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

2012
ANNUAL REPORT


We are here to provide
CLEAN ENERGY

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Company Profile

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORIZED REPRESENTATIVES

Mr. Feng Yi
Mr. Hung, Man Yuk Dicson

COMPANY SECRETARY

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

HEAD OFFICE IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

REGISTERED OFFICE

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

Company Profile

CAYMAN ISLANDS SHARE TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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

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

PRINCIPAL BANKERS

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

STOCK CODE

01600

INVESTOR RELATIONS

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E-mail:	ir@tianlungas.com
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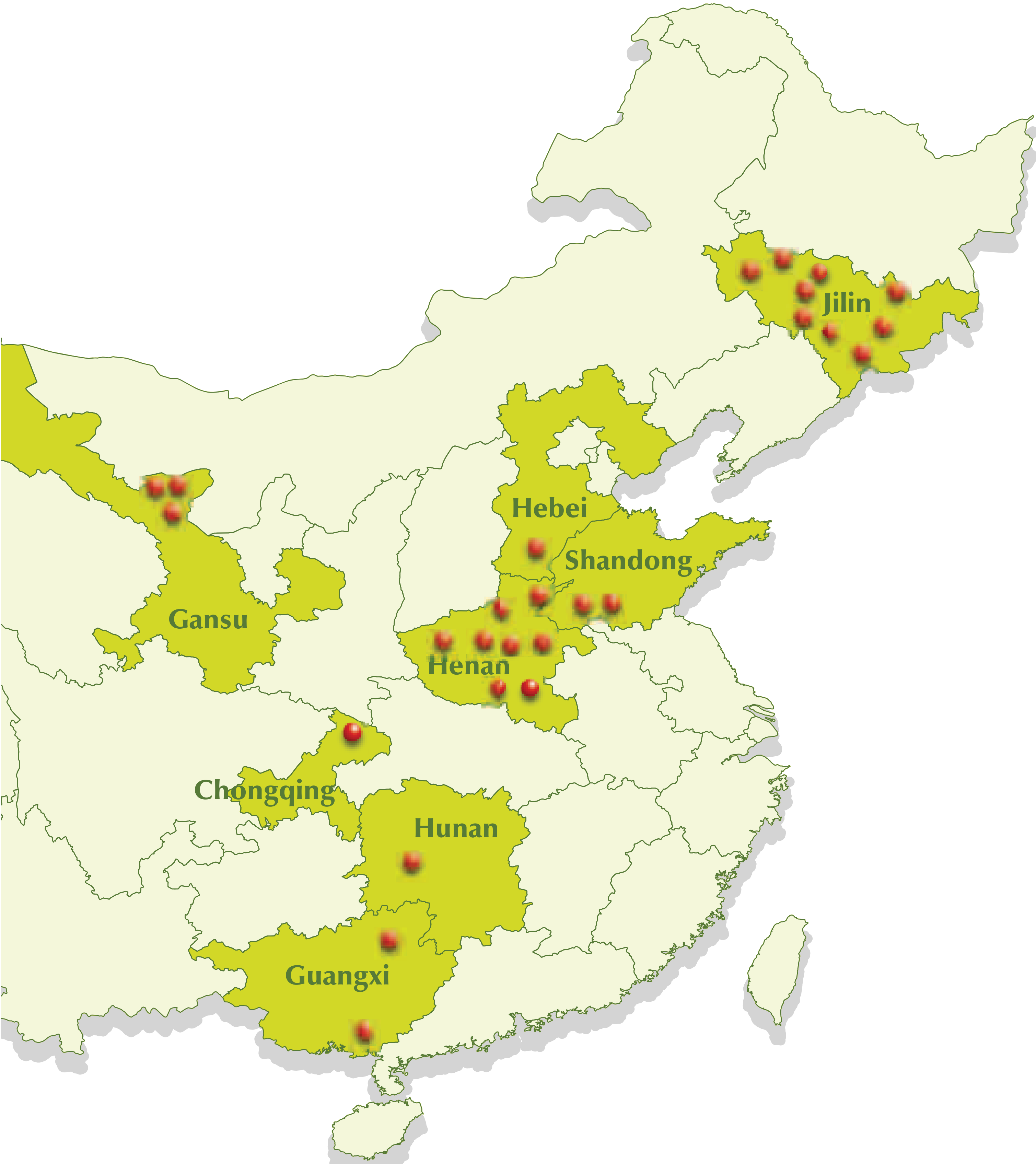
Zip Code:	450003

Business Regions



Urban Gas Project   Transportation Gas Project   Gas Source Base

Henan

Hebi City
Shilin Industrial Assemble Zone
Heqi Industrial Assemble Zone
Xuchang City
New District in Xuchang
Shangjie District in Zhengzhou City
High-tech District in Puyang City
Shangqiu City
Minquan County
Yucheng County
Song County
Xinye County
Weishi County
Lankao County

Jilin

Dunhua City
Panshi City
Da'an City
Jiutai City
Tongyu County in Baicheng City
Zhenlai County in Baicheng City
Nong'an County in Changchun City
Shuangyang District in Changchun City
Baicheng City

Shandong

Cao County
Shan County

Hunan

Dongkou County

Guangxi

Luzhai County
Hepu Industry Park

Gansu

Baiyin City
Jingtaizheng Road Industy Park
Gulang County

Chongqing

Kai County

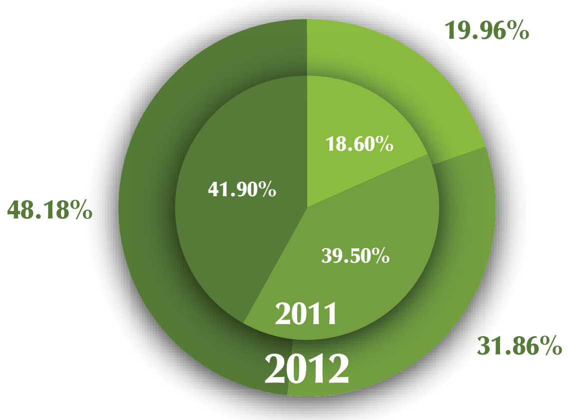
Hebei

Xingtai City

Operation

GAS SALES VOLUME TO VEHICLE USERS (0'000 m³)

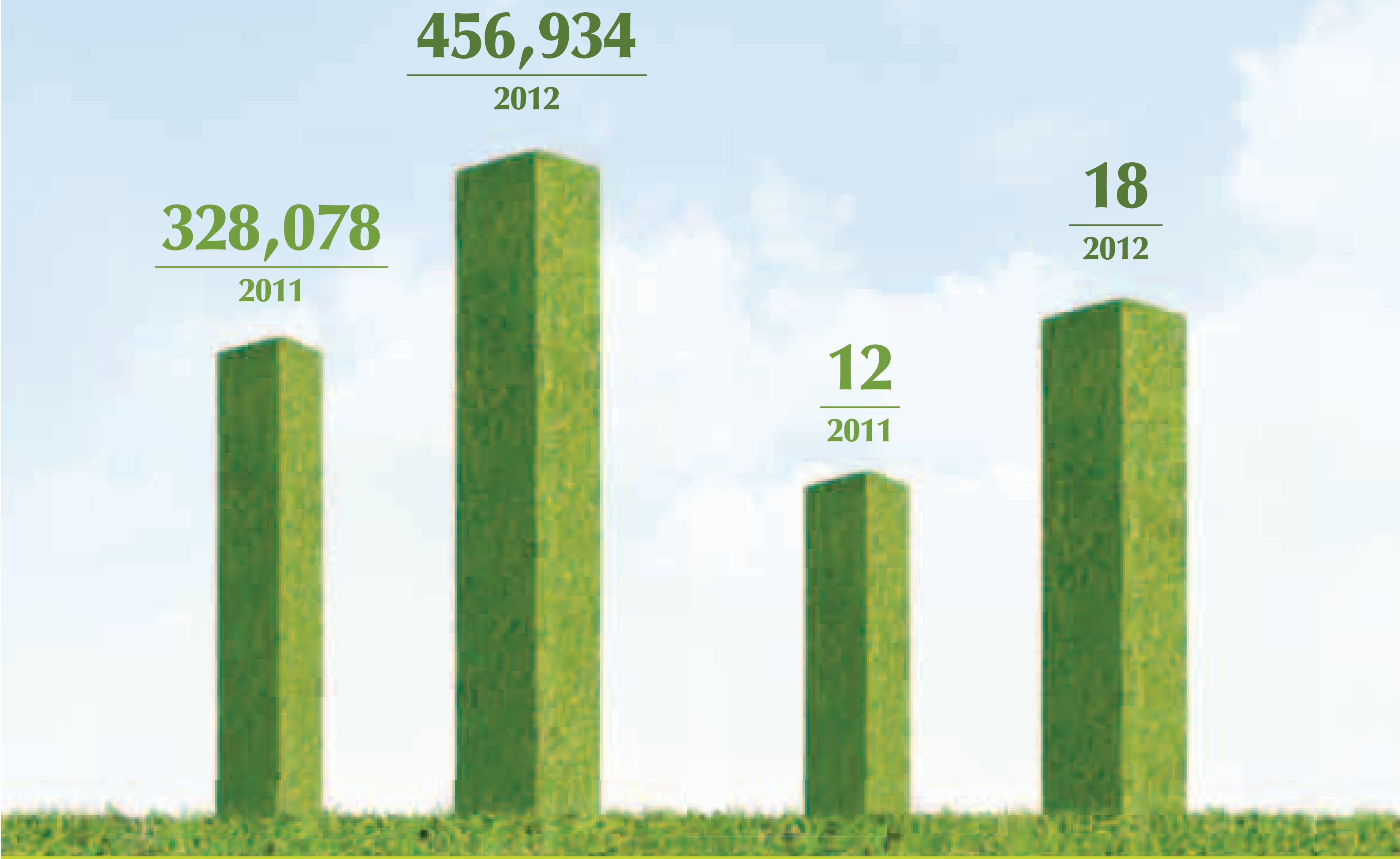
TOTAL GAS SALES VOLUME (0'000 m³)



Vehicle users Industrial and commercial users Residential users

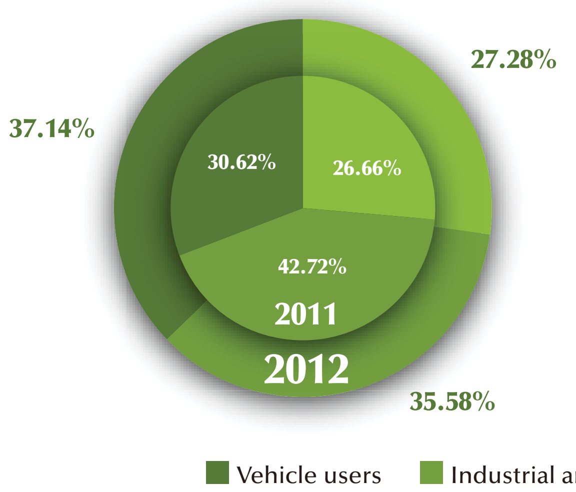
STRUCTURE OF REVENUE FROM GAS SALES

During the year, the revenue from gas sales of the Group to residential users, commercial and industrial users and vehicle users accounted for approximately 19.96%, 31.86% and 48.18% of total revenue from gas sales, respectively. The revenue from gas sales to vehicle users of the Group accounted for approximately 48.18% of total revenue from gas sales in 2012, increased from approximately 20.50% in 2010 and approximately 41.90% in 2011, representing a CAGR of approximately 53.31%.



