owns 508,725,000 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 Yingcen as to 60.0%. Tian Lun Group Limited owned 508,725,000 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 owned 57,177,500 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 deem or taken to be interested in all the Shares in which Mr. Zhang is interested for the purpose of the SFO.

Except for the disclosed above, as at 31 December 2011, 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

As 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 are 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, 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.

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.

The total number of securities available for issue under the Scheme as at the date of this report was 82,792,500 Shares which represented 10% 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 2011, 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 pursuant to which that the consideration paid by the Group to Hexiang Engineering on an annual basis under the Hexiang Engineering Construction Agreement will not be more than RMB8,200,000, RMB9,500,000 and RMB11,000,000 for the three years ending 31 December 2012, respectively. The transaction amount with Hexiang Engineering for the year ended 31 December 2011 was approximately RMB8,192,000. Hexiang Engineering is principally engaged in installation of pipelines and installation of water, electricity and heat supply. It is 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 is owned as to 50%, 25% and 25% by Mr. Zhang Yingcen, Mr. Zhang Daoyuan and Ms. Sun Yanxi, respectively. Henan Tian Lun Engineering Investment is 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 is a connected person of the Company under the Listing Rules. The transactions with Hexiang Engineering mentioned above constitute continuing connected transactions under Chapter 14A of the Listing Rules.

On 29 June 2011, pursuant to the exercise of an option to acquire the entire equity interests in Puyang Tian Lun Gas Limited (濮陽市天倫燃氣有限公司) (formerly known as Puyang Tian Lun Gas and Thermal Limited) (濮陽市天倫燃氣熱力有限公司) ("Puyang Tian Lun") exercisable by the Company under the Deed of Non-competition dated 20 October 2010 entered into, among others, Mr. Zhang Yingcen ("Mr. Zhang"), Henan Tian Lun Gas Engineering Investment Limited (河南省天倫燃氣工程投資有限公司) ("Henan Tian Lun Engineering Investment") and Mr. Zhang Daoyuan in favor of the Company, Henan Tian Lun Gas Group Limited (河南天倫燃氣集團有限公司) ("Henan Tian Lun"), a wholly-owned subsidiary of the Company, entered into a transfer of equity interest agreement (the "Acquisition Agreement") with Mr. Zhang and Henan Tian Lun Engineering Investment, the then shareholders of Puyang Tian Lun("Puyang Tian Lun Existing Shareholders"). Pursuant to the Acquisition Agreement, Henan Tian Lun conditionally agreed to acquire the entire equity interests in Puyang Tian Lun from the Puyang Tian Lun Existing Shareholders at an exercise price of RMB23,000,000. Puyang Tian Lun was owned by Mr. Zhang and Henan Tian Lun Engineering Investment as to 10% and 90%, respectively. Mr. Zhang is the Chairman of the Company, an executive Director, a controlling shareholder (as defined under the Listing Rules) of the Company and the ultimate controlling shareholder of Henan Tian Lun Engineering Investment. Therefore, Mr. Zhang and Henan Tian Lun Engineering Investment are connected persons of the Company and the Transaction constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed the "continuing connected transactions" set out above and have confirmed that those transactions were (i) conducted on normal commercial terms; (ii) carried out in our 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 transactions.

Save as the transactions disclosed above, the Directors consider that those related party transactions disclosed in note 36 to the consolidated financial statements did not fall under the definition of "connected transactions" or "continuing connected transactions" 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.

KEY CUSTOMERS AND SUPPLIERS

In 2011, sales to the largest five customers of the Group accounted for approximately 5.81% of the turnover of the Group, while purchases from the five largest suppliers of the Group accounted for approximately 45.84% of the purchases of the Group in which the largest supplier accounted for approximately 13.06%. 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

During the year, 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 under the Company's Articles of Association or the laws of Cayman Islands, and therefore the Company is not obliged to offer new Shares on a pro-rata basis to existing shareholders.

POST BALANCE SHEET EVENT

With effect from 6 January 2012, the head office address of the Company in the People's Republic of China (the "PRC") has been changed to 4th Floor, Tian Lun Group Building, No. 6 Huang He East Road, Zheng Dong Xin District, Zhengzhou City, Henan Province, the PRC.

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 be less than 25% prescribed under the Listing Rules.

CORPORATE GOVERNANCE

The Company has adopted the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules. The Company has complied with the Code during the year, save for the exceptions explained in the "Corporate Governance Practice" in this annual report.

AUDITOR

The Company has appointed PricewaterhouseCoopers as auditor of the Company for the year ended 31 December 2011. A resolution will be proposed in the forthcoming annual general meeting for the reappointment of PricewaterhouseCoopers as the Company's auditor.

By order of the Board of
China Tian Lun Gas Holdings Limited
Zhang Yingcen
Chairman

30 March 2012

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Company has adopted the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules. The Company has complied with the Code during the year, except for the follows:

Under code provision A.2.1 of the Code, the roles of the chairman and the chief executive shall be separate and shall not be performed by the same individual. The Company has not established any senior position of a "chief executive", which constitutes a deviation of the code provision A.2.1. Mr. Zhang Yingcen, the chairman of the Company, is also responsible for overseeing the overall operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the Company's management. The roles of the respective executive directors and senior management who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to operate efficiently. As such, the structure is beneficial to the Group and the Shareholders as a whole. The Company understands the importance to comply with the code provision A.2.1 and will continue to consider the feasibility of appointing a chief executive officer. The Company will make timely announcement if such decision has been made.

Save as disclosed above, the Board considered that the Company had complied with the code provisions set out in the Code during the year ended 31 December 2011.

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 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 reporting period.

BOARD OF DIRECTORS

Members of the Board of Directors

As at the date of this annual report, the Board comprised the following Directors, including (i) executive Directors, Mr. Zhang Yingcen (Chairman), Mr. Xian Zhenyuan, Mr. Feng Yi and Mr. Sun Heng; (ii) non-executive Director, Mr. Zhang Daoyuan; and (iii) independent non-executive Directors, Mr. Chang Zongxian, Ms. Zhao Jun, Mr. Zhang Jiaming and Mr. Li Liuqing.

The biographies of all the Directors are set out in the section headed "Directors and Senior Management" in this annual report. Executive Directors of the Company have the relevant experiences for effectively carrying out their duties.

The Company has already 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 standards in order to protect the interests of the shareholders and the Company. The Company has received confirmation of independence from each of the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules, and believes that, as at the date of this annual report, they were independent of the Company in accordance with the relevant requirement of the Listing Rules.

Save as Mr. Zhang Daoyuan being the son of Mr. Zhang Yingcen, there are no other relationships among the members of the Board.

RESPONSIBILITIES OF DIRECTORS

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. There is no change in the composition of the Board during the reporting period.

SUPPLY OF AND ACCESS TO INFORMATION

In respect of regular Board meeting, 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 intended 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 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 and Articles of Association. Daily business operations and administrative functions of the Group are delegated to the management.

Code 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 11 meetings during the year ended 31 December 2011.

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

Directors	Attendance/meeting held
Executive Directors	
Mr. Zhang Yingcen *(Chairman)*	11/11
Mr. Xian Zhenyuan	11/11
Mr. Feng Yi	11/11
Mr. Sun Heng	11/11
Non-executive Director	
Mr. Zhang Daoyuan	11/11
Independent non-executive Directors	
Mr. Chang Zongxian	11/11
Ms. Zhao Jun	11/11
Mr. Zhang Jiaming	11/11
Mr. Li Liuqing	11/11

In general, the notices of meetings of the Board of the Company 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 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 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 (an independent non-executive Director with the appropriate professional qualifications who serves as chairman of the committee), Mr. Chang Zongxian and Ms. Zhao Jun. 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 2011. The Group's final results for the year ended 31 December 2011 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 2011.

Corporate Governance Report

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

Member	Attendance/Meeting held
Mr. Li Liuqing *(Chairman)*	2/2
Mr. Chang Zongxian	2/2
Ms. Zhao Jun	2/2

In compliance with the with the amendments to the Listing Rules which has been effective on 1 April 2012, the written terms of reference of the Audit Committee adopted by the Company pursuant to the Board's resolution passed on 13 October 2010 has been revised on 30 March 2012.

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, and 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. Chang Zongxian 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 one meeting for the year ended 31 December 2011 for reviewing the structure of the Board, size and composition of the Board, assessing the independence of the independent non-executive Directors and other related matters..

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

Member	Attendance/Meeting held
Mr. Zhang Yingcen *(Chairman)*	1/1
Mr. Chang Zongxian	1/1
Ms. Zhao Jun	1/1

In compliance with the amendments to the Listing Rules which has been effective on 1 April 2012, the written terms of reference of the Nomination Committee adopted by the Company pursuant to the Board's resolution passed on 13 October 2010 has been revised on 30 March 2012.

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, who is the chairman 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 for the year ended 31 December 2011.

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

Member	Attendance/Meeting held
Mr. Zhang Yingcen *(Chairman)*	1/1
Mr. Zhang Jiaming	1/1
Ms. Zhao Jun	1/1

At the meetings, the Remuneration Committee had reviewed the remuneration policies of the Directors and the senior executives and reviewed the remuneration packages and performance of the Directors for the year.

In compliance with the with the amendments to the Listing Rules which has been effective on 1 April 2012, the written terms of reference of the Remuneration Committee adopted by the Company pursuant to the Board's resolution passed on 13 October 2010 has been revised on 30 March 2012) and that Mr. Zhang Yingcen ceases to serve as the chairman of Remuneration Committee and Ms. Zhao Jun is appointed in place, with effect from 30 March 2012.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors and non-executive Directors has entered into a service contract with the Company for an initial term of 3 years commencing from 10 November 2010 and subject to termination by either party upon giving not less than 3 months' prior written notice to the other party.

Each of the independent non-executive Directors has entered into a service contract with the Company for a term of 2 years commencing from 10 November 2010 and subject to termination by either party upon giving with not less than 3 months' prior written notice to the other party.

In accordance with Article 108(a) of the Articles of Association of the Company, 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 been assumed the longest term of office since their last election or re-election.

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 2011.

The auditor of the Company acknowledges their reporting responsibilities in the auditor's report on the financial statements for the year ended 31 December 2011. 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 the financial statements.

AUDITOR'S REMUNERATION

The audit fee of the Group for the year ended 31 December 2011 was RMB2,480,000. There were no significant non-audit service assignments being 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 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.

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.

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 45 to 121, which comprise the consolidated and company balance sheets as at 31 December 2011, 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.