AGGREGATE RESIDENTIAL USERS

NUMBER OF GAS REFILLING STATIONS

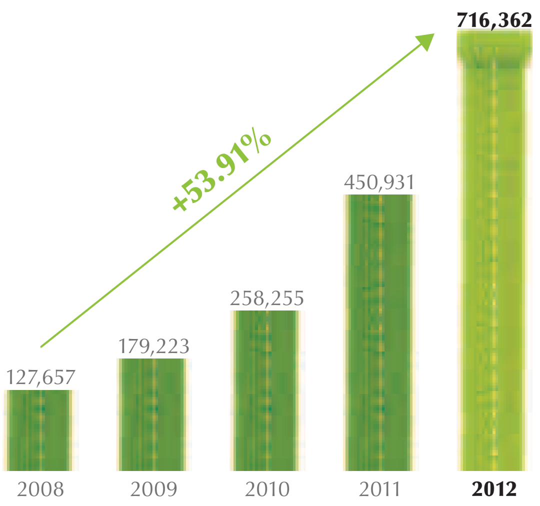


GAS SALES STRUCTURE

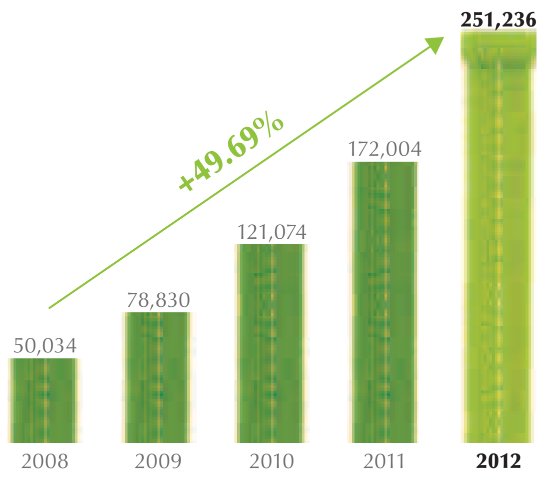
During the year, the volume of gas of the Group sold to residential users, commercial and industrial users and vehicle users accounted for approximately 27.28%, 35.58% and 37.14% of total gas sales, respectively. The gas sales to vehicle users of the Group accounted for approximately 37.14% of total gas sales in 2012, increased from approximately 14.00% in 2010 and approximately 30.62% in 2011, representing a CAGR of approximately 62.88%.

Finance

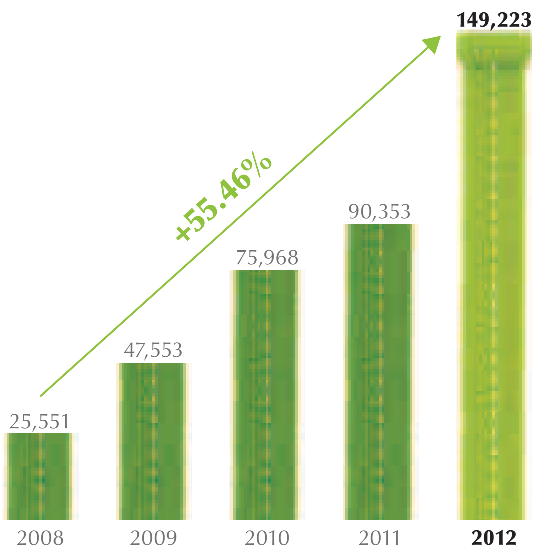
REVENUE
RMB'000



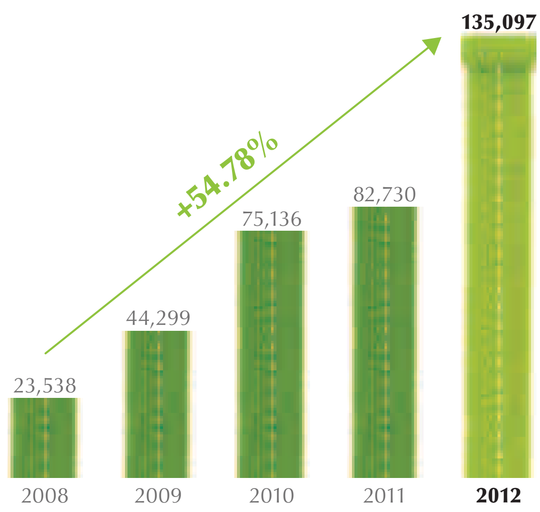
GROSS PROFIT
RMB'000



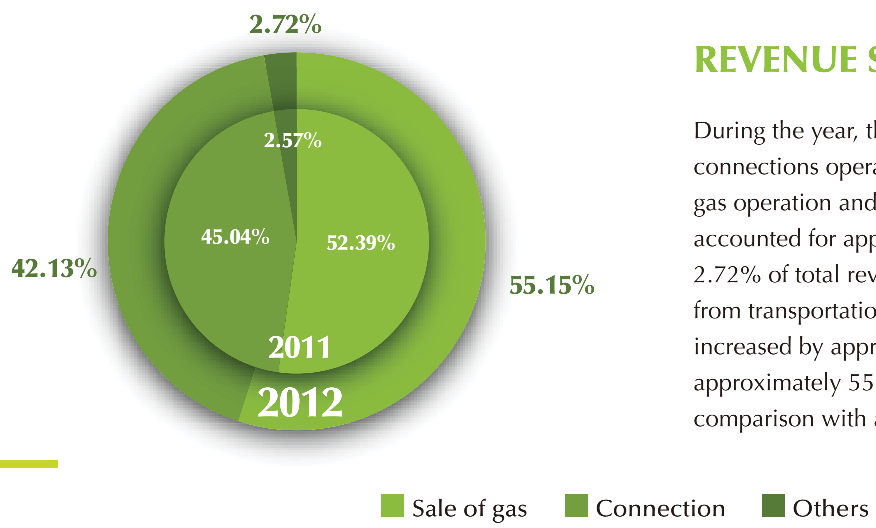
PROFIT FOR THE YEAR
RMB'000



PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY
RMB'000



	2011 RMB'000	**2012 RMB'000**
Revenue and profit		
Revenue	450,931	**716,362**
Profit before income tax	117,633	**202,933**
Income tax expense	27,280	**53,710**
Profit for the year	90,353	**149,223**
Assets and liabilities		
Non-current assets	1,051,497	**1,043,067**
Current assets	524,158	**978,900**
Non-current liabilities	241,262	**209,226**
Current liabilities	550,173	**916,475**
Cash and cash equivalents	310,762	**368,940**
Equity		
Share capital	7,077	**7,077**
Share premium	454,188	**454,188**
Equity attributable to owners of the Company	616,130	**751,211**
Non-controlling interests	168,090	**145,055**
Total equity	784,220	**896,266**
Earnings per share - basic and diluted	0.10	**0.16**



REVENUE STRUCTURE

During the year, the revenue from gas pipeline connections operation, transportation and sales of gas operation and other operation of the Group accounted for approximately 42.13%, 55.15% and 2.72% of total revenue, respectively. The revenue from transportation and sales of gas operation increased by approximately 67.25%, accounted for approximately 55.15% of total revenue in 2012, in comparison with approximately 52.39% in 2011.

Chairman's Statement

The year 2012 was an unusual year for the Group, faced with complicated domestic and international economic situations. The Group continued to maintain its momentum of rapid growth; the integrated operation of the Group saw its initial results; the pace of expansion nationwide got more robust and powerful and thoughts of seeking upgrade strategies became clearer.

Zhang Yingcen, Chairman

Chairman's Statement

ANNUAL RESULTS

2012 is the second year after the successful listing of the Company. After over two years of expansion, the Group has transformed itself from a regional company with its foothold in Henan to a large corporation of being based in Henan and spreading to the whole China. The operation regions have been extended from Central China to the key regions such as Northeast China, Northwest China and Southwest China. The Group achieved outstanding performance in its operation, development and management. With continuing optimization in revenue structure, sustainable expansion of business layout, preliminary formation of control framework as well as the construction of talent program and internal training mechanism, the Group continuously upgrading its strategy, which in turn facilitates Tian Lun to move forward with a grander goal 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 RMB716,362,000, representing an increase of approximately 58.86% as compared with 2011. Profit attributable to owners of the Company amounted to approximately RMB135,097,000, representing an increase of approximately 63.30% as compared with 2011. The increase was mainly due to the stable growth in the sale of gases of the Group and the increase in the proportion of compressed natural gas ("CNG") business which was of higher profit margin. In 2012, the number of new pipeline connections to residential users was 104,829 users, representing an increase of approximately 40.02% as compared with 2011. As at the end of 2012, the accumulated number of users of various types was 459,401 users.

CORPORATE MANAGEMENT

The Group has established a comprehensive management system with definite and satisfactory top to bottom relationship which represented our first step towards integrated operation. Upon full implementation of the Trinity Program (三一計畫), the Group carried out most of its major projects in a timely manner during the year and successfully prepared and materialized its budget in full with strengthened budget management. Various operating framework and business flow has already taken shape, laying a foundation for the Group to effectively reduce risks and enhance work efficiency.

At the same time, the Group's extensive growth potential has attracted the joining of talented people from middle to senior level. Such talents have quickly merged with Tian Lun and being imposed with important duties which provided valuable human resources for the Group to realize rapid expansion. With preliminary formation of internal talent training mechanism, Tian Lun has explored a considerable number of high calibre young personnel through competitive employment systems and management training camps, giving them a platform to showcase their talents. Moreover, diverse career paths have been outlined under our systematic appraisal mechanism and position value that are in line with market practice and, with the establishment of routine remuneration adjustment mechanism, our working team has been further fortified, aroused and encouraged.

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

Chairman's Statement

Company Awards

On 4 January 2012, for the first list of 2012 — "the Enterprises with the Most Potential in the PRC" (中國潛力企業榜) in Forbes' Chinese edition magazine published in Shanghai, the Company was ranked fortieth in the "Listed Company with the Most Potential in 2012" (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 for recording continuous growth.

OUTLOOK OF 2013

Year 2012 was an unusual year for the Group, faced with complicated domestic and international economic situations. The Group continued to maintain its momentum of rapid growth; the integrated operation of the Group saw its initial results; the pace of expansion nationwide got more robust and powerful and thoughts of seeking upgrading strategies became clearer.

Looking ahead in 2013, it will be a year of both opportunities and challenges. Internationally, the global economic environment is complicated and the developed economies show weak momentum of economic recovery. Domestically, the new generation of government leaders have enacted new favorable policies one after another, while the process of urbanization and industrialization is speeding up to boost the economy to recover rapidly, and macro-economy will enter a new stage of rapid growth. From the point of view of the industrial trend, the new energy industry and the energy-saving environment industry, as the emerging strategic industries, are being greatly supported by the government, and the weight of natural gas in the energy consumption structure will be doubled during the period of the "Twelve Five-Year Plan", therefore the potential of growth is substantial; supply of diversified gas sources are abundant, and the west pipeline No.2 has been fully built while west pipeline No.3 has commenced. In addition, the China-Myanmar gas pipeline will be built and put into production, therefore ocean gas is an inevitable trend. The supply network of natural gas will get more concentrated, the coverage will gradually involve in a majority of the counties of China. All these are favorable for the development of the industry in the long-term. Besides, transport gas has emerged out of the period of conceptual cognition, construction of gas refilling stations has increased in leaps and bounds, providing the Group with rare historical opportunities to participate in the reform of the industry and to realize leapfrog development.

In 2013, the Group will resolutely implement the development strategy of "Alliance & Cooperation, Overall Progress and Quick Victory" and the operational strategy of "Accelerating of connection, Increase Capacity and Optimization of Operation", carry out the safeguards of every description concerning "Laying a solid foundation and Improving efficiency", and endeavor to give the shareholders more excellent results.

ACKNOWLEDGEMENT

On behalf of the board of directors of the Company, I would like to express my sincere gratitude to our staff members for their contributions in 2012, and extend my appreciation to the shareholders and investors for their support.

Zhang Yingcen
Chairman
28 March 2013


天伦燃气
森博燃气
项目合作签约仪式


天伦集团
交通燃气项目拓展
（PMP）训练营


天伦燃气


天伦燃气集团与北京中天气公司合作签约仪式


天伦燃气集团与西纳集团项目合作签约仪式


滑县人民政府
天伦燃气集团有限公司
天然气综合利用项目签约

Management Discussion and Analysis

INDUSTRY REVIEW

Structure and Development Trend of China's Energy Industry

Rapid development of urbanization and industrialization in the People's Republic of China (the "PRC" or "China") directly stimulated the continuous increase of energy demand. As an economical, efficient and clean energy source, natural gas has become indispensable in promoting low carbon economic development of the PRC. It has also become one of the major strategic energy sources of the PRC.

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 2012 announced by the National Bureau of Statistics of China, the annual energy consumption in 2012 amounted to approximately 3,620 million tons of standard coal equivalent, representing an increase of approximately 3.9% as compared with last year, among which the consumption of coal, crude oil and electricity increased by approximately 2.5%, 6.0% and 5.5%, respectively, compared with last year, while the growth of natural gas consumption was the fastest and increased by approximately 10.2% compared with last year. China's energy consumption per unit of gross domestic product per RMB10,000 decreased by approximately 3.6% in 2012.