PricewaterhouseCoopers, 22/F, Prince's Buildings, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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 2011, 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, 30 March 2012

Consolidated Balance Sheet

(All amounts in Renminbi("RMB"))

	Note	As at 31 December 2011 RMB'000	2010 RMB'000 Restated Note 2.1
ASSETS			
Non-current assets			
Property, plant and equipment	6	**568,573**	143,645
Investment properties	7	**10,058**	9,935
Lease prepayments	8	**29,706**	8,273
Intangible assets	9	**423,991**	34,966
Deferred income tax assets	21	**1,917**	1,581
Trade and other receivables	12	**14,870**	—
Other non-current assets		**2,382**	—
		1,051,497	198,400
Current assets			
Inventories	11	**45,067**	8,309
Trade and other receivables	12	**101,329**	64,743
Available-for-sale financial assets	15	**62,000**	—
Restricted cash	13	**5,000**	—
Cash and cash equivalents	14	**310,762**	411,926
		524,158	484,978
Total assets		**1,575,655**	683,378
EQUITY			
Equity attributable to owners of the Company			
Share capital	16	**7,077**	7,077
Share premium	16	**454,188**	454,188
Reserves	17	**4,817**	18,892
Retained earnings		**150,048**	76,243
		616,130	556,400
Non-controlling interests		**168,090**	2,845
Total equity		**784,220**	559,245

Consolidated Balance Sheet

(All amounts in Renminbi("RMB"))

	Note	As at 31 December 2011 RMB'000	2010 RMB'000 Restated Note 2.1
LIABILITIES			
Non-current liabilities			
Trade and other payables	18	**25,000**	—
Borrowings	20	**186,074**	6,350
Deferred income tax liabilities	21	**30,188**	—
		241,262	6,350
Current liabilities			
Trade and other payables	18	**172,895**	47,262
Advance from customers	19	**87,123**	43,936
Current income tax liabilities		**5,478**	1,506
Borrowings	20	**284,677**	25,079
		550,173	117,783
Total liabilities		**791,435**	124,133
Total equity and liabilities		**1,575,655**	683,378
Net current (liabilities)/assets		**(26,015)**	367,195
Total assets less current liabilities		**1,025,482**	565,595

The notes on pages 52 to 121 are an integral part of these consolidated financial statements.

The financial statements on pages 45 to 121 were approved by the Board of Directors on 30 March 2012 and were signed on its behalf.

Mr. Zhang Yingcen	**Mr. Xian Zhenyuan**
Chairman	*Director*

Balance Sheet

(All amounts in RMB)

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	10	**96,002**	96,002
Current assets			
Trade and other receivables	12	**358,523**	275,656
Cash and cash equivalents	14	**2,761**	95,269
		361,284	370,925
Total assets		**457,286**	466,927
EQUITY			
Equity attributable to owners of the Company			
Share capital	16	**7,077**	7,077
Share premium	16	**454,188**	454,188
Accumulated losses		**(10,494)**	(6,833)
Total equity		**450,771**	454,432
LIABILITIES			
Current liabilities			
Trade and other payables	18	**6,515**	12,495
Total equity and liabilities		**457,286**	466,927
Net current assets		**354,769**	358,430
Total assets less current liabilities		**450,771**	454,432

The notes on pages 52 to 121 are an integral part of these financial statements.

The financial statements on pages 45 to 121 were approved by the Board of Directors on 30 March 2012 and were signed on its behalf.

Mr. Zhang Yingcen
Chairman

Mr. Xian Zhenyuan
Director

Consolidated Statement of Comprehensive Income

(All amounts in RMB)

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000 Restated Note 2.1
Revenue	5	**450,931**	258,255
Cost of sales	22	**(278,927)**	(137,181)
Gross profit		**172,004**	121,074
Distribution costs	22	**(7,793)**	(2,629)
Administrative expenses	22	**(48,187)**	(17,644)
Other income	23	**10,737**	—
Other gains — net	25	**290**	94
Operating profit		**127,051**	100,895
Finance income		**5,454**	2,365
Finance costs		**(14,872)**	(5,577)
Finance costs — net	26	**(9,418)**	(3,212)
Profit before income tax		**117,633**	97,683
Income tax expense	27	**(27,280)**	(21,715)
Profit for the year		**90,353**	75,968
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive income for the year		**90,353**	75,968
Profit and total comprehensive income attributable to:			
Owners of the Company		**82,730**	75,136
Non-controlling interests		**7,623**	832
		90,353	75,968
Earnings per share for profit attributable to owners of the Company (RMB per share)			
— Basic and diluted	29	**0.10**	0.12
Dividends	30	**—**	33,087

The notes on pages 52 to 121 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(All amounts in RMB)

	Attributable to owners of the Company						
	Share capital RMB'000 Note 16	Share premium RMB'000 Note 16	Reserves RMB'000 Note 17	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2010 (As previously reported)	—	—	65,399	42,395	107,794	2,829	110,623
Business combination undercommon control (Note 31.1)	—	—	20,000	(14)	19,986	—	19,986
Balance at 1 January 2010 (As restated)	—	—	85,399	42,381	127,780	2,829	130,609
Comprehensive income							
Profit for the year	—	—	—	75,136	75,136	832	75,968
Transactions with owners							
Appropriation	—	—	8,187	(8,187)	—	—	—
Dividends	—	—	—	(33,087)	(33,087)	(816)	(33,903)
Capital injection from Controlling Shareholders	—	—	96,213	—	96,213	—	96,213
Deemed distribution to Controlling Shareholders (Note 17)	—	—	(84,385)	—	(84,385)	—	(84,385)
Allotment of shares pursuant to the Reorganisation (Note 17)	9	95,993	(96,002)	—	—	—	—
Waiver of liability by Controlling Shareholders	—	—	9,480	—	9,480	—	9,480
Shares issued pursuant to the Global Offering	1,962	400,226	—	—	402,188	—	402,188
Shares issued under the capitalisation issue	5,106	(5,106)	—	—	—	—	—
Share issuance costs	—	(36,925)	—	—	(36,925)	—	(36,925)
Balance at 31 December 2010 (As restated)	7,077	454,188	18,892	76,243	556,400	2,845	559,245

Consolidated Statement of Changes in Equity

(All amounts in RMB)

	Attributable to owners of the Company						
	Share capital RMB'000 Note 16	Share premium RMB'000 Note 16	Reserves RMB'000 Note 17	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2011 (As previously reported)	7,077	454,188	(1,369)	73,910	533,806	2,845	536,651
Business combination undercommon control (Note 31.1)	—	—	20,261	2,333	22,594	—	22,594
Balance at 1 January 2011 (As restated)	7,077	454,188	18,892	76,243	556,400	2,845	559,245
Comprehensive income							
Profit for the year	—	—	—	82,730	82,730	7,623	90,353
Transactions with owners							
Appropriation	—	—	8,925	(8,925)	—	—	—
Business combination under common control (Note 31.1)	—	—	(23,000)	—	(23,000)	—	(23,000)
Acquisition of subsidiaries (Note 31.2)	—	—	—	—	—	101,722	101,722
Capital injection from non- controlling interests	—	—	—	—	—	55,900	55,900
Balance at 31 December 2011	7,077	454,188	4,817	150,048	616,130	168,090	784,220

The notes on pages 52 to 121 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(All amounts in RMB)

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000 Restated Note 2.1
Cash flows from operating activities			
Cash generated from operations	32	**89,279**	100,469
Interest paid		**(27,940)**	(4,109)
Income tax paid		**(25,523)**	(22,784)
Net cash generated from operating activities		**35,816**	73,576
Cash flows from investing activities			
Purchases of property, plant and equipment		**(169,883)**	(18,244)
Increase in lease prepayments		**(1,408)**	(6,334)
Proceeds from disposal of property, plant and equipment	32	**3**	66
Purchase of intangible assets		**(285)**	(8)
Purchases of available-for-sale financial assets		**(830,000)**	—
Proceeds from disposal of available-for-sale financial assets		**769,298**	—
Net payments from related parties		**8,883**	44,682
Net cash outflow of business combination under common control (Note 31.1)		**(23,000)**	—
Net cash outflow for the acquisition of subsidiaries (Note 31.2)		**(320,878)**	(5,000)
Changes in restricted cash		**(5,000)**	—
Interest received		**4,091**	381
Net cash (used in)/generated from investing activities		**(568,179)**	15,543
Cash flows from financing activities			
Proceeds from borrowings		**441,774**	35,000
Repayments of borrowings		**(65,275)**	(79,516)
Dividends	30	**–**	(33,903)
Capital injection from the Controlling Shareholders		**–**	96,213
Capital injection from non-controlling interests		**55,900**	—
Deemed distribution to Controlling Shareholders		**–**	(84,385)
Proceeds from issuance of ordinary shares pursuant to the Global Offering		**–**	402,188
Payments of share issuance costs		**–**	(32,328)
Net cash generated from financing activities		**432,399**	303,269
Net (decrease)/increase in cash and cash equivalents		**(99,964)**	392,388
Cash and cash equivalents at beginning of the year		**411,926**	19,992
Exchange losses on cash and cash equivalents		**(1,200)**	(454)
Cash and cash equivalents at end of the year	14	**310,762**	411,926

The notes on pages 52 to 121 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

1. GENERAL INFORMATION OF THE GROUP AND REORGANISATION

1.1 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.

On 27 October 2010, the Company issued a prospectus (the "Prospectus") and launched a global offering of 199,500,000 ordinary shares ("the Global Offering"), at an offer price of HK$2.05 per share (the "Offer Price"). On 2 December 2010, the over-allotment option as detailed in the Prospectus was fully exercised and the Company was required to allot and issue an aggregate of 29,925,000 additional shares at the Offer Price. Gross proceeds received by the Company from the Global Offering (including proceeds from the exercise of the over-allotment option) amounted to approximately HK$470,300,000 in aggregate.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the gas pipeline connections by providing estate developers and commercial and industrial users with laying and installation and transportation, distribution and sales of gases including natural gas, coal gas, compressed natural gas (the "CNG")(the "Listing Business") 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 30 March 2012.

1.2 The Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation as described below (the "Reorganisation"), the Listing Business were carried out by the companies now comprising the Group, which were collectively controlled by Mr. Zhang Yingcen and his family members comprising his wife and eldest son (collectively the "Controlling Shareholders").

The Group underwent the following Reorganisation for the listing of the Company's shares on the Main Board of the Stock Exchange (the "Listing").