The 2012 Report on Development in the Foreign and Domestic Oil & Gas Industries, issued by China National Petroleum Corporation Economics & Technology Research Institute, estimated that the demand of natural gas in the PRC in 2013 will continue to grow, the consumption of natural gas will maintain a double digit growth, and consumption of natural gas will reach approximately 165 billion cubic meters in 2013, with the proportion of natural gas in the primary consumption structure being approximately 5.8%. The report further states that the PRC has issued a number of energy related plans and policies under the "Twelfth Five-Year Plan" in 2012, and achieved the materialization of the development goals of the oil and gas industry, together with a clearer picture on policy orientation, and also accelerated the transformation of the mode of development of the oil and gas industry.

During the period of the "Twelfth Five-Year Plan", the energy structural adjustment will focus on the following tasks: take effective measures to enhance energy-saving in order to improve the utilization level of traditional clean energy; increase the utilization scale of clean energy such as natural gas; 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, etc. By 2015, the utilization scale of natural gas might reach approximately 260 billion cubic meters, and the proportion of natural gas in the primary consumption structure will increase from approximately 4.4% in 2010 to approximately 8.3% in 2015, which will be higher than that of hydroelectric power, nuclear power, solar energy and wind power.

Natural gas has become a significant source of energy for urban gas, industrial energy and transport energy development in the PRC and its prospect for a sustainable development market is bright.

The Policy On Natural Gas Utilization in the PRC

As a more environmental-friendly and more efficient energy, natural gas has continuously gained attention from and has been greatly supported by the PRC government in recent years. In 2012, the PRC continuously issued a number of policies to boost the development of the natural gas industry.

The national energy administration issued the Current Status, Existing Problems and Proposals on Promotion and Utilization of Natural Gas in China's Transport Field (《我國交通領域推廣使用天然氣的現狀、存在的問題及對策建議》) on 5 April 2012, which clearly specifies that against soaring oil price and pressure on environmental protection, increase in the proportion of transport-use natural gas has an important strategic significance for lowering the dependence on foreign oil, optimization of energy structure, reduction of pollutants emission and response to climate change. Application of natural gas in the transport field should be emphasized during the period of the "Twelfth Five-Year Plan". Firstly, China should enhance overall coordination among the authorities related to energy, transport and technology, and specify its

Management Discussion and Analysis

industrial polices as soon as possible in order to do well in relevant plans of manufacturing natural gas vehicle and vessels and infrastructure construction of gas refilling stations. Secondly, China should formulate technical standards as soon as possible, including uniform standards for converting diesel vehicle into Liquefied Natural Gas ("LNG") system, standards for manufacturing, operation, quality and security of LNG vehicles, standards for fuel and emission of natural gas vehicles, etc. Thirdly, China should improve its supporting policies, formulate and perfect the policies for permission of importing natural gas vehicles and the fiscal and taxation policies for supporting natural gas vehicles; rationalize the pricing relationship between natural gas and other fuel so as to provide the owners of natural gas vehicles and vessels with foreseeability of long-term policies; learn from international experience to formulate and improve the relevant rules of transport management and loosen the restriction on allowing licenses of natural gas vehicles and vessels.

Proposals of the National Energy Administration on Encouraging and Guiding Private Capital to Further Expand Investment in Energy Area (《國家能源局關於鼓勵和引導民間資本進一步擴大能源領域投資的實施意見》) was issued on 18 June 2012, which specifies that the investment scope of private capital should be expanded and private capital is to be encouraged to participate in the construction and operation of energy projects, exploration and development of energy resources and construction of oil and natural gas pipeline networks. Private capital is encouraged by the PRC government to enter the field of oil and gas exploration and development, cooperate with state-owned oil enterprises to conduct oil and gas exploration development, invest in exploration and development projects of unconventional oil and gas resources such as coal-bed gas, shale gas and oil shale in many forms, and invest in construction of coal-bed gas and coal-mine gas extraction and utilization projects. The PRC government supports private capital to cooperate with state-owned oil enterprises, and invest in the construction of cross-border and cross regional oil and natural gas main pipeline projects, to construct oil and gas branch pipelines, coal-bed gas, coal gas and shale gas pipelines, regional transmission and distribution pipeline networks, LNG production facilities, natural gas storage and transshipment facilities, etc. in different forms, as well as to be used in relevant warehouse and transshipment services.

In order to promote the healthy and rapid development of urban gas, the Ministry of Housing and Urban-rural development of the PRC issued the "Twelfth Five-Year Plan" of National City Gas Development (《全國城鎮燃氣發展「十二五」規劃》) in July 2012. According to the plan, urban gas penetration rate will be more than 94% and the gas penetration rate in counties and small towns will be more than 65% by the end of the "Twelfth Five-Year" period. Among them, the number of residents with access to gas will be more than 625 million, the number of household users with access to gas will be 200 million and residential gas consumption will be 33 billion cubic meters. Gas consumption by industry, commerce and service enterprises will be 81 billion cubic meters. Gas consumption by distributed energy resources projects will reach 12 billion cubic meters.

In order to encourage, guide and regulate the downstream sectors of natural gas utilization, the National Development and Reform Commission released the Decree 15 of 2012 - Policies on Natural Gas Utilization (《天然氣利用政策》), on 14 October 2012, implemented on 1 December 2012, pursuant to which, the PRC government encourages and supports the development of natural gas utilization in the following areas: urban households; public service facilities (airports, government offices, staff canteens, kindergartens, schools, hospitals, inns, hotels, catering, shopping malls, office buildings, railway stations, welfare houses, nursing homes, ports, passenger terminals, bus stations); natural gas vehicles (especially dual-fuel and LNG vehicles), including city buses, taxis, logistics vehicles, passenger vehicles, sanitation vehicles and trucks and other carrying vehicles fuelled by natural gas; centralized heating users in central urban areas and the heart of new districts; gas air-conditioning; interruptible sectors in the industries such as building materials, machinery and electronics, textiles, petrochemicals and metallurgy, projects using natural gas instead of oil, projects using natural gas instead of coals and new projects fuelled by natural gas; gas replacement projects for industrial boilers in central urban areas; carrying vessels fuelled by natural gas (especially LNG) sailing on inland rivers, lakes and seas, etc.

Management Discussion and Analysis

The PRC has attached great importance to the utilization of natural gas industry, frequently introducing relevant policies on the optimization of energy structure and encouragement of natural gas development, and focused on the promotion of new energy as represented by natural gas.

In order to effectively monitor polluting particles (PM2.5), in February 2012, the State Council of the PRC agreed to release a newly revised Ambient Air Quality Standard which includes PM2.5 (mainly from vehicle exhaust, fuel dust and coal fly ash) monitoring indicators and it is a mandatory monitoring work which has to be conducted in every province and city.

With the increasing recognition among the people towards PM2.5 and the persistent hazy weather in some cities of mainland China around the Chinese Spring Festival in 2013, the people are increasingly obtaining in-depth recognition towards environmental issues, and accordingly the PRC government also paid much more attention to the environmental pollution problem and has been enacting different types of environment-protection policies continuously.

Rapid development of urbanization and continuous enactment of policies concerning clean energies will undoubtedly promote the development of the natural gas sector (especially the transport gas sector) of the PRC.

Business Review

The Group is principally engaged in gas pipeline connections, transportation and sales of gas, construction and operation of vehicle gas refilling stations, and production and sale of LNG in the PRC.

Development of New Projects

For the year ended 31 December 2012, the Group has acquired another 8 urban gas projects in Luzhai County of Liuzhou in Guangxi Province, Lankao County and Weishi County of Kaifeng in Henan Province, Cao County and Shan County of Heze in Shandong Province, Jingtaizheng Road Industrial Park of Baiyin in Gansu Province, Gulang County of Wuwei in Gansu Province, and Dongkou county of Shaoyang in Hunan Province and has entered into a contract concerning a project of a large gas source base.

Obtaining Gas Exclusive Operation Rights in Luzhai County of Liuzhou in 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 an exclusive gas operation agreement with the 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 years of exclusive gas operation rights in Luzhai County covering operations such as urban pipelined gas and gas refilling stations.

Luzhai County is in close 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. Guangxi Luzhai Economic Development Zone is one of the provincial economic zones under which there are Chengnan Comprehensive Economic Development Zone, Luzhai Central Industrial Park, Luzhai - Luorong Industrial Corridor, Luorong Industrial Park, is among the provincial economic development zones, has formed an industry-gathering area such as paper industry, chemical industry, construction materials industry, manufacturing industry, smelting industry. The industry users in Luzhai County is the important profit growth point of the Group in the future.

Obtaining Urban Gas Projects in Lankao County and Weishi County of Kaifeng City in Henan Province

On 12 April 2012, 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 an equity transfer agreement with the original shareholders of Kaifeng Xi'na Natural Gas Company Limited (開封西納天然氣有限公司) ("Kaifeng Xi'na") pursuant to which Henan Tian Lun obtained 2 urban gas projects in Lankao County and Weishi County of Kaifeng City.

Management Discussion and Analysis

Lankao County is administered by Henan Province, and enjoys the treatment of a provincial city. By doing so, Lankao County has been gradually constructed and developed as a modern medium-sized city and a regional sub-center with prosperous economy and strong radiant and driving ability, and has become an important support for the economic zones in central China. Lankao County and Weishi County are both strong industrial counties in Kaifeng City with a strong industrial base, which have gradually formed into an industrial base of raw chemical materials and chemical products industry, textile industry, nonferrous metal smelting industry and rubber products industry with considerable scale and provide a foundation for the Group to develop industrial users and increase gas volume.

Obtaining Urban Gas Projects in Cao County and Shan County in Heze City of Shandong Province

On 13 September 2012, Henan Tian Lun entered into equity transfer agreements with the original shareholders of Cao County Zhong Tian Gas Limited ("Cao County Zhong Tian") and Shan County Zhong Tian Gas Limited ("Shan County Zhong Tian") respectively, pursuant to which Henan Tian Lun acquired 80% of the equity interests in Cao County Zhong Tian and Shan County Zhong Tian respectively so as to obtain 2 urban gas projects in Cao County and Shan County of Heze City in Shandong Province.

Cao County is one of the counties under direct supervision of the Shandong provincial government, and a county on the list of the top 100 national food businesses as well as a manufacturing base for nationwide premium cotton. It is also a county with the largest population in Heze City. Shan County is one of the top 10 counties and cities for investment in Shandong Province. In recent years, Cao County and Shan County have both become the bridgeheads and transition hubs undertaking the industries shifted from the east of Shandong. They have both claimed outstanding strategic positions and development advantages amongst all counties in Heze City, and established a foundation for the Group to expand its gas business in the Shandong area and the peripheral cities.

Obtaining the Urban Gas Project in the Jingtaizheng Road Industrial Park of Baiyin in Gansu Province

On 19 September 2012, Henan Tian Lun and the Administrative Committee of the Jingtai Industrial Concentration Zone entered into an agreement with respect to a gas utilization project under which the Group shall obtain the urban gas project in the Jingtaizheng Road Industrial Park of Baiyin in Gansu Province.

The Jingtaizheng Road Industrial Park is located in Baiyin High-Tech Industrial Zone which is within the national High-Tech industrial development zones, with a very good location opposite to the provincial capital of Gansu Province Lanzhou and close to 8 cities/counties of 4 provinces/autonomous regions (Gansu, Ningxia, Qinghai and Inner Mongolia). At present, an industrial pattern comprising non-metallic mineral products, construction materials, agricultural and livestock products processing and warehousing logistics, etc. has preliminarily formed in this industrial park, laying the foundation for the Group to develop the industrial users of the industrial park and expand the gas market nearby.

Obtaining the Urban Gas Project of Gulang County of Wuwei in Gansu Province

On 13 November 2012, Henan Tian Lun and the Gulang government duly entered into a concession agreement of urban gas under which the Group acquired 30 years of exclusive operation rights (including urban pipeline gas and gas refilling stations etc.) at Gulang County.

Gulang county is located at the eastern end of the Hexi corridor of Gansu with very convenient transportation conditions, where the Lanzhou-Xinjiang Railway and Gantang-Wuyi South Railway are located in the county, and a railway freight yard with a capacity of 18-million tons is under construction. There are also the Lianyungang-Horgos Highway and the Shuangta-Yinchuan Highway, and, the National Road No.312 that runs from the north to the south and Provincial Road No.308 that runs from the east to the west, which allows a daily traffic flow of heavy trucks of over 3,000 vehicles, and therefore the market of gas for vehicles is promising. The Group will invest and construct in this county gas supply facilities and

Management Discussion and Analysis

pipeline network for the town and the industrial parks, gas refilling stations providing urban residents with gas, industrial and commercial gas, liquefied natural gas and compressed natural gas, natural gas liquefying and welding gas processing plants, LNG logistics companies natural gas gate stations, storage and distribution station construction, the project of transmission of natural gas from the west to the east Pipeline No.3 Gulang branch, creating a gas utilization demonstration area of Gansu Province and even northwest of China to lay a solid foundation for the Group to develop the northwest market of China.