1. GENERAL INFORMATION OF THE GROUP AND REORGANISATION *(continued)*

1.2 The Reorganisation *(continued)*

(a) Prior to the Reorganisation, four out of the five operating companies, incorporated in the PRC, namely Zhengzhou Shangjie Tian Lun Gas Limited ("Shangjie Tian Lun"), Xuchang Tian Lun Gas Limited ("Xuchang Tian Lun"), Xuchang Tian Lun Vehicle-use Gas Limited ("Xuchang Tian Lun Vehicle") and Hebi Tian Lun Vehicle-use Gas Limited ("Hebei Tian Lun Vehicle") (collectively "the four operating companies"), were majority owned by Henan Tian Lun Gas Engineering Investment Limited (the"then holding company" or "Henan Tian Lun Engineering Investment"), a company incorporated in the PRC and beneficially owned by the Controlling Shareholders. The remaining operating company, Henan Tian Lun Gas Group Limited ("Henan Tian Lun Gas"), formerly named "Hebi Tian Lun Gas Limited", was 80% owned by Upsky Holdings Limited ("Upsky Holdings"), a company incorporated in the British Virgin Islands ("BVI") and beneficially owned by the Controlling Shareholders, and 20% owned by the then holding company.

(b) On 10 May 2010, Tian Lun New Energy Limited ("Tian Lun New Energy") was incorporated in Hong Kong with an authorised share capital of HK$10,000 at HK$1 each. One share was allotted and issued at par to Upsky Holdings.

(c) Pursuant to an equity transfer agreement dated 15 May 2010, Upsky Holdings and Henan Tian Lun Engineering Investment transferred their respective 80% and 20% equity interests in Henan Tian Lun Gas to Tian Lun New Energy for a consideration of RMB9,200,000 and RMB2,300,000, respectively. Such considerations were based on the valuation of Henan Tian Lun Gas as at 31 March 2010 by an independent valuer in the PRC.

(d) On 13 May 2010, Hebi Tian Lun New Energy Limited ("Hebi New Energy") was incorporated as a limited liability company in the PRC by the then holding company. Hebi New Energy has not been involved in any significant business transactions since its date of incorporation other than the Reorganisation. On 29 June 2010, the then holding company transferred the entire equity interests in Hebi New Energy to Henan Tian Lun Gas at a consideration of RMB15,000,000, which represented the registered capital paid by the then holding company. In order to finance the payment obligation of such consideration, capital injection has been made by Tian Lun Group Limited ("Tian Lun Group"), a company incorporated in the BVI and ultimately wholly owned by the Controlling Shareholders, as disclosed in (h) below. In September 2010, such consideration was paid out to the then holding company.

(e) On 20 May 2010, the Company was established in the Cayman Islands as a wholly owned subsidiary of Tian Lun Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

1. GENERAL INFORMATION OF THE GROUP AND REORGANISATION *(continued)*

1.2 The Reorganisation *(continued)*

(f) Pursuant to various equity transfer agreements dated 29 June 2010, the then holding company transferred its entire shareholdings of the four operating companies to Henan Tian Lun Gas. The total considerations for such transfers of shareholdings were approximately RMB67,085,000, which were based on the respective valuation of the four operating companies as at 31 March 2010 by an independent valuer in the PRC. In order to finance the payment obligation of such consideration, capital injection has been made by Tian Lun Group as disclosed in (h) below. On 30 June and 13 September 2010, Henan Tian Lun Gas paid consideration of approximately RMB4,155,000 and RMB62,930,000 to the then holding company, respectively. As a result of the aforesaid transfers, Tian Lun New Energy became the holding company of all the operating companies and Hebi New Energy within the Group.

(g) On 6 July 2010, pursuant to a share transfer agreement entered into between Tian Lun Group and Pleasant New Limited ("Pleasant New"), a company incorporated in the BVI and is beneficially owned by certain executive directors of the Company, Tian Lun Group transferred a 6.7% equity interests in Upsky Holdings to Pleasant New for a consideration of approximately HK$35,011,000, which approximated the fair value of such equity interest as at 6 July 2010 as determined by an independent valuer.

(h) In August 2010, Tian Lun Group subscribed one share at United States Dollars ("US$") 0.1 each of Upsky Holdings at a consideration of HK$93,050,000 (equivalent to approximately RMB81,213,000). Upsky Holdings injected HK$94,350,000 into Tian Lun New Energy by the subscription of one share in Tian Lun New Energy. In August 2010, Tian Lun New Energy injected cash of HK$91,650,000 (equivalent to approximately RMB80,000,000) into Henan Tian Lun Gas as registered capital. The cash so injected was paid out to the then holding company as described in (d) and (f) above.

(i) On 11 October 2010, the Company entered into a sale and purchase agreement with Tian Lun Group and Pleasant New, pursuant to which (i) Tian Lun Group transferred all the shares it held in Upsky Holdings to the Company and as consideration, 932,999 shares, all credited as fully paid, were allotted to Tian Lun Group and the one nil paid share then held by Tian Lun Group was credited as fully paid up; and (ii) Pleasant New transferred all the shares it held in Upsky Holdings to the Company and as consideration, 67,000 shares, all credited as fully paid up, were allotted and issued to Pleasant New.

Upon completion of the Reorganisation, the Company became the holding company of the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

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 presentation

Puyang Tian Lun Gas Limited ("Puyang Tian Lun") was established by Mr. Zhang Yingcen and Henan Tian Lun Engineering Investment with equity interests of 10% and 90% respectively in November 2009. Henan Tian Lun Engeering Investment was a company incorporated in the PRC and owned by the Controlling Shareholders. In June 2011, the Group acquired the entire equity interests in Puyang Tian Lun for a cash consideration of RMB23 million.

Puyang Tian Lun and the Group are controlled and ultimately owned by the Controlling Shareholders. Accordingly, the aforesaid transaction was regarded as business combination under common control. These consolidated financial statements incorporated Puyang Tian Lun's results as if both Puyang Tian Lun and the Group had always been combined. The financial statements for the year ended 31 December 2010 have been restated to reflect this common control transaction accordingly. Details of the adjustments for the common control combination on the Group's financial position as at 31 December 2011 and 2010 and the Group's results for the year then ended are set out in Note 31.1.

2.2 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, except as disclosed in the accounting policies below.

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.

2.2.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011.

- HKAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:
    - The name of the government and the nature of their relationship;
    - The nature and amount of any individually significant transactions; and
    - The extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party. The revised standard has no significant impact on the Group's financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.2 Basis of preparation *(continued)*

2.2.1 Changes in accounting policy and disclosures (continued)

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted

The Group's and the Company's assessment of the impact of these new and amended standards is 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 and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.

- 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. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 12 "Disclosures of interests in other entities" includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- 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 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. The Group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.3 Subsidiaries

2.3.1 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(a) Business combinations other than common control combinations

The Group applies the acquisition method to account for business combinations other than common control combination. 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.

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.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
(All amounts in RMB unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.3 Subsidiaries *(continued)*

2.3.1 Consolidation (continued)

(b) Business combinations under common control

The consolidated financial statements incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the consolidated entities or businesses first came under the control of the controlling party.

The net assets of the consolidating entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised with respect to goodwill or any excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the aggregate of the net assets of the entities transferred to the Group have been recognised directly in equity as part of reserves.

The consolidated statement of comprehensive income include the results of each of the consolidating entities or businesses from the earliest date presented or since the date when consolidated entities or businesses first came under common control, where this is a shorter period, regardless of the date of common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities had been consolidated at the earliest date presented or when they first came under common control, whichever is the latest.

(c) 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 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.

(d) 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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.3 Subsidiaries *(continued)*

2.3.2 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.

2.4 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.

2.5 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 are presented in the consolidated statement of comprehensive income within "finance income or cost".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any. 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	
– natural gas pipelines	20-25 years
– coal gas pipelines	16 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.

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 2.10).

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.7 Investment properties

Investment properties, principally office buildings, are held for rental yields and are not occupied by the Group. Investment properties are 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 life 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 disposal are determined by comparing proceeds with carrying amount. These are included 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.

2.8 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. The amortisation is charged within "administration expenses" in the consolidated statements of comprehensive income.

2.9 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 sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.9 Intangible assets *(continued)*

(b) Exclusive operating rights for city pipeline network and gas station

Exclusive operating rights for city pipeline network and gas station represent the exclusive 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 exclusive 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).

2.10 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.

2.11 Financial assets

2.11.1 Classification

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

The Group only has financial assets classified as "loans and receivables" and "available-for-sale" for the years ended 31 December 2011 and 2010.

(a) 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 2.15 and 2.16).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.11 Financial assets *(continued)*

2.11.1 Classification (continued)

(b) 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.

2.11.2 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 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 are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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 "gains and losses from investment securities".

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

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.13 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 the consolidated statement of comprehensive income. 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.

(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 consolidated profit or loss on equity instruments are not reversed through the consolidated 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 consolidated profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.14 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.

2.15 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.

2.16 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.

2.17 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.

2.18 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables 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.

2.19 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.

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.

Notes to the Consolidated Financial Statements

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.20 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.

2.21 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 and tax losses. However, deferred tax liabilities are rot 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 is provided on temporary differences arising on investments in subsidiaries, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.21 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.

2.22 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.

2.23 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.

2.24 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

(a) Connection of gas pipelines

Revenue in respect of the connection and construction of gas pipelines is recognised upon the completion of construction of pipelines for users and connection of the pipelines to the Group's existing gas pipeline network, which, coincides with the "fire ignition ceremony." The "fire ignition ceremony" is a final and essential step to ascertain that the gas pipeline built is functioning properly and is acceptable to users. Upon the fire ignition ceremony, the significant risks and rewards of ownership will be transferred to the customers and the economic benefits associated with the contracts will be passed to the Group. The average time required for the Group to complete a gas pipeline construction project is approximately two to four months.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.24 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) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(d) Rental income

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

(e) Service income

Service income is recognised when services are provided.

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.

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 program 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 guidance of the board of directors.

(a) Market risk

(i) Foreign exchange risk

The Group's operations are principally performed within the PRC with most transactions settled in RMB except that the Group has certain daily administrative activities which are settled in HK$ and certain borrowings which are settled in US$. The Group's assets and liabilities that are subject to foreign exchange rate risk include bank deposits and borrowings that are denominated in HK$ and US$. The Group currently does not have a foreign currency hedging policy, and manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities as at 31 December 2011 and 2010 are as follows:

Group	**As at 31 December**	
	2011	2010
	RMB'000	RMB'000
Assets (Notes 12 and 14)		
HK$	**4,932**	114,954
Liabilities (Notes 18 and 20)		
US$	**6,227**	6,429
HK$	**405**	7,175

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011
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3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Management has set up policies for non-RMB denominated bank deposits to manage the Group's foreign exchange risk against its functional currency, including term deposits to earn higher interest income to offset the loss due to appreciation of RMB.