Obtaining the Urban Gas Project at Dongkou County of Shaoyang in Hunan Province

On 13 November 2012, Henan Tian Lun and the original shareholders of Donkou Senbo Gas Co., Ltd ("Senbo Gas") entered into an equity transfer agreement under which the Group acquired 100% equity interests in Senbo Gas and in turn obtained exclusive operation rights (including urban pipeline gas and gas refilling stations etc.) at Dongkou County.

Dongkou county, which is part of Shaoyang, Hunan province, owns convenient transportation conditions and superior locations and abundant resources with a total population of 830,000 people of which urban residents comprise 160,000, and also it owns a better foundation for the development of the gas market, procurement of the Dongkou project will lay a very good foundation for the Group to enter the natural gas market of both Hunan and Hubei Province.

Investment in Bases of Gas Sources

For the year ended 31 December 2012, the Group has 5 operating CNG parent stations in total in Jilin Province and He'nan Province with a total daily CNG production capacity of 300,000 m^3. In addition, the LNG processing plant with an annual production capacity of 400 million m^3 of LNG has been under preparation in the Kai County (Chongqing) Industrial Park (70% equity of which is held by Henan Tian Lun), completion of this project will promote the business model of the Group to evolute from control of gas sources to development of transport gas projects and form a whole industrial chain.

Investment in Gas Refilling Stations

For the year ended 31 December 2012, the Group has 18 CNG/LNG gas refilling stations in operation, and over 30 gas refilling stations under preparation are being constructed in total. The transport gas business has become one of the key development fields of the Group, the Group has established the transport gas division and several regional sub-divisions, formed an experienced professional team so as to make greater efforts to develop the transport gas project.

Other than directly investing in construction of refilling stations in the Group's own regions, the Group will put emphasis on leveraging the Group's exclusive vehicle-use gas operation right, intensive urban gas operation region and its own gas source base, to take the initiative in jointly constructing CNG refilling stations and LNG refilling stations with target customers such as transportation groups, transport groups, port groups and mine enterprises and power plant with the one-on-one business model and provide major customers with professional services. Such business model will allow the Group to construct the refilling stations in places convenient to the customers and target vehicle users before construction of stations, which shortens the investment recovery period to a large extent.

MATERIAL ACQUISITION, DISPOSAL AND INVESTMENT

Disposal of equity interests in Cangxi Datong

In view of improving the quality of the Group's assets, on 13 September 2012, Henan Tian Lun entered into an equity transfer agreement with Golden Dragon Co., Ltd ("Golden Dragon Company"), an independent third party, pursuant to which Henan Tian Lun disposed of its entire equity interests (i.e. 51% equity) in Cangxi County Datong Natural Gas and Investment Limited ("Cangxi Datong") to Golden Dragon Company at a consideration of RMB90,000,000. Upon the completion of the said disposal, Henan Tian Lun does not have any equity interest in Cangxi Datong, and thus Cangxi Datong is no longer a subsidiary of the Company.

For details of disposal of the Group's subsidiaries, please refer to note 36 of the consolidated financial statements.

Management Discussion and Analysis

Investment in a trust scheme

Henan Tian Lun entered into an investment agreement on 21 March 2012 (as supplemented by a supplemental agreement on 4 May 2012) with Zhongyuan Trust Co., Ltd. ("Zhongyuan Trust"), pursuant to which Henan Tian Lun agreed to invest an amount not exceeding RMB400 million in aggregate in the trust scheme managed by Zhongyuan Trust ("Trust Scheme"), and Zhongyuan Trust agreed to apply the trust principal for investment on behalf of Henan Tian Lun in trust products for the benefit of Henan Tian Lun.

As of 31 December 2012, the Group had invested RMB370 million in aggregate in the Trust Scheme. The Trust Scheme has been operating smoothly, from which Henan Tian Lun has received stable income. For the year ended 31 December 2012, Henan Tian Lun has recognised a return of approximately RMB30,392,000 in aggregate, of which approximately RMB24,409,000 were fully performing.

Gas Pipeline Connection Volume

During the Reporting Period, the Group connected a total of 104,829 residential users to gas pipelines, representing an increase of approximately 40.02% as compared with the corresponding period of last year. As at 31 December 2012, the Group's residential users had increased to 456,934, representing an increase of approximately 39.28% as compared with the corresponding period of last year. The Group has connected a total of 597 users from industrial and commercial and other sectors to gas pipelines. As at 31 December 2012, the Group has a total of 2,467 industrial and commercial users, representing an increase of approximately 34.22% as compared with the corresponding period of last year. Through innovative residential users development efforts and active promotion of the development of industrial and commercial users and direct single users, the Group was able to maintain the growth of its gas pipeline connection volume during the year, and safeguard the Group's continual growth of gas sales volume and gas sales revenue in the future.

Gas Sales Volume

During the Reporting Period, the Group sold a total of approximately 154,710,000 m^3 of gas, representing a substantial increase of approximately 49,320,000 m^3, or approximately 46.80%, as compared with the corresponding period of last year. Natural gas sold amounted to approximately 142,236,000 m^3, representing an increase of approximately 56,570,000 m^3, or approximately 65.94%, as compared with the corresponding period of last year. Gas volume sold to residential users, industrial and commercial users and vehicle users accounted for approximately 27.28%, 35.58% and 37.14%, respectively, of the total gas sales volume.

The Group has placed transport gas operation, which has a higher gross profit, as the development focus in the future. As at 31 December 2012, the number of the Group's gas refilling stations which are in operation increased to 18. The gas sales volume to vehicle users as a percentage of the total gas sales volume of the Group increased from approximately 30.62% in 2011 to approximately 37.14% in 2012. The gas sales volume to vehicle users as a percentage of the total gas sales volume continued to rise, which will drive the gross profit margin of the Group's gas sale operations higher.

Zhengzhou Shangjie Tian Lun Gas Limited ("Shangjie Tian Lun"), a subsidiary of the Company, completed gas conversion in August 2012, and started to supply only natural gas to its end users. As Shangjie Tian Lun actively expanded its industrial users in recent years, it has entered into cooperation agreements with a number of large industrial enterprises and has completed equipment upgrade. Shangjie Tian Lun has commenced to supply gas to these enterprises upon completion of its gas conversion, and it will achieve better results and higher gas sale volume in the future.

As at 31 December 2012, the Group has entered into cooperative agreements with tens of big industrial users in the regions in which it operates, and these industrial users which have signed the agreements will start to use natural gas in 2013. Gas sales volume from industrial users

Management Discussion and Analysis

will significantly increase accordingly. With the newly-built refilling stations of the Group commence operation, the Group expects its gas sales to achieve relatively rapid growth in the future.

Customer Services

The Group attaches great importance to customer services. The Group continues to improve the quality of customer services and has established a well-organized system of customer services to maintain good relationships between the customers and the Group to continuously drive the Group's business further development. 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. In particular, a 24-hour one-on-one service model was implemented for industrial and commercial users. The Group also conducts regular safety checks on the gas facilities for customers, and also explains gas usage safety knowledge to them, conducts face to face communications regularly with customers in public places frequented by these customers and distributes brochures about gas safety. Each project company of the Group continues to cooperate with local mobile companies, and to establish mobile information services platforms in order to provide better quality and highly efficient services to customers.

Safety and Risk Management

The Group puts strong emphasis on safety operation and formulated strict quality control standards such as safety system and standards and contingency plans. All the staff have strictly complied with the quality control standards to ensure safety operation. The Group provides 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 the 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 of gas usages.

Operation Management

The Group has established an efficient management team, which possesses rich experience related to the urban pipeline gas industry and is able to grasp onto business development opportunities timely, facilitating the Group to expand its business presence rapidly. It also demonstrates strong execution ability to maintain good operation of the project companies. With the continuous expansion of our operation scale, the Group has introduced and recruited some staff at the middle to senior level at an appropriate time, which supplements the human resources for the Group's rapid development. Through the systematic performance management system and our corporate culture which is "creating business, enjoying and return together", the Group fully motivates staffs' enthusiasm and their 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 2012, the Group's revenue amounted to approximately RMB716,362,000, representing an increase of approximately RMB265,431,000 or a rise of approximately 58.86% as compared with the corresponding period of last year; gross profit amounted to approximately RMB251,236,000, representing an increase of approximately RMB79,232,000 or a rise of approximately 46.06% as compared with the corresponding period of last year; profit attributable to owners of the Company amounted to approximately RMB135,097,000, representing an increase of approximately RMB52,367,000 or a rise of approximately 63.30% as compared with the corresponding period of last year.

Management Discussion and Analysis

Revenue

For the year ended 31 December 2012, the Group's revenue was primarily derived from the gas pipeline connections business and transportation and sales of gas business, accounting for approximately 42.13% and 55.15% of the total revenue (the corresponding period of last year: approximately 45.04% and 52.39%), respectively. With changes of the revenue structure, the Group's revenue structure is constantly improving and becoming increasingly stable. Sales of gases business, a long term stable business, is increasing in its proportion of the total revenue, which will safeguard the steady growth of the results of the Group.

Revenue from Gas Pipeline Connection

The Group conducts gas pipeline connection operation by providing property developers and industrial and commercial users with gas pipeline laying and installation services in its operating cities. For the year ended 31 December 2012, the quantity of the Group's gas pipeline connection volume maintained a steady growth, and revenue from gas pipeline connections amounted to approximately RMB301,812,000, representing an increase of approximately 48.60% from approximately RMB203,103,000 for the corresponding period of last year.

Revenue from Sales of Gas

The Group is engaged in the transportation, distribution and sales of natural gas in its operating cities. For the year ended 31 December 2012, the Group had a significant growth in gas sales volume. Revenue from gas sales amounted to approximately RMB395,106,000, representing an increase of approximately 67.25% from approximately RMB236,231,000 for the corresponding period of last year.

Gross Profit and Gross Profit Margin

For the year ended 31 December 2012, the Group achieved gross profit of approximately RMB251,236,000, representing an increase of approximately RMB79,232,000 as compared with the year ended 31 December 2011. Overall gross profit margin of the Group was approximately 35.07%, representing a slight decline of approximately 3.07 percent as compared with 2011. Such decline was mainly attributable to changes of the revenue structure where the proportion of revenue derived from the gas pipeline connections business, which generates higher gross profit, dropped from approximately 45.04% in 2011 to approximately 42.13%, and the proportion of revenue derived from sales of the gas business, which generates relatively less comprehensive gross profit, increased from approximately 52.39% in 2011 to approximately 55.15%.

Distribution Cost and Administrative Expenses

With the continuous implementation of cost control policies such as the comprehensive budgeting management system of the Group, the Group's distribution costs and administrative expenses to total revenue in 2012 has declined compared to 2011.

The Group's distribution cost in 2012 was approximately RMB11,863,000, accounting for approximately 1.66% of the total revenue, lowered from approximately 1.73% in 2011. The Group's administrative expenses for the year ended 31 December 2012 was approximately RMB56,167,000, accounting for approximately 7.84% of the total revenue, lowered from approximately 10.69% in 2011.

Financial Position

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

As at 31 December 2012, the Group's cash and cash equivalents amounted to approximately RMB368,940,000, of which 99.35% was denominated in RMB and the remaining 0.65% was denominated in HK dollars, and its financial assets at fair value through profit or loss of approximately RMB375,983,000 can be realized at any time, safeguarding the needs of project expansion and acquisition of businesses of the Group.

Management Discussion and Analysis

As at 31 December 2012, the Group's total borrowing was approximately RMB805,725,000 (among which loans denominated in RMB was approximately RMB799,666,000 and the loans denominated in USD was approximately RMB6,059,000), of which approximately 79.41% was accounted as current liabilities. For details of the Group's borrowings including the interest rates, please refer to notes 3.1(a)(ii) and 28 to the consolidated financial statements. The loans repayable within one year amounted to approximately RMB639,824,000, approximately RMB35,000,000 was secured by the Group's properties. As at 31 December 2012, the Group's gearing ratio was approximately 55.67% calculated based on the percentage of total liabilities over total assets.

In general, as all of the Group's businesses were situated in the PRC, substantially all of its income and expenses were denominated in RMB, and therefore, there were 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 when necessary.

Contingent liabilities

As at 31 December 2012, the Group did not have any material contingent liabilities.

Pledge of assets of the Group

Details of the Company's pledge assets as at 31 December 2012 are set out in note 28 to the consolidated financial statements.

Human Resources

As at 31 December 2012, the total number of employees of the Group was 1,420 and the total remuneration was approximately RMB53,126,000 for the year ended 31 December 2012. The Group has always been concerned for the continuous training of the employees of each level and the improvement of their level of business abilities. The Group remunerates its staff according to their individual performance, work experience and prevailing market standard. Those senior management with outstanding performance are recommended by the Group to take high-end MBA seminars or obtain EMBA degrees of famous universities in the PRC so as to strengthen their capacity of management. The Group organizes various training activities from time to time to train general employees, which includes corporate culture, service etiquette, fire-protection security and so forth, aiming at improving service and expertise. Meanwhile, the Group is committed to training internal management personnel and carries out backup manager training regularly, the content covers all levels with respect to management. The Group constantly fosters talents of high quality in a variety of ways so as to support the development of the Group in the future.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Zhang Yingcen (張瀛岑先生),aged 50, is 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 12th National People's Congress of the PRC (中華人民共和國第十二屆全國人民代表大會代表) and 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 38, 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. Hu Xiaoming (胡曉明先生), aged 43, is an Executive Director and Chief Executive of the Company. He is responsible for the operation and management of the Group. Mr. Hu joined the Group in July 2011 as the general manager of Henan Tian Lun Gas Group Limited (河南天倫燃氣集團有限公司), a wholly-owned subsidiary of the Company. Mr. Hu has 13 years of experience in the management of gas enterprises. Prior to joining the Group, he had served as the vice-president of ENN Group Co., Ltd. Mr. Hu obtained a master of business administration degree from Tsinghua University (清華大學) in 1999.

Directors and Senior Management

Mr. Feng Yi (馮毅先生), aged 34, 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 55, 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.

Ms. Li Tao (李濤女士), aged 41, is an Executive Director and the Deputy General Manager of the Company. She joined the Group in April 2011 and is responsible for the financial management of the Group. Ms. Li has years of experience in corporate finance management. Prior to joining the Group, Ms. Li had served as the head of finance of SDIC Henan Coal Transportation & Sales Co., Ltd. Ms. Li obtained a bachelor's degree in economics from Henan University of Economics and Law in the PRC in 1994. She is a senior accountant and a Certified Public Accountant in the PRC.

Directors and Senior Management

Independent Non-executive Directors

Mr. Li Liuqing (李留慶先生), aged 39, 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 32, 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 50, 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 61, 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.

Mr. Xie Chaoyang (謝朝陽先生), aged 50, 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. Zhao Junfeng (趙軍鋒先生), aged 36, is the general manager of Henan Luyuan Gas Limited. Mr. Zhao has 10 years of experience in management of gas enterprises. Since joining the Group in 2003, he has served as the manager of safety and technology department of Xuchang Tian Lun Gas Limited and the vice general manager of Zhengzhou Shangjie Tian Lun Gas Limited. Mr. Zhao obtained a bachelor's degree majoring in Construction, Environment and Facilities Engineering from Henan University of Urban Construction in the PRC in 1999. Mr. Zhao is a professional medium-level engineer in urban gas and a registered safety engineer in the PRC.

Directors and Senior Management

Mr. Li Xinjian (李新建先生), aged 42, the Chief Financial Officer of the Company, is responsible for the financial management of the Group. Mr. Li has extensive experience in corporate financial management. Prior to joining the Group in 2004, Mr. Li served various positions such as Head and Deputy Head of Capital Division of Financial Department and the Head of Financial Department of Zhong Yuan Environmental Protection Co., Ltd (中原環保股份有限公司). Mr. Li obtained a diploma in Foreign Accounting from 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 38, 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 2012 together with the audited consolidated financial statements to the shareholders of the Company (the "Shareholders").

PRINCIPAL BUSINESS

The Company is an investment holding company whose subsidiaries are principally engaged in the investment, operation and management of gas pipeline connections, transportation, distribution and sales of gas, construction and operation of gas filling stations, and production and sales of LNG in the 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 2012.

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 2012, the use of proceeds is as follows:

Usage	Proposed use of proceeds as set out in the Prospectus in HK$ million	Accumulated use of proceeds as of 31 December 2012 in HK$ million
Construction of gas processing stations, gas pipeline networks and other gas supply facilities in the operating cities	74.8	74.8
Acquisition or development of new urban gas projects	214.7	214.7
Investment in construction of a new gas filling station	25.5	25.5
Investment in LNG and biofuel business opportunities	67.6	67.6
Working capital and other general corporate purposes	42.5	42.5
Total	**425.1**	**425.1**

As at 31 December 2012, the total proceeds of approximately HK$425.1 million from the Global Offering raised by the Company was fully utilized in accordance with the proposed use of proceeds set out in the Prospectus.

RESERVES

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

The Group did not have any distributable reserves during the year ended 31 December 2012.

Directors' Report

PROPERTY, PLANT AND EQUIPMENT

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 22 May 2013 to Friday, 24 May 2013 (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 Friday, 24 May 2013, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 21 May 2013.

BANK BORROWINGS

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

DIRECTORS AND SERVICE CONTRACTS

The Directors during the year are set as follows:

Executive Directors

Mr. Zhang Yingcen *(Chairman)*
Mr. Xian Zhenyuan
Mr. Hu Xiaoming *(Chief Executive)*
(appointed as an executive Director and the chief executive of the Company on 30 May 2012 and 1 June 2012 respectively)
Mr. Feng Yi
Mr. Sun Heng
Ms. Li Tao (appointed on 30 May 2012)

Non-executive Director

Mr. Zhang Daoyuan (resigned on 27 December 2012)

Independent non-executive Directors

Ms. Zhao Jun
Mr. Zhang Jiaming
Mr. Li Liuqing
Mr. Chang Zongxian (resigned on 30 May 2012)

Each Director has entered into a service contract with the Company. The service term of executive Directors Mr. Zhang Yingcen, Mr. Xian Zhenyuan, Mr. Feng Yi and Mr. Sun Heng and the non-executive Director Mr. Zhang Daoyan is from 10 November 2010 to 9 November 2013, and the service term of executive Directors Mr. Hu Xiaoming and Ms. Li Tao is from 30 May 2012 to 9 November 2013 whereas the service term of the independent non-executive Directors is from 10 November 2011 to 9 November 2013. 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 2012, 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.

DIRECTORS' INTERESTS IN CONTRACTS

None of the Company or any of its subsidiaries had entered into any contract of significance in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

Directors' Report

COMPETING INTERESTS

Acquisition of Entire Equity Interests in Zhongji Dadi Held by the Original Shareholders

As Jilin Zhongji Dadi Investment Limited (吉林省中吉大地投資有限公司) ("Zhongji Investment") and Ms. Jia Dan intend to transfer 39% and 10% of equity interests in Jilin Zhongji Dadi Gas Group Limited (吉林省中吉大地燃氣集團有限公司) ("Zhongji Dadi") in a limited period of time, the board of Directors (the "Board") considers that it is essential for the development of business of the Group to further increase its shareholding in Zhongji Dadi. However, after considering the effect on the Group's cash flow after the payment of consideration and the Group's finding that it was difficult to guarantee the completion of all approval processes in relation to the acquisition of the equity interests in Zhongji Dadi (including complying with relevant requirements regarding approval as stipulated in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) within a month, in order to seize the opportunity of acquiring 49% of equity interests in Zhongji Dadi, the Board agreed Henan Tian Lun to waive its pre-emptive rights to Zhongji Dadi and agreed that Mr. Zhang Yingcen, the chairman of the Board, could acquire aggregately 49% of equity interests in Zhongji Dadi held by Zhongji Investment and Ms. Jia Dan.

The companies under the control of Mr. Zhang Yingcen, together with Zhongji Investment and Ms. Jia Dan, have completed the transaction regarding to the acquisition of 49% of equity interests in Zhongji Dadi. At present, the Group and Mr. Zhang Yingcen have already held 100% of equity interests in Zhongji Dadi and both parties are making great efforts to improve cost control ability of Zhongji Dadi and accelerate the expansion in the Northwest market, particularly in the development of the transport gas operation, with a view to enhancing the profitability of Zhongji Dadi to the best they can.

Investment in LNG Refilling Stations

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

In addition, 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 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 non-competition as requested by the evaluation committee of the Company from time to time; and (b) from the effective date of the Non-competition Undertakings and up to 31 December 2012, they had complied with the Non-competition Undertakings. The evaluation committee of the Company also confirmed that they were not aware of any non-compliance with the Non-competition Undertakings by the Covenantors during the same period.

Directors' Report

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 9 to the consolidated financial statements.

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

As at 31 December 2012, 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	578,175,500	69.83%
Mr. Xian Zhenyuan (Note 2)	Interest of controlled corporation	36,954,300	4.46%

Directors' Report

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

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

Notes:

(1) The entire issued share capital of Tian Lun Group Limited is held by Gold Shine Development Limited, which is in turn owned by Mr. Zhang 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 63,728,000 Shares. Therefore, Mr. Zhang is also deemed or taken to be interested in all the Shares held by Chequers Development Limited for the purposes of the SFO. Ms. Sun Yanxi ("Ms. Sun") is the spouse of Mr. Zhang, and Ms. Sun held 5,722,500 Shares through her individual security account; therefore, Mr. Zhang is deemed or taken to be interested in all the Shares held by Ms. Sun for the purposes of the SFO. Mr. Zhang is 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 36,954,300 Shares. Therefore, Mr. Xian is deemed or taken to be interested in all the Shares held by Pleasant New Limited for the purposes of the SFO. Mr. Xian is the sole director of Pleasant New Limited.

Save as disclosed above, as at 31 December 2012, 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.

Directors' Report

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

To the knowledge of the Directors, as at 31 December 2012, 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	63,728,000	7.70%
Ms. Sun (Note 2)	Interest of spouse and beneficial owner	578,175,500	69.83%

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 63,728,000 Shares. Therefore, Mr. Zhang is also deemed or taken to be interested in all the Shares held by Chequers Development Limited for the purposes of the SFO. Ms. Sun held 5,722,500 Shares through her individual security account. Ms. Sun is the spouse of Mr. Zhang, and therefore Ms. Sun is deemed or taken to be interested in all the Shares in which Mr. Zhang is interested for the purpose of the SFO.

Except for the disclosed above, as at 31 December 2012, 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

Directors' Report

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 2012, 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 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 ended 31 December 2012, respectively. The transaction amount with Hexiang Engineering for the year ended 31 December 2012 was approximately RMB9,895,000.

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 transaction with Hexiang Engineering mentioned above constitutes a continuing connected transaction under Chapter 14A of the Listing Rules, which is subject to reporting, annual review and announcement requirements but is exempted from the independent shareholders' approval requirement pursuant to Rule 14A.34 of the Listing Rules.

Directors' Report

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

Save as disclosed above, the Directors consider that those related party transactions disclosed in Note 37 to the financial statements were either "Connected Transactions" or "Continuing Connected Transactions" fully exempt from reporting, announcement and independent shareholders' approval, or did not fall under the definition of "connected transactions" or "continuing connected transactions" (as the case may be) in Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

As the Hexiang Engineering Construction Agreement expired on 31 December 2012, on 18 December 2012, the Group entered into a new Hexiang Engineering Construction Agreement with Hexiang Engineering for a term from 1 January 2013 to 31 December 2013. Pursuant to the new Hexiang Engineering Construction Agreement, Hexiang Engineering will provide services to the Group for construction and installation of the Group's pipelines in the PRC for a term from 1 January 2013 to 31 December 2013 and the new annual cap for the year ended 31 December 2013 will be not more than RMB20,000,000.

The transaction with Hexiang Engineering mentioned above constitutes a continuing connected transaction under Chapter 14A of the Listing Rules, which is subject to reporting, annual review and announcement requirements but is exempted from the independent shareholders' approval requirement pursuant to Rule 14A.34 of the Listing Rules.

KEY CUSTOMERS AND SUPPLIERS

In 2012, sales to the largest five customers of the Group accounted for approximately 5.94% of the revenue of the Group in which the largest customer accounted for approximately 2.46%, while purchases from the five largest suppliers of the Group accounted for approximately 56.06% of the purchases of the Group in which the largest supplier accounted for approximately 20.72%. To the best of the Board's knowledge having made all enquiries with all Directors, neither the Directors, nor their associates, the shareholders owning more than 5% of the Company's issued share capital had any beneficial interests in the Group's five largest customers or suppliers during the year.