The following table shows the sensitivity analysis of an increase/decrease of 5% in RMB against US$ and HK$, with all other variables held constant, as at 31 December 2011 and 2010 respectively. This sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of each reporting period. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next end of reporting period. If there is a 5% increase/decrease in RMB against US$ and HK$, the effect on the profit before income tax is as follows:

Group	**As at 31 December**	
	2011	2010
	RMB'000	RMB'000
Increase of 5% RMB against US$ and HK$		
— Increase/(decrease) of profit before income tax	**85**	(5,068)
Decrease of 5% RMB against US$ and HK$		
— (Decrease)/increase of profit before income tax	**(85)**	5,068

(ii) Cash flow and fair value interest rate risk

The Group's interest-rate risk arises from borrowings and bank deposits. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. As at 31 December 2011, the Group's borrowings of RMB420,000,000 with bore interest at variable rates and borrowings of RMB50,751,000 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 2011, 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 RMB1,260,000 (2010: RMB94,000) lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

As at 31 December 2011, 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 RMB1,251,000 (2010: RMB1,228,000) higher/lower, respectively, mainly as a result of higher/lower interest income earned.

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 and trade and other receivables.

As at 31 December 2011, all of the Group's bank deposits are deposited in major financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality without significant credit risk. The Group's bank deposits as at 31 December 2011 and 2010 were as follows:

Group	**As at 31 December**	
	2011	2010
	RMB'000	RMB'000
Big four commercial banks (i)	**242,917**	28,814
Other listed banks	**1,857**	214,452
Other state-owned banks	**69,945**	168,572
	314,719	411,838

(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.

Credit risk is managed on a risk portfolio basis. Credit risk arises from deposits with banks, as well as credit exposures to customers, including outstanding trade and other receivables.

The Group has no significant concentration of credit risk, 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.

(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.

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3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) *Liquidity risk (continued)*

The table below analyses the Group's and Company's financial liabilities into relevant maturity groupings based on the remaining period at the end of reporting period 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 2011				
Bank borrowings	**290,542**	**21,603**	**97,642**	**99,209**
Other borrowings	**15,929**	**10,814**	**1,553**	**9,158**
Trade and other payables (i)	**167,422**	**25,000**	**—**	**—**
At 31 December 2010				
Bank borrowings	25,568	—	—	—
Other borrowings	280	558	1,646	10,165
Trade and other payables (i)	45,222	—	—	—

(i) Trade and other payables include trade payables, amounts due to related parties, other payables and interest payables as stated in Note 18.

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 2011				
Other payables	**6,515**	**—**	**—**	**—**
At 31 December 2010				
Other payables	12,495	—	—	—

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, issue new shares or sell assets to reduce debt.

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 2011 and 2010 were as follows:

Group	**As at 31 December**	
	2011	2010
	RMB'000	RMB'000
Total borrowings	**470,751**	31,429
Less: cash and cash equivalents	**(310,762)**	(411,926)
Net debt/(cash position)	**159,989**	(380,497)
Total equity	**784,220**	559,245
Total capital	**944,209**	178,748
Gearing ratio	**0.17**	N/A

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).

At 31 December 2011, all available-for-sale financial assets are measured at level 3 (2010: None).

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

The carrying amounts of the Group's financial assets and liabilities including cash and cash equivalents, 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 value. 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 20.

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) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 9).

(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.

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

(b) Income taxes *(continued)*

As at 31 December 2011, the Group has deferred income tax assets of approximately RMB1,917,000 (2010:RMB1,581,000) (Note 21). 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 impairment provisions taken on receivables, 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 RMB81,000 (2010:RMB67,000).

(c) Depreciation and amortisation

The Group's management determines the estimated residual value, useful lives and related depreciation/amortisation charges for the property, plant and equipment, investment properties, and intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation and amortisation charge where useful lives are different to previously estimated.

(d) Impairment of trade and other receivables

Provision for impairment of trade and other receivables is determined based on the evaluation of collectibility of trade and other receivables. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the past collection history of each counterparty and the current market condition.

(e) Purchase price allocation for business combination other than common control combinations

Accounting for business acquisitions other than common control combinations require 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. In connection with the acquisition of the entities disclosed in Note 31.2, 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.

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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, is not 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.

The segment information provided to the senior executive management team for the reportable segments for the year ended 31 December 2011 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	**236,231**	**203,103**	**11,597**	**—**	**450,931**
Gross profit	**39,316**	**126,388**	**6,300**	**—**	**172,004**
Distribution costs				**(7,793)**	**(7,793)**
Administrative expenses				**(48,187)**	**(48,187)**
Other income				**10,737**	**10,737**
Other gains - net				**290**	**290**
Operating profit					**127,051**
Finance costs - net				**(9,418)**	**(9,418)**
Profit before income tax					**117,633**
Income tax expense				**(27,280)**	**(27,280)**
Profit for the year					**90,353**

5 SEGMENT INFORMATION *(continued)*

The segment information provided to the senior executive management team for the reportable segments for the year ended 31 December 2010 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	110,214	140,407	7,634	—	258,255
Gross profit	14,904	101,156	5,014	—	121,074
Distribution costs				(2,629)	(2,629)
Administrative expenses				(17,644)	(17,644)
Other gains - net				94	94
Operating profit					100,895
Finance costs - net				(3,212)	(3,212)
Profit before income tax					97,683
Income tax expense				(21,715)	(21,715)
Profit for the year					75,968

The principal subsidiaries of the Company are domiciled in the PRC. All their revenue from external customers are derived from the PRC, and all the non-current assets (there are no financial instrument, employment benefit assets and rights arising under insurance contracts) are located in the PRC.

For the year ended 31 December 2011, no revenue derived from sales made to a single external customers amounted to 10% or more of the Group's total revenue (2010: nil).

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6. PROPERTY, PLANT AND EQUIPMENT - GROUP

	Buildings	Equipment and machinery	Gas pipelines	Office equipment and motor vehicles	CIP	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010						
Cost	19,228	9,201	113,790	2,994	5,709	150,922
Accumulated depreciation	(2,476)	(1,863)	(19,179)	(2,000)	—	(25,518)
Net book amount	16,752	7,338	94,611	994	5,709	125,404
Year ended 31 December 2010						
Opening net book amount	16,752	7,338	94,611	994	5,709	125,404
Acquisition of subsidiaries (Note 31.2.2)	4,765	7	2,760	244	—	7,776
Additions	41	24	339	338	18,504	19,246
Transfer in from CIP	1,655	4,491	10,071	7	(16,224)	—
Transfer to investment properties (Note 7)	(468)	—	—	—	—	(468)
Disposals (Note 32)	—	—	—	(73)	—	(73)
Depreciation charge	(900)	(1,111)	(5,832)	(397)	—	(8,240)
Closing net book amount	21,845	10,749	101,949	1,113	7,989	143,645
At 31 December 2010						
Cost	25,113	13,723	126,960	3,062	7,989	176,847
Accumulated depreciation	(3,268)	(2,974)	(25,011)	(1,949)	—	(33,202)
Net book amount	21,845	10,749	101,949	1,113	7,989	143,645
Year ended 31 December 2011						
Opening net book amount	**21,845**	**10,749**	**101,949**	**1,113**	**7,989**	**143,645**
Acquisition of subsidiaries (Note 31.2.1)	**48,401**	**27,537**	**62,620**	**13,992**	**77,790**	**230,340**
Additions	**3,245**	**6,097**	**1,076**	**12,485**	**189,613**	**212,516**
Transfer in from CIP	**18,830**	**4,323**	**18,779**	**143**	**(42,075)**	**–**
Transfer to investment properties (Note 7)	**(524)**	**–**	**–**	**–**	**–**	**(524)**
Disposals (Note 32)	**–**	**(10)**	**–**	**(1,163)**	**–**	**(1,173)**
Depreciation charge	**(2,343)**	**(3,478)**	**(7,719)**	**(2,691)**	**–**	**(16,231)**
Closing net book amount	**89,454**	**45,218**	**176,705**	**23,879**	**233,317**	**568,573**
At 31 December 2011						
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**

6. PROPERTY, PLANT AND EQUIPMENT - GROUP *(continued)*

(a) Depreciation expense of approximately RMB13,687,000 (2010: RMB7,260,000) has been charged in cost of sales, RMB95,000 (2010: RMB33,000) in distribution costs and RMB2,449,000 (2010: RMB947,000) in administrative expenses.

(b) Bank borrowings were secured by certain properties of the Group with a net book value of approximately RMB5,159,000 as at 31 December 2011 (2010: RMB5,828,000) (Note 20).

(c) As at 31 December 2011, the Group was in the process of obtaining the legal title of buildings with carrying amount of approximately RMB7,760,000.

(d) As at 31 December 2011, the CIP mainly comprises the LNG manufacturing plant and equipment being constructed in the PRC.

(e) During the year, the Group has capitalised borrowing costs amounting to approximately RMB4,979,000 (2010: nil) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings at 9.23% (2010: nil) .

7. INVESTMENT PROPERTIES - GROUP

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
At beginning of the year		
Cost	**12,099**	11,131
Accumulated depreciation	**(2,164)**	(1,620)
Net book amount	**9,935**	9,511
For the year		
Opening net book amount	**9,935**	9,511
Acquisition of subsidiaries (Note 31.2)	**67**	392
Transfer from property, plant and equipment (Note 6)	**524**	468
Depreciation charge	**(468)**	(436)
Closing net book amount	**10,058**	9,935
At end of the year		
Cost	**12,772**	12,099
Accumulated depreciation	**(2,714)**	(2,164)
Net book amount	**10,058**	9,935
Fair value at end of the year (a)	**24,102**	19,993

7. INVESTMENT PROPERTIES - GROUP *(continued)*

(a) As at 31 December 2011 and 2010, the fair value of the investment properties represented management's best estimate which was based on current prices in an active market for similar properties.

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Rental income	**1,429**	1,433
Direct operating expenses from properties that generate rental income	**(959)**	(622)
	470	811

(c) Depreciation expense of approximately RMB468,000 (2010: RMB436,000) has been charged in cost of sales.

(d) 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	
	2011	2010
	RMB'000	RMB'000
Within 1 year	**1,047**	1,118
Later than 1 year but no later than 3 years	**633**	1,075
	1,680	2,193

(e) Bank borrowings were secured by certain of the Group's investment properties with a net book value of approximately RMB8,146,000 as at 31 December 2011 (2010: RMB8,019,000) (Note 20).