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

For the year ended 31 December 2012, 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.

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.

Directors' Report

CORPORATE GOVERNANCE

The Company has complied with the code provisions (the "Former Code Provision(s)") of the Code on Corporate Governance Practices (the "Former Code") contained in the former Appendix 14 to the Listing Rules during the period from 1 January 2012 to 31 March 2012, and the code provisions (the "Revised Code Provision(s)") of the revised Code on Corporate Governance Practices (the "Revised Code") contained in Appendix 14 to the Listing Rules during the period from 1 April 2012 to 31 December 2012, 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 2012. 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

28 March 2013

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

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

The Company's corporate governance practices are based on the code provisions as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company has adopted the code provisions (the "Former Code Provision(s)") of the Code on Corporate Governance Practices (the "Former Code") contained in the former Appendix 14 to the Listing Rules during the period from 1 January 2012 to 31 March 2012, and the code provisions (the "Revised Code Provision(s)") of the revised Code on Corporate Governance Practices (the "Revised Code") contained in Appendix 14 to the Listing Rules during the period from 1 April 2012 to 31 December 2012.

Save as disclosed in this corporate governance report, the Board considered that the Company had complied with the Former Code Provisions set out in the Former Code during the period from 1 January 2012 to 31 March 2012 and the Revised Code Provisions set out in the Revised Code during the period from 1 April 2012 to 31 December 2012.

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, each of them confirmed that they have strictly complied with the required standards set out in the Model Code for the year ended 31 December 2012.

BOARD OF DIRECTORS

Members of the Board of Directors

As at the date of this annual report, the Board comprised nine Directors including six executive Directors and three independent non-executive Directors.

Executive Directors:

Mr. Zhang Yingcen *(Chairman)*
Mr. Xian Zhenyuan
Mr. Hu Xiaoming *(Chief executive)*
(appointed as executive Director and chief executive with effect from 30 May 2012 and 1 June 2012, respectively)
Mr. Feng Yi
Mr. Sun Heng
Ms. Li Tao
(appointed as executive Director with effect from 30 May 2012)

Non-executive Director:

Mr. Zhang Daoyuan
(resigned as non-executive Director with effect from 27 December 2012)

Independent non-executive Directors:

Mr. Li Liuqing
Mr. Chang Zongxian
(resigned as independent non-executive Director with effect from 30 May 2012)
Mr. Zhang Jiaming
Ms. Zhao Jun

Corporate Governance Report

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

The Company has already appointed three 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 an annual 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.

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

CORPORATE GOVERNANCE DUTIES

The Board is responsible for performing the corporate governance duties as set out in Revised Code Provision D.3.1. During the year ended 31 December 2012, the Board had reviewed and discussed the corporate governance policy of the Group and was satisfied with the effectiveness of the corporate governance policy of the Group.

RESPONSIBILITIES OF DIRECTORS AND PROFESSIONAL DEVELOPMENT

All appointed Directors received comprehensive, formal training on the first occasion of their appointments and were ensured to have a proper understanding of the businesses and development of the Group and that they were fully aware of their responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

To facilitate the Directors to discharge their responsibilities, they are continuously updated with regulatory developments, business and market changes and the strategic development of the Group. Save and except Mr. Chang Zongxian, who tendered to the Company his resignation as independent non-executive Director on 30 March 2012, which took effect on 30 May 2012, all Directors namely Mr. Zhang Yingcen, Mr. Xian Zhenyuan, Mr. Hu Xiaoming, Mr. Feng Yi, Mr. Sun Heng, Ms. Li Tao, Mr. Zhang Daoyuan, Ms. Zhao Jun, Mr. Zhang Jiaming and Mr. Li Liuqing have participated in a training course on the Listing Rules organized by Messrs. Loong & Yeung, the legal adviser to the Company, to develop and refresh their knowledge and skills and provided their training records for the financial year ended 31 December 2012 to the Company.

During the year ended 31 December 2012, Mr. Chang Zongxian resigned from being an independent non-executive Director with effect from 30 May 2012, and Mr. Zhang Daoyuan resigned from being a non-executive Director with effect from 27 December 2012. Mr. Hu Xiaoming and Ms. Li Tao were appointed as executive Directors with effect from 30 May 2012.

Corporate Governance Report

SUPPLY OF AND ACCESS TO INFORMATION

In respect of regular Board meetings, and so far as practicable in all other cases, an agenda accompanied by the relevant Board papers are sent to all Directors in a timely manner and at least 3 days before the 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 making decisions of formulating the development targets and strategies, material acquisitions and disposals, material capital investment, dividend policies, the appointment and removal of directors and senior management, remuneration policies and other major operation and financial issues of the Company, while daily business operations and administrative functions of the Group are delegated to the management.

The powers and duties of the Board include convening shareholders' meetings and reporting the Board's work at shareholders' meetings, implementing resolutions passed at shareholders' meetings, determining business plans and investment plans, formulating annual budget and final accounts, formulating proposals for profit distributions and for the increase or reduction of registered capital as well as exercising other powers, functions and duties as conferred by the memorandum (the "Memorandum") and articles of association (the "Articles") of the Company.

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

The Board held 12 meetings during the year ended 31 December 2012. The attendance of the Directors at the Board meetings is as follows:

Directors	**Attendance/Board Meetings held**
Executive Directors	
Mr. Zhang Yincen *(Chairman)*	12/12
Mr. Xian Zhenyuan	12/12
Mr. Hu Xiaoming *(Chief Executive)*	9/9
Mr. Feng Yi	12/12
Mr. Sun Heng	12/12
Ms. Li Tao	9/9
Non-executive Director	
Mr. Zhang Daoyuan	12/12
Independent non-executive Directors	
Ms. Zhao Jun	12/12
Mr. Zhang Jiaming	12/12
Mr. Li Liuqing	12/12
Mr. Chang Zongxian	3/3

Corporate Governance Report

Note: Mr. Hu Xiaoming and Ms. Li Tao were appointed as executive Directors on with effect from 30 May 2012, and Mr. Chang Zongxian resigned as an independent non-executive Director with effect from 30 May 2012 and Mr. Zhang Daoyuan resigned as a non-executive Director with effect from 27 December 2012. Mr. Hu, Ms. Li, Mr. Chang and Mr. Zhang attended 9, 9, 3 and 12 Board meetings held during their tenure in the year ended 31 December 2012, respectively.

In general, the notices of meetings of the Board are sent to all Directors through email and fax before the dates of meetings. In order to enable the Directors to consider the issues to be approved in the meetings with adequate time, the notices of regular Board meetings will be sent to all Directors 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.

CHAIRMAN AND CHIEF EXECUTIVE

Under Revised Code Provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. From the period of 1 January 2012 to 31 May 2012, the Company did not have any officer with the title of "chief executive" and Mr. Zhang Yingcen, the chairman of the Company, was also responsible for overseeing the overall operations of the Group. This deviated from Former Code Provision A.2.1 and Revised Code Provision A.2.1.

Since 1 June 2012, Mr. Hu Xiaoming was appointed as the chief executive of the Company (the "Chief Executive") to comply with Revised Code Provision A.2.1. The roles of the chairman, Mr. Zhang Yingcen and the Chief Executive, Mr. Hu Xiaoming, are separate.

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.

THE 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, to be responsible for the relationship with the Company's auditors, and review the Company's financial information. The Audit Committee is accountable to the Board. 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 Audit Committee), Mr. Zhang Jiaming and Ms. Zhao Jun. The Audit Committee shall meet at least twice a year.

During the year ended 31 December 2012, the Audit Committee had reviewed the Group's internal controls for the financial year ended 31 December 2012. The Group's interim and final results for the year ended 31 December 2012 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 2012.

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

Corporate Governance Report

	Attendance/Committee Meetings held
Mr. Li Liuqing *(Chairman)*	2/2
Mr. Zhang Jiaming (appointed as a member of the Audit Committee with effect from 30 May 2012)	1/1
Ms. Zhao Jun	1/1
Mr. Chang Zongxian (resigned as a member of the Audit Committee with effect from 30 May 2012)	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 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, to ensure that the candidates to be nominated as Directors are experienced, high caliber individuals and to regularly review the structure of the Board. The Nomination Committee consists of two independent non-executive Directors, namely, Mr. Zhang Jiaming and Ms. Zhao Jun, and Mr. Zhang Yincen, an executive Director and the chairman of the Board, who is the chairman of the Nomination Committee.

The Nomination Committee shall meet at least once every year.

The Nomination Committee held 1 meeting for the year ended 31 December 2012 for reviewing the structure of the Board, size and composition of the Board, assessing the independence of the independence non-executive Directors and other related matters.

On 30 March 2012, the Nomination Committee nominated Mr. Hu Xiaoming and Ms. Li Tao as executive Directors. New Directors are nominated based on their skills, knowledge and experience.

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

	Attendance/Committee Meetings held
Mr. Zhang Yingcen *(Chairman)*	1/1
Mr. Zhang Jiaming (appointed as a member of the Nomination Committee with effect from 30 May 2012)	—/—
Ms. Zhao Jun	1/1
Mr. Chang Zongxian (resigned as a member of the Nomination Committee with effect from 30 May 2012)	1/1

Corporate Governance Report

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 make recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

The Remuneration Committee comprise of two independent non-executive Directors, namely Ms. Zhao Jun (who is the chairperson of the Remuneration Committee) and Mr. Zhang Jiaming, and one executive Director, namely, Mr. Zhang Yingcen. Ms. Zhao Jun replaced Mr. Zhang Yingcen as chairperson of the Remuneration Committee with effect from 30 March 2012. 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 2012.

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

	Attendance/Committee Meetings held
Ms. Zhao Jun *(Chairperson)*	1/1
(appointed as chairperson of the Remuneration Committee with effect from 30 May 2012)	
Mr. Zhang Yingcen	1/1
(ceased to serve as chairman of the Remuneration Committee with effect from 30 May 2012)	
Mr. Zhang Jiaming	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 ended 31 December 2012.

In compliance with the amendments to the Listing Rules which have 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 ceased to serve as the chairman of the Remuneration Committee and Ms. Zhao Jun had been appointed in his place as chairperson, with effect from 30 March 2012.

CORPORATE GOVERNANCE DUTIES

The Board is responsible for performing the corporate governance duties as set out in Revised Code Provision D.3.1. During the year ended 31 December 2012, the Board had reviewed and discussed the corporate governance policy of the Company and was satisfied with the effectiveness of the corporate governance of the Company.

Corporate Governance Report

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Save and except for Mr. Hu Xiaoming and Ms. Li Tao, each of the executive Directors and non-executive Director 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.

Mr. Hu Xiaoming and Ms. Li Tao, executive Directors, had entered into a service contract with the Company for the term from 30 May 2012 to 9 November 2013 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 2011 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 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.

GENERAL MEETINGS WITH SHAREHOLDERS

The 2012 annual general meeting ("2012 AGM") was held on 30 May 2012. The attendance record of the Directors at the 2012 AGM were as follows:

Directors	Attendance/General Meetings held
Executive Directors	
Mr. Zhang Yincen *(Chairman)*	1/1
Mr. Xian Zhenyuan	1/1
Mr. Feng Yi	1/1
Mr. Sun Heng	1/1
Mr. Hu Xiaoming *(note)*	—/—
Ms. Li Tao *(note)*	—/—
Non-executive Director	
Mr. Zhang Daoyuan	1/1
Independent non-executive Directors	
Mr. Li Liuqing	1/1
Mr. Zhang Jiaming	1/1
Ms. Zhao Jun	1/1

Note: Mr. Hu Xiaoming and Ms. Li Tao were appointed as executive Directors with effect from the conclusion of the 2012 AGM.

The Company's external auditors also attended the 2012 AGM.

Corporate Governance Report

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENT

All Directors acknowledge their responsibility for preparing the accounts and the financial statements for the year ended 31 December 2012.

The auditor to the Company acknowledges their reporting responsibilities in the auditor's report on the financial statements for the year ended 31 December 2012. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing financial statements.

COMPANY SECRETARY

Mr. Hung Man Yuk Dicson had been appointed as the company secretary of the Company (the "Company Secretary") with effect from October 2010. The Company Secretary has complied with Rule 3.29 of the Listing Rules in relation to the professional training requirements.

AUDITOR'S REMUNERATION

During the year ended 31 December 2012, the fees incurred for audit and non-audit services provided by the auditor to the Company is as follows:

Type of services	**Fee paid/payable** RMB'000
Audit services	2,750

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. The Board has conducted a review of the effectiveness of the internal control system of the Company and its subsidiaries for the year ended 31 December 2012.

Corporate Governance Report

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

Pursuant to Article 64 of the Articles, extraordinary general meetings shall be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

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

(ii) any Shareholder or Shareholders representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the general meeting; or

(iii) any Shareholder or Shareholders holding Shares conferring a right to vote at the general meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right,

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

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

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

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

China Tian Lun Gas Holdings Limited
4th Floor, Tian Lun Group Building
No.6 Huang He East Road
Zheng Dong Xin District
Zhengzhou City
Henan Province, the PRC
Email: IR@TianLungas.com
Telephone no.: 86-371-63707151
Fax no.: 86-371-63979930

Corporate Governance Report

INVESTOR RELATIONS

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

There are no changes in the Company's Memorandum and Articles of Association during the year ended 31 December 2012.

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.

The forthcoming annual general meeting of the Company will be held on 24 May 2013.

Independent Auditor's Report

羅兵咸永道

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

We have audited the consolidated financial statements of China Tian Lun Gas Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 48 to 117, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, 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, 28 March 2013

Consolidated Statement of Comprehensive Income

(All amounts in Renminbi ("RMB"))

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Revenue	5	**716,362**	450,931
Cost of sales	8	**(465,126)**	(278,927)
Gross profit		**251,236**	172,004
Distribution costs	8	**(11,863)**	(7,793)
Administrative expenses	8	**(56,167)**	(48,187)
Other income	6	**9,546**	10,737
Other gains – net	7	**12,766**	290
Operating profit		**205,518**	127,051
Finance income		**32,488**	5,454
Finance costs		**(35,073)**	(14,872)
Finance costs – net	10	**(2,585)**	(9,418)
Profit before income tax		**202,933**	117,633
Income tax expense	12	**(53,710)**	(27,280)
Profit for the year		**149,223**	90,353
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive income for the year		**149,223**	90,353
Profit and total comprehensive income attributable to:			
Owners of the Company		**135,097**	82,730
Non-controlling interests		**14,126**	7,623
		149,223	90,353
Earnings per share for profit attributable to owners of the Company (RMB per share)			
– Basic and diluted	13	**0.16**	0.10
Dividends	30	**—**	—

The notes on pages 54 to 117 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

(All amounts in RMB)

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Lease prepayments	15	**48,141**	29,706
Property, plant and equipment	16	**526,520**	568,573
Investment properties	17	**9,561**	10,058
Intangible assets	18	**441,197**	423,991
Deferred income tax assets	29	**2,237**	1,917
Trade and other receivables	20	**13,336**	14,870
Other non-current assets		**2,075**	2,382
		1,043,067	1,051,497
Current assets			
Inventories	21	**73,674**	45,067
Trade and other receivables	20	**160,303**	101,329
Available for sale financial assets	19	**—**	62,000
Financial assets at fair value through profit or loss	22	**375,983**	—
Restricted cash		**—**	5,000
Cash and cash equivalents	23	**368,940**	310,762
		978,900	524,158
Total assets		**2,021,967**	1,575,655
EQUITY			
Equity attributable to owners of the Company			
Share capital	24	**7,077**	7,077
Share premium	24	**454,188**	454,188
Reserves	25	**19,061**	4,817
Retained earnings		**270,885**	150,048
		751,211	616,130
Non-controlling interests		**145,055**	168,090
Total equity		**896,266**	784,220

Consolidated Balance Sheet

(All amounts in RMB)

		As at 31 December	
		2012	2011
	Note	**RMB'000**	RMB'000
LIABILITIES			
Non-current liabilities			
Trade and other payables	26	**–**	25,000
Borrowings	28	**165,901**	186,074
Deferred income tax liabilities	29	**43,325**	30,188
		209,226	241,262
Current liabilities			
Trade and other payables	26	**141,425**	172,895
Advance from customers	27	**114,750**	87,123
Current income tax liabilities		**20,476**	5,478
Borrowings	28	**639,824**	284,677
		916,475	550,173
Total liabilities		**1,125,701**	791,435
Total equity and liabilities		**2,021,967**	1,575,655
Net current assets/(liabilities)		**62,425**	(26,015)
Total assets less current liabilities		**1,105,492**	1,025,482

The notes on pages 54 to 117 are an integral part of these consolidated financial statements.

The financial statements on pages 48 to 117 were approved by the Board of Directors on 28 March 2013 and were signed on its behalf.

Mr. Zhang Yingcen
Chairman

Mr. Xian Zhenyuan
Director

Balance Sheet

(All amounts in RMB)

		As at 31 December	
		2012	2011
	Note	**RMB'000**	RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	11	**96,002**	96,002
Current assets			
Trade and other receivables	20	**358,530**	358,523
Cash and cash equivalents	23	**673**	2,761
		359,203	361,284
Total assets		**455,205**	457,286
EQUITY			
Equity attributable to owners of the Company			
Share capital	24	**7,077**	7,077
Share premium	24	**454,188**	454,188
Accumulated losses		**(12,271)**	(10,494)
Total equity		**448,994**	450,771
LIABILITIES			
Current liabilities			
Trade and other payables	26	**6,211**	6,515
Total equity and liabilities		**455,205**	457,286
Net current assets		**352,992**	354,769
Total assets less current liabilities		**448,994**	450,771

The notes on pages 54 to 117 are an integral part of these financial statements.

The financial statements on pages 48 to 117 were approved by the Board of Directors on 28 March 2013 and were signed on its behalf.

Mr. Zhang Yingcen
Chairman

Mr. Xian Zhenyuan
Director

Consolidated Statement of Changes in Equity

(All amounts in RMB)

	Attributable to owners of the Company						
	Share capital	**Share premium**	**Reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 24	Note 24	Note 25				
Balance at 1 January 2011	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	—	—	(23,000)	—	(23,000)	—	(23,000)
Acquisition of subsidiaries	—	—	—	—	—	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
Balance at 1 January 2012	7,077	454,188	4,817	150,048	616,130	168,090	784,220
Comprehensive income							
Profit for the year	—	—	—	135,097	135,097	14,126	149,223
Transactions with owners							
Appropriation	—	—	14,260	(14,260)	—	—	—
Acquisition of subsidiaries (Note 35.1)	—	—	—	—	—	(2,738)	(2,738)
Disposal of subsidiaries (Note 36)	—	—	—	—	—	(41,044)	(41,044)
Transaction with non-controlling interests (Note 34)	—	—	(16)	—	(16)	(1,984)	(2,000)
Capital injection from non-controlling interests	—	—	—	—	—	7,200	7,200
Fair value adjustments on business combination (Note 35.2)	—	—	—	—	—	1,405	1,405
Balance at 31 December 2012	**7,077**	**454,188**	**19,061**	**270,885**	**751,211**	**145,055**	**896,266**

The notes on pages 54 to 117 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(All amounts in RMB)

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Cash generated from operations	31	**206,210**	89,279
Interest paid		**(47,282)**	(27,940)
Income tax paid		**(36,577)**	(25,523)
Net cash generated from operating activities		**122,351**	35,816
Cash flows from investing activities			
Purchases of property, plant and equipment		**(104,259)**	(169,883)
Increase in lease prepayments		**(19,265)**	(1,408)
Proceeds from disposal of property, plant and equipment	31	**2**	3
Purchase of intangible assets		**(14,710)**	(285)
Purchases of available-for-sale financial assets		**(89,990)**	(830,000)
Proceeds from disposal of available-for-sale financial assets		**152,867**	769,298
Purchases of financial assets at fair value through profit or loss		**(370,000)**	—
Net payments from related parties		**—**	8,883
Net cash outflow of business combination under common control		**—**	(23,000)
Net cash outflow for the acquisition of subsidiaries	35	**(124,729)**	(320,878)
Net cash inflow on disposal of subsidiaries	36	**92,942**	—
Changes in restricted cash		**5,000**	(5,000)
Transaction with non-controlling interests	34	**(2,000)**	—
Investment gains derived from financial assets at fair value through profit or loss		**15,262**	—
Interest received		**2,096**	4,091
Net cash used in investing activities		**(456,784)**	(568,179)
Cash flows from financing activities			
Proceeds from borrowings		**661,843**	441,774
Repayments of borrowings		**(276,523)**	(65,275)
Capital injection from non-controlling interests		**7,200**	55,900
Net cash generated from financing activities		**392,520**	432,399
Net increase/(decrease) in cash and cash equivalents		**58,087**	(99,964)
Cash and cash equivalents at beginning of the year		**310,762**	411,926
Exchange gains/(losses) on cash and cash equivalents		**91**	(1,200)
Cash and cash equivalents at end of the year	23	**368,940**	310,762

The notes on pages 54 to 117 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

1. GENERAL INFORMATION OF THE GROUP

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

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2013.

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 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.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standard adopted by the Group

The HKICPA has amended HKAS 12, "Income taxes", to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale.

The amendments do not have a material impact on the Group's financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

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

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures (continued)

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- Amendment to HKAS 1, "Financial statement presentation" regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to Group items presented in "other comprehensive income" (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

- 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. The Group will also consider the impact of the remaining phases HKFRS 9 when completed by the Board.

- 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 intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013, and it is not expected to have a significant impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

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

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures (continued)

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

- 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, which are largely aligned between HKFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs or US GAAP.

- HKAS 19, "Employee benefits", was amended in June 2011. The amendments do not have any impact on the Group.

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.

2.2 Subsidiaries

2.2.1 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 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

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

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation (continued)

(a) Business 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.

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

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

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.

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

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners 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.

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For the year ended 31 December 2012
(All amounts in RMB unless otherwise stated)

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

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation (continued)

(c) Disposal of subsidiaries

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

2.2.2 Separate financial statements

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.4 Foreign currency translation *(continued)*

(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".

2.5 Property, plant and equipment

Property, plant and equipment is 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	16-25 years
–	Office equipment and motor vehicles	3-8 years

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.6 Investment property

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

Depreciation is calculated using the straight-line method to write-off the cost of the assets to their residual values over their estimated useful 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 disposals are determined by comparing proceeds with carrying amount. These are within "other (losses)/gains – net" in profit or loss.

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

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

2.7 Lease prepayments

Lease prepayments represent upfront prepayments made for the land use rights. Lease prepayments are stated at costs and are amortised on a straight-line basis over the remaining period of the land use rights, net of any impairment losses. The amortisation is charged within "administration expenses" in profit or loss.

2.8 Intangible assets

(a) Goodwill

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.8 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).

2.9 Impairment of non-financial assets

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

2.10 Financial assets

2.10.1 Classification

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.10 Financial assets *(continued)*

2.10.1 Classification (continued)

(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

2.10.2 Recognition and measurement

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

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

2.11 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.12 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

(b) Assets classified as available-for-sale

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.13 Inventories

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

2.14 Trade and other receivables

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

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

2.15 Cash and cash equivalents

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

2.16 Share capital

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

2.17 Trade and other payables

Trade 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.

2.18 Borrowings

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

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

For the year ended 31 December 2012
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.19 Borrowings costs

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

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

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

2.20 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.20 Current and deferred income tax *(continued)*

(b) Deferred income tax (continued)

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.

(c) Offsetting

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

2.21 Employee benefits – Pension obligations and other benefits

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

2.22 Government grants

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES *(continued)*

2.23 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.

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

2.24 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.

2.25 Dividend distribution

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

Notes to the Consolidated Financial Statements

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3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

Risk management is carried out by finance department under the 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 2012 and 2011 are as follows:

Group	**As at 31 December**	
	2012	2011
	RMB'000	RMB'000
Assets (Notes 20 and 23)		
HK$	**2,762**	4,932
Liabilities (Notes 26 and 28)		
US$	**6,059**	6,227
HK$	**250**	405

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2012
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3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk (continued)

(i) Foreign exchange risk *(continued)*

The following table shows the sensitivity analysis of an increase/decrease of 5% in RMB against US$ and HK$, with all other variables held constant, as at 31 December 2012 and 2011 respectively. This sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of each reporting period. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next end of reporting period. If there is a 5% increase/decrease in RMB against US$ and HK$, the effect on the profit before income tax is as follows:

Group	**As at 31 December**	
	2012	2011
	RMB'000	RMB'000
Increase of 5% RMB against US$ and HK$		
– Increase of profit before income tax	**177**	85
Decrease of 5% RMB against US$ and HK$		
– Decrease of profit before income tax	**(177)**	(85)

(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 2012, the Group's borrowings of RMB474,000,000 bore interest at variable rates and borrowings of RMB331,725,000 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 2012, 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 RMB1,422,000 (2011: RMB1,260,000) lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

As at 31 December 2012, 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 RMB1,104,000 (2011: RMB1,251,000) higher/lower, respectively, mainly as a result of higher/lower interest income earned.