8. 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	
	2011	2010
	RMB'000	RMB'000
Outside of Hong Kong		
— Lease between 35 and 49 years	**29,706**	8,273

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Opening net book value	**8,273**	2,071
Acquisition of subsidiaries (Note 31.2)	**20,686**	—
Additions	**1,408**	6,334
Amortisation charge	**(661)**	(132)
Close net book value	**29,706**	8,273

As at 31 December 2011, the Group was in the process of obtaining the legal title of lease prepayments with carrying amount of approximately RMB602,000.

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9. INTANGIBLE ASSETS - GROUP

	Goodwill RMB'000	Exclusive operating rights RMB'000	Computer Software RMB'000	Total RMB'000
At 1 January 2010				
Cost	—	33,615	230	33,845
Accumulated amortisation	—	(4,175)	(163)	(4,338)
Net book amount	—	29,440	67	29,507
Year ended 31 December 2010				
Opening net book amount	—	29,440	67	29,507
Acquisition of subsidiaries (Note 31.2.2)	6,167	—	22	6,189
Additions	—	—	8	8
Amortisation charge	—	(696)	(42)	(738)
Closing net book amount	6,167	28,744	55	34,966
At 31 December 2010				
Cost	6,167	33,615	255	40,037
Accumulated amortisation	—	(4,871)	(200)	(5,071)
Net book amount	6,167	28,744	55	34,966
Year ended 31 December 2011				
Opening net book amount	**6,167**	**28,744**	**55**	**34,966**
Acquisition of subsidiaries(Note 31.2.1)	**276,828**	**117,014**	**50**	**393,892**
Additions	**—**	**200**	**85**	**285**
Amortisation charge	**—**	**(5,068)**	**(84)**	**(5,152)**
Closing net book amount	**282,995**	**140,890**	**106**	**423,991**
At 31 December 2011				
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**

(a) Amortisation of approximately RMB5,152,000 (2010: RMB738,000) is included in administrative expenses.

(b) Goodwill has been allocated to 18 (2010: 1) individual cash generating units ("CGU") which comprise 18 (2010: 1) subsidiaries arising from business combinations other than common control combinations as set out in Note 31.2.

9. INTANGIBLE ASSETS - GROUP *(continued)*

The recoverable amounts of the CGUs are determined based on value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flows forecasts derived from the most recent financial budgets for the next 5 years, which is the general development period for sales of pipelined gas, LNG and CNG and sales of gas pipeline connection business and extrapolates cash flows for the period beyond the budget period based on the estimated growth rate of 3% to 6%. The rate used to discount the forecast cash flows for the CGUs is from 13.16% to 14.99% (2010: 14.22%). As at 31 December 2011, management of the Group is of the view that there was no impairment of goodwill and believes that any reasonably possible change in any of the key assumptions would not cause the carrying amount of the CGU to exceed its recoverable amount.

10. INVESTMENTS IN SUBSIDIARIES - COMPANY

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Investments at cost, unlisted (a)	**96,002**	96,002

(a) The investments in subsidiaries of the Company were initially measured at the carrying amount of the equity as shown in the separate financial statements of Upsky Holdings on 11 October 2010.

The following is a list of the principal subsidiaries as at 31 December 2011:

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	BVI/8 July 2003	Limited liability company	7*	100%	Intermediary holding company in BVI
Tian Lun New Energy	Hong Kong/ 10 May 2010	Limited liability company	—*	100%	Intermediary holding company in HK
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

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10. INVESTMENTS IN SUBSIDIARIES - COMPANY *(continued)*

(a) *(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
Henan Tian Lun Gas (河南省天倫燃氣集團有限公司)	PRC/1 November 2002	Limited liability company	350,000	100%	Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC
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 (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 (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
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 coal 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	100%	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	98.97%	Sale of CNG in the PRC

10. INVESTMENTS IN SUBSIDIARIES - COMPANY *(continued)*

(a) *(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
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
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

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10. INVESTMENTS IN SUBSIDIARIES - COMPANY *(continued)*

(a) *(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
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 ("Jinlin Dadi") (吉林市大地技術諮詢有限公司)	PRC/7 March 2002	Limited liability company	3,000	49%**	Engineering design and consulting services in the PRC

10. INVESTMENTS IN SUBSIDIARIES - COMPANY *(continued)*

(a) *(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	80%	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
Cangxi County Datong Natural Gas and Investment Limited ("Cangxi Datong") (蒼溪縣大通天然氣投資有限公司)	PRC/4 June 2008	Limited liability company	50,000	51%	Sale of liquefied natural gas in the PRC
Cangxi Tian Lun Gas and Investment Limited ("Cangxi Tianlun") (蒼溪天倫燃氣投資有限公司)	PRC/24 May 2011	Limited liability company	20,000	51%	Sale of liquefied natural gas in the PRC

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10. INVESTMENTS IN SUBSIDIARIES - COMPANY *(continued)*

(a) *(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
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	100%	Sale of CNG in the PRC

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

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

** The Group has 51% interests in Jilin Zhongji which owns 96.75% interests in Jilin Dadi is considered as the Group's subsidiary because its strategic, operating, investing and financing activities are controlled by the Group.

11. INVENTORIES - GROUP

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Materials for gas pipelines	**10,119**	4,739
Consumables	**65**	13
Work in progress	**8,983**	3,557
Finished pipeline network	**25,900**	—
	45,067	8,309

The cost of inventories recognised as the Group's expense and included in cost of sales amounted to approximately RMB206,669,000 (2010: RMB108,858,000).

12. TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables (a)	**48,421**	20,829	**–**	—
Bills receivable	**1,000**	—	**–**	—
Prepayments	**35,091**	7,888	**–**	—
Receivables due from related parties (Note 36)	**4,026**	17,858	**358,156**	264,412
Other receivables	**21,531**	18,168	**367**	11,244
Value-added-tax to be offset	**6,130**	—	**–**	—
	116,199	64,743	**358,523**	275,656
Less: long-term prepayments	**(14,870)**	—	**–**	—
Current portion	**101,329**	64,743	**358,523**	275,656

The fair value of trade and other receivables, except the prepayments which are not financial assets, of the Group approximated their carrying amounts.

(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 aging analysis of trade receivables is as follows:

Group	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Less than 30 days	**17,345**	12,326
31 days to 90 days	**23,554**	2,499
91 days to 1 year	**4,401**	5,003
Over 1 year	**3,121**	1,001
	48,421	20,829

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12. TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY *(continued)*

(a) *(continued)*

As at 31 December 2011, trade receivables of approximately RMB994,000 (2010: RMB396,000) 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 aging analysis of these trade receivables is as follows:

Group	**As at 31 December**	
	2011	2010
	RMB'000	RMB'000
Over 1 year	**994**	396

As at 31 December 2011, trade receivables of approximately RMB47,427,000 (2010:RMB20,433,000) were fully performing.

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

	Group		**Company**	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**115,832**	53,541	**358,156**	110,702
HK$	**367**	11,202	**367**	164,954
	116,199	64,743	**358,523**	275,656

(c) As at 31 December 2011 and 2010, 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.

13. RESTRICTED CASH - GROUP

The restricted cash held in dedicated bank accounts of RMB5,000,000 as at 31 December 2011 was pledged for the Group's letter of guarantee due to construction of gas pipeline connections.

14. CASH AND CASH EQUIVALENTS - GROUP AND COMPANY

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash in hand	**1,043**	88	**—**	—
Cash at banks	**309,719**	411,838	**2,761**	95,269
	310,762	411,926	**2,761**	95,269

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**306,197**	308,174	**8**	1
HK$	**4,565**	103,752	**2,753**	95,268
Cash and cash equivalents	**310,762**	411,926	**2,761**	95,269

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.

15. 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	
	2011	2010
	RMB'000	RMB'000
Balance at 1 January	**—**	—
Additions	**830,000**	—
Disposals	**(768,000)**	—
Balance at 31 December	**62,000**	—

(b) Available-for-sale financial assets include the following:

	2011	2010
	RMB'000	RMB'000
Unlisted securities:		
— Debt securities with variable interest and maturity dates within January 2012	**62,000**	—

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

16. SHARE CAPITAL AND PREMIUM — GROUP AND COMPANY

(a) Authorised share capital of the Company

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.01	**17,192**	17,192

	Number of ordinary shares	**Ordinary shares** RMB'000
Authorised:		
On 20 May 2010, date of incorporation	38,000,000	333
Increase in authorised share capital	1,962,000,000	16,859
	2,000,000,000	17,192

On 13 October 2010, the authorised share capital was increased from HK$380,000 to HK$20,000,000 (equivalent to approximately RMB17,192,000) divided into 2,000,000,000 ordinary shares of HK$0.01 each in preparation for the Global Offering.

16. SHARE CAPITAL AND PREMIUM — GROUP AND COMPANY *(continued)*

(b) Issued share capital and premium of the Company

	Number of ordinary shares	Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
Issued and fully paid:				
On 20 May 2010, date of incorporation	1	—	—	—
Allotment of shares pursuant to the Reorganisation (i)	999,999	9	95,993	96,002
Shares issued pursuant to the Global Offering (ii)	229,425,000	1,962	400,226	402,188
Shares issued under the capitalisation issue (iii)	597,500,000	5,106	(5,106)	—
Share issuance costs	—	—	(36,925)	(36,925)
As at 31 December 2010 and 31 December 2011	**827,925,000**	**7,077**	**454,188**	**461,265**

(i) On 11 October 2010, the Company acquired the entire issued share capital of Upsky Holdings by allotting and issuing a total of 999,999 shares of HK$0.01 each to Tian Lun Group and Pleasant New (Note 1.2).

(ii) In November and December of 2010, the Company issued an aggregate of 229,425,000 ordinary shares of HK$0.01 each pursuant to the Global Offering as disclosed in Note 1.1. The excess of issue price over the par value of the ordinary shares were credited to share premium.

(iii) In November 2010, 597,500,000 ordinary shares were issued at par to the shareholders on the register of members of the Company at the close of business on 13 October 2010 in proportion to the respective shareholdings by way of capitalisation of the sum of HK$5,975,000 (equivalent to approximately RMB5,106,000) standing to the credit of the share premium received upon the issuance of shares referred to in (ii) above.

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17. RESERVES — GROUP

	Capital reserves RMB'000	Statutory reserves RMB'000	Total RMB'000
At 1 January 2010 (As previously reported)	60,187	5,212	65,399
Business combination under common control	20,000	—	20,000
At 1 January 2010 (As restated)	80,187	5,212	85,399
Appropriation (a)	—	8,187	8,187
Capital injection from Controlling Shareholders	96,213	—	96,213
Deemed distribution to Controlling Shareholders	(84,385)	—	(84,385)
Allotment of shares pursuant to the Reorganisation	(96,002)	—	(96,002)
Waiver of liability by Controlling Shareholders	9,480	—	9,480
At 31 December 2010 (As restated)	5,493	13,399	18,892
At 1 January 2011 (As restated)	**5,493**	**13,399**	**18,892**
Appropriation (a)	**—**	**8,925**	**8,925**
Business combination under common control (Note 31.1)	**(23,000)**	**—**	**(23,000)**
At 31 December 2011	**(17,507)**	**22,324**	**4,817**

(a) 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 2011, approximately RMB8,925,000 (2010: RMB8,187,000) were appropriated to the statutory surplus reserves funds from net profits of certain PRC subsidiaries.

18. TRADE AND OTHER PAYABLES — GROUP AND COMPANY

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables (a and b)	**40,448**	15,078	**—**	—
Amount due to related parties (a and b) (Note 36)	**916**	13,889	**5,961**	5,320
Accrued payroll and welfare	**3,214**	123	**—**	—
Interest payables	**1,114**	—	**—**	—
Other taxes payables	**2,259**	1,917	**—**	—
Other payables (a)	**149,944**	16,255	**554**	7,175
	197,895	47,262	**6,515**	12,495
Less: long – term other payables (Note 31)	**(25,000)**	—	**—**	—
Current portion	**172,895**	47,262	**6,515**	12,495

(a) As at 31 December 2011 and 2010, 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.

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

Group

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Less than 30 days	**12,057**	8,348
31 days to 90 days	**8,665**	3,489
91 days to 1 year	**8,175**	3,810
1 year to 2 years	**9,746**	795
2 years to 3 years	**1,134**	36
Over 3 years	**671**	522
	40,448	17,000

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

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

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**197,490**	40,087	**6,110**	5,320
HK$	**405**	7,175	**405**	7,175
	197,895	47,262	**6,515**	12,495

19. ADVANCE FROM CUSTOMERS — GROUP

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Advance from customers	**87,123**	43,936

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

20. BORROWINGS — GROUP

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Non-current		
Bank borrowings		
— unsecured	**170,000**	—
Other borrowings (c)	**16,074**	6,350
Total non-current borrowings	**186,074**	6,350
Current		
Bank borrowings		
— pledged (a)	**35,000**	25,000
— guaranteed (b)	**20,000**	—
— unsecured	**215,000**	—
Other borrowings (c)	**14,677**	79
Total current borrowings	**284,677**	25,079
Total borrowings	**470,751**	31,429

20. BORROWINGS — GROUP *(continued)*

(a) As at 31 December 2011, all these bank borrowings were secured by certain of the Group's property, plant and equipment and investment properties (Note 6 and 7).

(b) As at 31 December 2011, such bank borrowings were guaranteed by Guangyuan Guangxin Agricultural Financing Guarantee Limited.

(c) As at 31 December 2011, such borrowings mainly represented (i) borrowings of RMB6,227,000 from local government assumed by the Group to acquire the exclusive 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 RMB24,524,000 which were unsecured, bore interest at rate ranging from 8.75% to 12% per annum.

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
— Within 1 year	**284,677**	25,079
— Between 1 and 2 years	**20,158**	161
— Between 2 and 5 years	**70,510**	517
— Over 5 years	**95,406**	5,672
	470,751	31,429

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
RMB	**464,524**	25,000
US$	**6,227**	6,429
	470,751	31,429

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20. BORROWINGS — GROUP *(continued)*

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Carrying amount	**186,074**	6,350
Fair value	**186,154**	5,307

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 for financial instruments with substantially the same terms and characteristics, which was 7.47% as at 31 December 2011 (2010:7.43%).

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

	As at 31 December	
	2011	2010
RMB	**6.56% — 12.60%**	7.43%
US$	**6.09%**	6.09%

21. DEFERRED INCOME TAX — GROUP

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Deferred tax assets		
— Deferred tax assets to be recovered after more than 12 months	**936**	717
— Deferred tax assets to be recovered within 12 months	**981**	864
	1,917	1,581
Deferred tax liabilities:		
— Deferred tax liability to be recovered after more than 12 months	**(28,463)**	—
— Deferred tax liability to be recovered within 12 months	**(1,725)**	—
	(30,188)	—
Deferred tax liabilities (net)	**(28,271)**	1,581

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
At beginning of year	**1,581**	640
Acquisition of subsidiaries (Note 31.2)	**(29,266)**	—
(Charged)/credited to profit or loss	**(586)**	941
At end of year	**(28,271)**	1,581

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21. DEFERRED INCOME TAX — GROUP *(continued)*

(b) The movements on the deferred income tax assets and liabilities are 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 2010	221	509	—	495	1,225
Credited to profit or loss	—	134	—	222	356
As at 31 December 2010	221	643	—	717	1,581
Acquisition of subsidiaries (Note 31.2.1)	—	—	1,958	—	1,958
Credited/(charged) to profit or loss	—	65	(1,906)	219	(1,622)
As at 31 December 2011	**221**	**708**	**52**	**936**	**1,917**

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related benefit through the future taxable profits is probable.

Deferred tax liabilities

	Withholding tax relating to unremitted retained earnings RMB'000	Fair value adjustments upon business combination RMB'000	Total RMB'000
As at 1 January 2010	585	—	585
Credited to profit or loss	(585)	—	(585)
As at 31 December 2010	—	—	—
Acquisition of subsidiaries (Note 31.2.1)	—	31,224	31,224
Credited to profit or loss	—	(1,036)	(1,036)
As at 31 December 2011	**—**	**30,188**	**30,188**

As at 31 December 2011, deferred income tax liability of approximately RMB12,564,000 (2010: RMB4,440,000) had not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries. Unremitted earnings totalled approximately RMB125,639,000 as at 31 December 2011 (2010: RMB44,403,000) and 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 2011 and 2010.

22. EXPENSE BY NATURE

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Raw materials and consumables used	**213,213**	100,700
Changes in inventories of finished goods and work in progress	**(6,544)**	8,158
Depreciation on property, plant and equipment (Note 6)	**16,231**	8,240
Depreciation on investment properties (Note 7)	**468**	436
Amortisation of lease prepayments (Note 8)	**661**	132
Amortisation of intangible assets (Note 9)	**5,152**	738
Employee benefit expense (Note 24)	**35,429**	9,331
Licensing fee for the exclusive operating rights for city pipeline network (a) (Note 34)	**1,100**	1,100
Engagement of construction and design services	**29,201**	9,311
Transportation	**7,669**	626
Auditors' remuneration	**2,802**	1,248
Professional expenses	**2,834**	4,001
Advertising expenses	**478**	371
Entertainment expenses	**2,926**	988
Office expenses	**2,882**	440
Taxes	**10,274**	5,700
Other expenses	**10,131**	5,934
Total cost of sales, distribution costs and administrative expenses	**334,907**	157,454

(a) In September 2002, the local government of Hebi City and Henan Tian Lun Engineering Investment entered into a licensing agreement, pursuant to which Henan Tian Lun Engineering Investment was granted the exclusive operating rights for city pipeline network to construct, develop and operate gas facilities in Hebi City, for a term of 30 years. Under the agreement, the Group is required to pay an annual fee of RMB1,100,000 to the local government. Such arrangement has been accounted for by the Group as an operating lease.

23. OTHER INCOME

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Government grants	**10,737**	—

For the year ended 31 December 2011, the Group received certain grants from local government in compensation of the Group's expenditures on further development. Such amounts were considered as government grants relating to expenses and credited to other income in profit or loss.

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24. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Wages and salaries	**26,328**	6,783
Pension costs – defined contribution plans	**3,543**	955
Social security benefits costs	**2,387**	662
Others	**3,171**	931
	35,429	9,331

25. OTHER GAINS — NET

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Gains on disposal of available-for-sale financial assets	**1,298**	—
Losses on disposal of property, plant and equipment	**(91)**	(7)
Others	**(917)**	101
	290	94

26. FINANCE COSTS – NET

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Finance income		
— Interest income derived from bank deposits	**(4,091)**	(381)
— Interest income derived from receivables due from a related party (Note 36(b))	**(1,363)**	(1,984)
	(5,454)	(2,365)
Finance costs		
— Interest expense on borrowings	**18,094**	4,607
— Exchange loss	**1,200**	876
— Others	**557**	94
Less: amounts capitalised on qualifying assets	**(4,979)**	—
	14,872	5,577
	9,418	3,212

27. 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 2011 and 2010, 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 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 2011 and 2010, as determined in accordance with the relevant PRC income tax rules and regulations.

Among the abovementioned subsidiaries, Henan Tian Lun Gas, as a foreign investment enterprise, was entitled to exemption from the PRC CIT for the two years commencing from its first profit making year of operations, after offsetting all unexpired tax losses carried forward from previous years, and thereafter, entitled to a 50% relief from the enacted CIT rate for the next three years (the "5-Year Tax Concession"). As the 5-Year Tax Concession started from 2007, the enacted tax rate applicable to Henan Tian Lun Gas is 12.5% for the year ended 31 December 2011 (2010: 12.5%). All other subsidiaries, are subject to PRC CIT rate at 25% for the year ended 31 December 2011 (2010: 25%).

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Current income tax:		
— PRC corporate income tax	**26,694**	22,656
Deferred tax (Note 21)	**586**	(941)
	27,280	21,715

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27. INCOME TAX EXPENSE *(continued)*

(c) PRC corporate income tax (the "PRC CIT") *(continued)*

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	
	2011	2010
	RMB'000	RMB'000
Profit before income tax	**117,633**	97,683
Tax calculated at statutory tax rates applicable to each group entity	**26,589**	20,479
Expenses not deductible for tax purposes	**646**	122
Income not subject to income tax	**–**	(17)
Effect of withholding income tax in relation to net income attributable to foreign investor of the PRC operation	**–**	468
Effect of withholding income tax in relation to capital gains derived from equity transfer	**–**	520
Under provision in prior years	**–**	143
Others	**45**	—
	27,280	21,715

The weighted average applicable tax rate for the year ended 31 December 2011 is 23% (2010: 21%).

28. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' and senior management's emoluments

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Basic salaries and allowances	**1,432**	746
Discretionary bonuses	**–**	40
Retirement benefit contributions	**102**	40
	1,534	826

28. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

The remuneration of each director and senior management of the Company for the year ended 31 December 2011 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	–	32	232
Mr. Xian Zhenyuan	186	–	31	217
Mr. Feng Yi	135	–	13	148
Mr. Sun Heng	135	–	1	136
Mr. Zhang Daoyuan	60	–	–	60
Mr. Chang Zongxian*	60	–	–	60
Mr. Li Liuqing*	60	–	–	60
Ms. Zhao Jun*	60	–	–	60
Mr. Zhang Jiaming*	60	–	–	60
Mr. Du Qin	129	–	–	129
Mr. Xie Chaoyang	105	–	17	122
Mr. Wang Jun	78	–	–	78
Mr. Li Xinjian	82	–	8	90
Mr. Hung Man Yuk Dicson	82	–	–	82
	1,432	–	102	1,534

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28. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

The remuneration of each director and senior management of the Company for the year ended 31 December 2010 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	33	—	5	38
Mr. Xian Zhenyuan	91	—	14	105
Mr. Feng Yi	118	9	11	138
Mr. Sun Heng	123	11	1	135
Mr. Zhang Daoyuan	15	—	—	15
Mr. Chang Zongxian*	15	—	—	15
Mr. Li Liuqing*	15	—	—	15
Ms. Zhao Jun*	15	—	—	15
Mr. Zhang Jiaming*	15	—	—	15
Mr. Du Qin	113	11	—	124
Mr. Xie Chaoyang	91	9	7	107
Mr. Wang Jun	66	—	—	66
Mr. Li Xinjian	15	—	2	17
Mr. Hung Man Yuk Dicson	21	—	—	21
	746	40	40	826

* represent the independent non-executive directors

As at 13 October 2010, the Company appointed 4 independent non-executive directors, Mr. Chang Zongxian, Mr. Li Liuqing, Ms. Zhao Jun and Mr. Zhang Jiaming.

For the years ended 31 December 2011, 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 emoluments.

28. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were highest in the Group for the year ended 31 December 2011 included two (2010: three) directors. Their emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals for the year ended 31 December 2011 (2010: two) are as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Basic salaries and allowances	**425**	204
Discretionary bonuses	**913**	20
Retirement benefit contributions	**12**	7
	1,350	231

The emoluments of the above three individuals fell within the following bands:

	Year ended 31 December	
	2011	2010
Nil to HK$1,000,000 (equivalent to RMB810,700)	**2**	2
HK$1,000,001 (equivalent to RMB810,701) to HK$1,500,000 (equivalent to RMB1,216,050)	**1**	—
	3	2

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.

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29. EARNINGS PER SHARE

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

	Year ended 31 December	
	2011	2010
Group's profit attributable to owners of the Company (RMB '000)	**82,730**	75,136
Weighted average number of shares in issue (in thousand)	**827,925**	629,381
Basic earnings per share (RMB per share)	**0.10**	0.12

The weighted average number of ordinary shares in issue for the year ended 31 December 2010 used in the basic earnings per share calculation is determined on the assumption that the 597,500,000 shares issued upon the capitalisation issue and 1,000,000 shares issued under the Reorganisation (Note 16) had been in issue since the beginning of the periods presented.

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

30. DIVIDENDS

Pursuant to the resolution of the Board of Directors dated 30 March 2012, the directors of the Company proposed not to recommend a final dividend for the year ended 31 December 2011.

On 26 March 2010, in accordance with the resolutions of the owners of Xuchang Tian Lun, Xuchang Tian Lun Vehicle, and Hebi Tian Lun Vehicle, and the board of directors of Henan Tian Lun Gas, retained earnings of approximately RMB29,330,000, RMB158,000, RMB1,110,000 and RMB13,158,000 were appropriated to the then equity holders of the respective companies. Among such dividends, approximately RMB33,087,000 in total were appropriated to Henan Tian Lun Engineering Investment, and the remaining were appropriated to certain subsidiaries within the Group. The dividends appropriated to Henan Tian Lun Engineering Investment were paid and accounted for as an appropriation of retained earnings in the consolidated financial statements for the year ended 31 December 2010.

In July 2010, in accordance with resolutions of shareholders of Shangjie Tian Lun, retained earnings of approximately RMB7,339,000 and RMB816,000 were appropriated to Henan Tian Lun Gas and the other owner of Shangjie Tian Lun, respectively. Such dividend was paid in August 2010.

31. BUSINESS COMBINATION

31.1 Business combination under common control

Puyang Tian Lun was established by Mr. Zhang Yingcen and Henan Tian Lun Engineering Investment with equity interests of 10% and 90% respectively in November 2009. Henan Tian Lun Engeering Investment Limited was a company incorporated in the PRC and owned by the Controlling Shareholders. In February 2010, Puyang Tian Lun acquired the gas business of an independent third party engaging in the sales of natural gas in Puyang City in Henan Province. Refer to Note 31.2.2 for details of this business acquisition. In June 2011, the Group acquired the entire equity interests in Puyang Tian Lun for a cash consideration of RMB23 million.

Puyang Tian Lun and the Group are controlled and ultimately owned by the Controlling Shareholders. Accordingly, the aforesaid transaction was regarded as a business combination under common control. These consolidated financial statements incorporated Puyang Tian Lun's results as if both Puyang Tian Lun and the Group had always been combined. Details of the adjustments for the common control combination on the Group's financial position as at 31 December 2011 and 2010 and the Group's results for the year then ended are set out bellow:

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31. BUSINESS COMBINATION *(continued)*

31.1 Business combination under common control *(continued)*

	The Group before transferred subsidiary RMB'000	Transferred subsidiary RMB'000	Consolidation adjustments RMB'000	Total RMB'000
Year ended 31 December 2011				
Revenue	439,397	11,534	–	450,931
Profit before income tax	115,027	2,606	–	117,633
Income tax expense	(27,280)	–	–	(27,280)
Profit for the year	87,747	2,606	–	90,353
As at 31 December 2011				
Assets				
Non-current assets	1,055,890	18,607	(23,000)	1,051,497
Current assets	513,563	12,595	(2,000)	524,158
Total assets	1,569,453	31,202	(25,000)	1,575,655
Equity				
Share capital	7,077	–	–	7,077
Share premium	454,188	–	–	454,188
Reserves	7,121	20,696	(23,000)	4,817
Retained earnings	143,800	6,248	–	150,048
	612,186	26,944	(23,000)	616,130
Non-controlling interests	168,090	–	–	168,090
Total equity	780,276	26,944	(23,000)	784,220
Liabilities				
Non-current liabilities	241,262	–	–	241,262
Current liabilities	547,915	4,258	(2,000)	550,173
Total liabilities	789,177	4,258	(2,000)	791,435
Total equity and liabilities	1,569,453	31,202	(25,000)	1,575,655

31. BUSINESS COMBINATION *(continued)*

31.1 Business combination under common control *(continued)*

	The Group before transferred subsidiary RMB'000	Transferred subsidiary RMB'000	Consolidation adjustments RMB'000	Total RMB'000
Year ended 31 December 2010				
Revenue	251,267	6,988	—	258,255
Profit before income tax	95,075	2,608	—	97,683
Income tax expense	(21,715)	—	—	(21,715)
Profit for the year	73,360	2,608	—	75,968
As at 31 December 2010				
Assets				
Non-current assets	181,863	16,537	—	198,400
Current assets	462,890	22,088	—	484,978
Total assets	644,753	38,625	—	683,378
Equity				
Share capital	7,077	—	—	7,077
Share premium	454,188	—	—	454,188
Reserves	(1,369)	20,261	—	18,892
Retained earnings	73,910	2,333	—	76,243
	533,806	22,594		556,400
Non-controlling interests	2,845	—	—	2,845
Total equity	536,651	22,594	—	559,245
Liabilities				
Non-current liabilities	6,350	—	—	6,350
Current liabilities	101,752	16,031	—	117,783
Total liabilities	108,102	16,031	—	124,133
Total equity and liabilities	644,753	38,625	—	683,378

31. BUSINESS COMBINATION *(continued)*

31.2 Business combinations other than common control combinations

31.2.1 Current year business combinations

On 30 April 2011, the Group acquired 70% of the equity interests in the registered capital of Henan Luyuan, an independent third party established in the PRC with limited liability, which is principally engaged in the gas business in Minquan County and CNG business in Shangqiu City and Minquan County in Henan Province.

On 30 April 2011, the Group acquired 51% of the equity interests in the registered capital of Cangxi Datong, an independent third party established in the PRC with limited liability, which is principally engaged in the investment, development and construction of natural gas business.

On 30 April 2011, the Group acquired 51% of the equity interests in the registered capital of Jilin Zhongji, an independent third party established in the PRC with limited liability, which is principally engaged in the urban gas and CNG business in Jilin Province.

On 31 July 2011, the Group acquired 98.97% of the equity interests in the registered capital of Gansu Baiyin, an independent third party established in the PRC with limited liability, which is principally engaged in the urban gas and CNG business distribution and gas pipeline connection in Gansu Province.

On 31 July 2011, Henan Songxian, a subsidiary of the Company, acquired the assets including property, plant and equipment and gas pipelines from an independent third party, which is principally engaged in the gas business in Songxian County, Henan Province.

As a result of the abovementioned acquisitions, the Group is expected to increase its presence in these markets. The goodwills as an aggregate amount of approximately RMB276,828,000 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.

31. BUSINESS COMBINATION *(continued)*

31.2 Business combinations other than common control combinations *(continued)*

31.2.1 Current year business combinations (continued)

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

	Henan Luyuan as at 30 April 2011 RMB'000	Cangxi Datong as at 30 April 2011 RMB'000	Jilin Zhongji as at 30 April 2011 RMB'000	Gansu Baiyin as at 31 July 2011 RMB'000	Henan Songxian as at 31 July 2011 RMB'000	Total RMB'000
Consideration						
– Cash	33,000	70,500	153,000	100,000	32,642	389,142
– Contingent consideration	—	45,000	—	20,000	—	65,000
Total consideration	33,000	115,500	153,000	120,000	32,642	454,142

	Henan Luyuan Fair value as at 30 April 2011 RMB'000	Cangxi Datong Fair value as at 30 April 2011 RMB'000	Jilin Zhongji Provisional fair value as at 30 April 2011 RMB'000	Gansu Baiyin Fair value as at 31 July 2011 RMB'000	Henan Songxian Fair value as at 31 July 2011 RMB'000	Total RMB'000
Recognised amounts of identifiable assets acquired and liabilities assumed:						
Cash and cash equivalents	25,444	7,116	4,638	28,924	—	66,122
Property, plant and equipment	11,189	65,176	93,723	50,287	9,965	230,340
Investment properties	—	—	—	67	—	67
Intangibles:						
— Software	—	—	42	8	—	50
— Operation rights	7,369	—	109,645	—	—	117,014
Lease prepayments	4,440	6,585	8,931	730	—	20,686
Inventories	99	—	15,119	5,797	14,562	35,577
Receivables	934	10,727	17,085	2,764	—	31,510
Other non-current assets	—	—	1,101	—	—	1,101
Borrowings	(2,800)	(9,950)	(40,000)	(10,000)	—	(62,750)
Current income tax liabilities	—	—	(2,374)	(427)	—	(2,801)
Trade and other payables	(5,871)	(17,544)	(37,211)	(29,791)	—	(90,417)
Advance from customers	(2,766)	—	(18,646)	(16,785)	—	(38,197)
Net deferred tax (liabilities)/assets	(1,842)	—	(29,382)	1,958	—	(29,266)
Total identifiable net assets acquired	36,196	62,110	122,671	33,532	24,527	279,036
Non-controlling interests	(10,859)	(30,434)	(60,182)	(247)	—	(101,722)
Goodwill	7,663	83,824	90,511	86,715	8,115	276,828
	33,000	115,500	153,000	120,000	32,642	454,142

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31. BUSINESS COMBINATION *(continued)*

31.2 Business combinations other than common control combinations *(continued)*

31.2.1 Current year business combinations (continued)

	Henan Luyuan RMB'000	Cangxi Datong RMB'000	Jilin Zhongji RMB'000	Gansu Baiyin RMB'000	Henan Songxian RMB'000	Total RMB'000
Outflow of cash to acquire business, net of cash acquired						
— cash paid	33,000	70,500	153,000	100,000	25,500*	382,000
— cash and cash equivalents in subsidiary acquired	(25,444)	(7,116)	(4,638)	(28,924)	—	(66,122)
Cash outflow on acquisition	7,556	63,384	148,362	71,076	25,500	315,878

* As at 31 December 2011, there was still unpaid balance of approximately RMB7,142,000 in the consideration and included in other payables in the consolidated balance sheet.

(a) Acquisition-related costs of approximately RMB523,120 have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2011.

(b) Contingent consideration

According to the acquisition agreement: (i) the Group will pay RMB20 million as consideration to the vendor on the condition that Cangxi Datong signs an agreement with China National Petroleum Corporation ("CNPC") or China Petroleum and Chemical Corporation ("CPCC") within two months before its first stage production, pursuant to which CNPC or CPCC would supply 90 million cubic gas annually to Cangxi Datong; (ii) the Group will pay RMB25 million as consideration to the vendor on the condition that Cangxi Datong signs an agreement with CNPC or CPCC within two months before its second stage of production, pursuant to which CNPC or CPCC would supply 390 million cubic gas annually to Cangxi Datong.

According to the acquisition agreement: (i) the Group will pay RMB10 million as consideration to the vendor on the condition that Gansu Baiyin signs the gas concession agreement with the local authority of Baiyin Municipal Government; and (ii) the Group will pay RMB10 million as consideration to the vendor on the condition that Gansu Baiyin signs the long term gas supply agreements with certain industrial customers within 6 months from the acquisition date.

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.

31. BUSINESS COMBINATION *(continued)*

31.2 Business combinations other than common control combinations *(continued)*

31.2.1 Current year business combinations (continued)

(c) Acquired receivables

The fair value of trade and other receivables is approximately RMB31,510,000 and includes trade receivables with a fair value of approximately RMB9,680,000. The gross contractual amount for trade receivables due is approximately RMB9,680,000 .

(d) 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 Jilin Zhongji has 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.

(e) 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.

(f) Revenue and profit contribution

The acquired businesses contributed aggregated revenues of approximately RMB172,133,000 and aggregated net profit of approximately RMB28,538,000 to the Group for the periods from the respective acquisition dates to 31 December 2011.

If the acquisition had occurred on 1 January 2011, consolidated revenue and consolidated profit of the Group for the year ended 31 December 2011 would have been approximately RMB519,770,000 and approximately RMB88,921,000 respectively, excluding the impact of Henan Luyuan since the Group cannot obtain its pre-acquisition results from the vendor, it is impracticable to disclose its pre-acquisition revenue and profit.

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31. BUSINESS COMBINATION *(continued)*

31.2 Business combinations other than common control combinations *(continued)*

31.2.2 Prior year business combination

On 28 February 2010, Puyang Tian Lun acquired the gas business of an independent third party engaging in the sales of natural gas in Puyang City in Henan Province with a cash consideration of RMB10 million. Puyang Tian Lun paid RMB5 million in 2010 and 2011, respectively for the acquisition.

The following table summarises the consideration paid for the acquisition, the fair value of assets acquired and liabilities assumed at the acquisition date.

	Puyang Tian Lun as at 28 February 2010 RMB'000
Consideration	
– Cash	10,000
Total consideration	10,000

	Puyang Tian Lun Fair value as at 28 February 2010 RMB'000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	7,776
Investment properties	392
Intangibles	
— Software	22
Inventories	611
Receivables	520
Trade and other payables	(598)
Advance from customers	(4,890)
Total identifiable net assets	3,833
Goodwill	6,167
	10,000

	Puyang Tian Lun RMB'000
Outflow of cash to acquire business, net of cash acquired	
— cash paid	5,000
— cash and cash equivalents in subsidiary acquired	—
Cash outflow on acquisition	5,000

32. CASH GENERATED FROM OPERATIONS

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit before income tax	**117,633**	97,683
Adjustments for:		
— Depreciation of property, plant and equipment and investment properties	**16,699**	8,676
— Amortisation of intangible assets and lease prepayments	**5,813**	870
— Finance income	**(5,454)**	(2,365)
— Finance costs	**14,315**	4,866
— Gains on disposal of available-for-sale financial assets	**(1,298)**	—
— Net losses on disposal of property, plant and equipment (b)	**91**	7
	147,799	109,737
Changes in working capital:		
— Inventories	**(1,180)**	10,003
— Trade and other receivables	**(32,395)**	(32,429)
— Trade and other payables	**(29,935)**	17,158
— Advance from customers	**4,990**	(4,000)
	(58,520)	(9,268)
Cash generated from operations	**89,279**	100,469

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

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Net book amount (Note 6)	**1,173**	73
Losses on disposal of property, plant and equipment (Note 25)	**(91)**	(7)
Other receivables generated from disposal of property, plant and equipment	**(1,079)**	—
Proceeds from disposal of property, plant and equipment	**3**	66

33. 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 RMB3,661,000 for the year ended 31 December 2011 (2010: RMB6,833,000).

34. 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	
	2011	2010
	RMB'000	RMB'000
Property, plant and equipment	**47,905**	—

(b) Operating lease commitments

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

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Not later than one year	**160**	—
Later than one year and no later than five years	**320**	—
	480	—

(c) Licensing fee commitments (Note 22)

	As at 31 December	
	2011	2010
	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	**17,600**	18,700
	23,100	24,200

35. CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any material contingent liabilities.

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 ultimately controlled by the 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 2011 and 2010, and balances arising from related party transactions as at 31 December 2011 and 2010.

(a) Name and relationship with related parties

Name of related party	Relationship
Mr. Zhang Yingcen	One of the Controlling Shareholders
Ms. Sun Yanxi	One of the Controlling Shareholders
Mr. Zhang Daoyuan	One of the Controlling Shareholders
Henan Tian Lun Real Estate Limited (“Henan Tian Lun Real Estate”)	Controlled by the Controlling Shareholders
Henan Tian Lun Engineering Investment	Controlled by the Controlling Shareholders
Hebi Hexiang Engineering Limited (“Hexiang Engineering”)	Controlled by the Controlling Shareholders

(b) Significant related party transactions

The Group had the following significant transactions with related parties:

	Year ended 31 December	
	2011	2010
	RMB’000	RMB’000
Purchase of construction service		
— Hexiang Engineering	**8,192**	7,397

	Year ended 31 December	
	2011	2010
	RMB’000	RMB’000
Rendering of service		
— Henan Tian Lun Engineering Investment	**200**	50

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36. RELATED PARTY TRANSACTIONS *(continued)*

(b) Significant related party transactions *(continued)*

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Interest income from receivables		
— Henan Tian Lun Real Estate	**1,363**	1,984

In 2011, interest income of approximately RMB1,363,000 (2010: RMB1,482,000) was generated from the amount Henan Tian Lun Real Estate due to Puyang Tian Lun, which bore interest rate at 10% per annum.

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Waiver of liabilities		
— Mr. Zhang Yingcen	**—**	9,480

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

(c) Balances with related parties

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and other receivables				
Other receivables due from				
— Henan Tian Lun Engineering Investment	**990**	1,675	**—**	—
— Henan Tian Lun Real Estate	**2,845**	16,183	**—**	—
— Hexiang Engineering	**191**	—	**—**	—
— Upsky Holdings	**—**	—	**247,486**	153,742
— Tian Lun New Energy	**—**	—	**110,670**	110,670
	4,026	17,858	**358,156**	264,412

36. RELATED PARTY TRANSACTIONS *(continued)*

(c) Balances with related parties *(continued)*

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and other payables				
Trade payables due to				
— Hexiang Engineering	**–**	1,922	**–**	—
Other payables due to				
— Henan Tian Lun Engineering Investment	**–**	11,707	**–**	—
— Hexiang Engineering	**916**	260	**–**	—
— Henan Tian Lun Gas	**–**	—	**5,961**	5,320
	916	13,889	**5,961**	5,320

(d) Key management compensation

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Basic salaries and allowances	**3,513**	1,065
Discretionary bonuses	**1,364**	95
Retirement benefit contributions	**272**	77
	5,149	1,237

37. EVENTS AFTER THE END OF REPORTING PERIOD

Guangxi Luzhai Tian Lun Gas Co., Ltd. (廣西鹿寨天倫燃氣有限公司) was established by the Group as a wholly-owned subsidiary on 6 January 2012, which is principally engaged in the urban gas business in Luzhai County, Guangxi Province.

Five Year Financial Summary

RESULTS	Year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		Restated			
Revenue	**450,931**	258,255	179,223	127,657	65,888
Gross profit	**172,004**	121,074	78,830	50,034	28,703
Profit before income tax	**117,633**	97,683	61,545	32,417	12,488
Income tax expense	**(27,280)**	(21,715)	(13,992)	(6,866)	(4,198)
Profi t for the year	**90,353**	75,968	47,553	25,551	8,290

ASSETS, LIABILITIES AND EQUITY	As at 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		Restated			
Total assets	**1,575,655**	683,378	271,003	249,487	243,580
Total liabilities	**791,435**	124,133	160,380	186,417	216,061
Total equity	**784,220**	559,245	110,623	63,070	27,519