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For the year ended 31 December 2012
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3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) *Credit risk*

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

As at 31 December 2012, 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 2012 and 2011 were as follows:

Group	**As at 31 December**	
	2012	2011
	RMB'000	RMB'000
Big four commercial banks (i)	**194,176**	242,917
Other listed banks	**2,068**	1,857
Other state-owned banks	**171,676**	69,945
	367,920	314,719

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

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

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

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

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For the year ended 31 December 2012
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3. FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) *Liquidity risk*

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

The table below analyses the Group's and Company's 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 2012				
Bank borrowings	**427,313**	**20,125**	**110,387**	**63,725**
Other borrowings	**231,440**	**521**	**1,536**	**8,628**
Trade and other payables (i)	**136,362**	**—**	**—**	**—**
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	—	—

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

Company	**Less than 1 year RMB'000**	**Between 1 and 2 years RMB'000**	**Between 2 and 5 years RMB'000**	**Over 5 years RMB'000**
At 31 December 2012				
Other payables	**6,211**	**—**	**—**	**—**
At 31 December 2011				
Other payables	6,515	—	—	—

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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 2012 and 2011 were as follows:

Group	**As at 31 December**	
	2012	2011
	RMB'000	RMB'000
Total borrowings	**805,725**	470,751
Less: cash and cash equivalents	**(368,940)**	(310,762)
Net debt	**436,785**	159,989
Total equity	**896,266**	784,220
Total capital	**1,333,051**	944,209
Gearing ratio	**0.33**	0.17

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).

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3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

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

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

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2011.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
– Debt securities	—	—	62,000	62,000
Total assets	—	—	62,000	62,000

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

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

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3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation *(continued)*

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

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

The following table presents the changes in level 3 instruments for the year ended 31 December 2011.

	Available-for-sale financial assets RMB'000	Total RMB'000
Balance at 1 January	—	—
Additions	830,000	830,000
Disposals	(768,000)	(768,000)
Balance at 31 December	62,000	62,000
Total gains or losses for the period including in profit or loss for assets held at the end of the reporting period	1,298	1,298

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 28.

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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) Assessment of impairment of goodwill

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

(b) Income taxes

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

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

As at 31 December 2012, the Group has deferred income tax assets of approximately RMB2,237,000 (2011: RMB1,917,000) (Note 29). To the extent that it is probable that the taxable profit will be available against which the deductible temporary differences will be utilised, deferred income tax assets are recognised for temporary differences arising from provision for impairment of assets, accrued expenses, tax losses and depreciation. Should the Group be required to increase the tax rate, every 1% increment in tax rate would render a further write up of deferred tax assets in the amount of approximately RMB89,000 (2011: RMB81,000).

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

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

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

5. SEGMENT INFORMATION

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

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

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

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

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

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5. SEGMENT INFORMATION *(continued)*

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

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

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

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5. SEGMENT INFORMATION *(continued)*

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

For the year ended 31 December 2012, no revenue derived from sales made to a single external customers amounted to 10% or more of the Group's total revenue (2011: nil).

6. OTHER INCOME

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Government grants (a)	**9,546**	10,737

(a) For the year ended 31 December 2012, 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.

7. OTHER GAINS – NET

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Gains on disposal of available-for-sale financial assets	**877**	1,298
Gains on disposal of subsidiaries (Note 36)	**11,801**	—
Losses on disposal of property, plant and equipment (Note 31)	**(72)**	(91)
Others	**160**	(917)
	12,766	290

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8. EXPENSE BY NATURE

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Raw materials and consumables used	**351,721**	213,213
Changes in inventories of finished goods and work in progress	**(3,006)**	(6,544)
Depreciation on property, plant and equipment (Note 16)	**26,398**	16,231
Depreciation on investment properties (Note 17)	**497**	468
Amortisation of lease prepayments (Note 15)	**1,189**	661
Amortisation of intangible assets (Note 18)	**7,401**	5,152
Employee benefit expense (Note 9)	**53,126**	35,429
Licensing fee for the exclusive operating rights for city pipeline network (a) (Note 33)	**1,100**	1,100
Engagement of construction and design services	**34,291**	29,201
Transportation	**13,899**	7,669
Auditors' remuneration	**3,523**	2,802
Professional expenses	**1,715**	2,834
Advertising expenses	**719**	478
Entertainment expenses	**3,696**	2,926
Office expenses	**3,238**	2,882
Taxes	**15,080**	10,274
Other expenses	**18,569**	10,131
Total cost of sales, distribution costs and administrative expenses	**533,156**	334,907

(a) In September 2002, the local government of Hebi City and Henan Tian Lun Gas Engineering Investment Limited ("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.

9. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Wages and salaries	**39,685**	26,328
Pension costs – defined contribution plans	**4,764**	3,543
Social security benefits costs	**4,864**	2,387
Others	**3,813**	3,171
	53,126	35,429

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9. EMPLOYEE BENEFIT EXPENSE *(continued)*

(a) Directors' emoluments

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

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

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
	956	—	77	1,033

* represent the independent non-executive directors

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9. EMPLOYEE BENEFIT EXPENSE *(continued)*

(a) Directors' emoluments *(continued)*

Mr. Chang Zongxian and Mr. Zhang Daoyuan resigned on 30 May 2012 and 27 December 2012, respectively.

For the year ended 31 December 2012, 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.

(b) Five highest paid individuals

The five individuals whose emoluments were highest in the Group for the year ended 31 December 2012 included four (2011: two) directors. Their emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual for the year ended 31 December 2012 (2011: three) are as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Basic salaries and allowances	**192**	425
Discretionary bonuses	**–**	913
Retirement benefit contributions	**20**	12
	212	1,350

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

	Year ended 31 December	
	2012	2011
Nil to HK$1,000,000 (equivalent to RMB810,850)	**1**	2
HK$1,000,001 (equivalent to RMB810,851) to HK$1,500,000 (equivalent to RMB1,216,275)	**–**	1
	1	3

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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10. FINANCE COSTS – NET

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Finance income		
– Interest income derived from bank deposits	**(2,096)**	(4,091)
– Investment gains derived from financial assets at fair value through profit or loss	**(30,392)**	—
– Interest income derived from receivables due from a related party (Note 37(b))	**—**	(1,363)
	(32,488)	(5,454)
Finance costs		
– Interest expense on borrowings	**42,362**	18,094
– Exchange (gains)/losses	**(91)**	1,200
– Others	**1,077**	557
Less: amounts capitalised on qualifying assets	**(8,275)**	(4,979)
	35,073	14,872
	2,585	9,418

11. INVESTMENTS IN SUBSIDIARIES – COMPANY

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Investments at cost, unlisted	**96,002**	96,002

The following is a list of the principal subsidiaries as at 31 December 2012:

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

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11. INVESTMENTS IN SUBSIDIARIES – COMPANY *(continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued/ paid-in capital (RMB'000)	Effective interest held	Principal activities and place of operation
Hebi Tian Lun New Energy Limited ("Hebi New Energy") (鶴壁市天倫新能源有限公司)	PRC/13 May 2010	Limited liability company	15,000	100%	Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC
Henan Tian Lun Gas Group Limited ("Henan Tian Lun Gas") (河南省天倫燃氣集團有限公司)	PRC/1 November 2002	Limited liability company	350,000	100%	Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC
Hebi Tian Lun Vehicle-use Gas Limited ("Hebi Tian Lun Vehicle") (鶴壁市天倫車用燃氣有限公司)	PRC/29 October 2007	Limited liability company	10,000	100%	Sale of CNG in the PRC
Xuchang Tian Lun Gas Limited ("Xuchang Tian Lun") (許昌市天倫燃氣有限公司)	PRC/29 September 2003	Limited liability company	25,000	100%	Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC
Xuchang Tian Lun Vehicle-use Gas Limited ("Xuchang Tian Lun Vehicle") (許昌市天倫車用燃氣有限公司)	PRC/12 September 2008	Limited liability company	10,000	100%	Sale of CNG in the PRC
Zhengzhou Shangjie Tian Lun Gas Limited ("Shangjie Tian Lun") (鄭州市上街區天倫燃氣有限公司)	PRC/18 July 2007	Limited liability company	15,000	90%	Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC
Baiyin Natural Gas Limited ("Gansu Baiyin") (白銀市天然氣有限公司)	PRC/16 June 2003	Limited liability company	30,361	98.97%	Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC
Baiyin Wangtong Gas Limited ("Baiyin Wangtong") (白銀市萬通燃氣有限公司)	PRC/15 October 2009	Limited liability company	8,500	100%	Sale of CNG in the PRC

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11. INVESTMENTS IN SUBSIDIARIES – COMPANY *(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
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

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11. INVESTMENTS IN SUBSIDIARIES – COMPANY *(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
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
Xinye County Tian Lun Gas Limited ("Xinye Tian Lun") (新野縣天倫燃氣有限公司)	PRC/2 November 2011	Limited liability company	10,000	100%	Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC
Henan Luyuan Gas Limited ("Henan Luyuan") (河南綠源燃氣有限公司)	PRC/6 January 2005	Limited liability company	33,330	70%	Sale of pipelined natural gas, construction and connection of gas pipelines and sale of CNG in the PRC
Song County Tian Lun Gas Limited ("Henan Songxian") (嵩縣天倫燃氣有限公司)	PRC/24 June 2011	Limited liability company	10,000	100%	Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC
Shangqiu Luyuan Vehicle Gas Limited ("Shangqiu Luyuan Vehicle") (商丘市綠源汽車燃氣有限公司)	PRC/22 August 2006	Limited liability company	1,060	100%	Sale of CNG in the PRC
Dongkou Senbo Gas Limited ("Dongkou Senbo") (洞口森博燃氣有限公司)	PRC/6 January 2011	Limited liability company	10,000	100%	Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC
Kaifeng Xi'Na Natural Gas Limited ("Kaifeng Xi'Na") (開封西納天然氣有限公司)	PRC/28 October 2004	Limited liability company	30,000	100%	Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC

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11. INVESTMENTS IN SUBSIDIARIES – COMPANY *(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
Cao County Zhongtian Gas Limited ("Caoxian Zhongtian") (曹縣中天燃氣有限公司)	PRC/9 May 2012	Limited liability company	10,000	80%	Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC
Shan County Zhongtian Gas Limited ("Shanxian Zhongtian") (單縣中天燃氣有限公司)	PRC/27 April 2006	Limited liability company	10,000	80%	Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC
Guangxi Luzhai Tianlun Gas Limited ("Luzhai Tianlun") (廣西鹿寨天倫燃氣有限公司)	PRC/6 January 2012	Limited liability company	30,000	100%	Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC
Xingtai Tianlun Yunyu Vehicle Gas Limited ("Xingtai Tianlun") (邢臺天倫運興車用燃氣有限公司)	PRC/31 May 2012	Limited liability company	4,000	70%	Sale of CNG in the PRC
Gulang Tianlun Gas Limited ("Gulang Tianlun") (古浪天倫燃氣有限公司)	PRC/30 November 2012	Limited liability company	10,000	100%	Sale of pipelined natural gas, construction and connection of gas pipelines in the PRC
Chongqing Tianlun Kaida New Energy Gas Limited ("Tianlun Kaida") (重慶天倫凱達新能源燃氣有限公司)	PRC/22 October 2012	Limited liability company	20,000	70%	Sale of liquefied natural gas in the PRC

* 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. Jilin Dadi is considered as the Group's subsidiary because its strategic, operating, investing and financing activities are controlled by the Group.

*** Shares hold directly by the Company.

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12. INCOME TAX EXPENSE

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

(b) Hong Kong profits tax

For the years ended 31 December 2012 and 2011, 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 2012 and 2011, 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 ended in 2011, the enacted tax rate applicable to Henan Tian Lun Gas is 25% for the year ended 31 December 2012 (2011: 12.5%). All other subsidiaries incorporated in the PRC are subject to PRC CIT rate at 25% for the year ended 31 December 2012 (2011: 25%).

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Current income tax:		
– PRC CIT	**51,556**	26,694
Deferred tax (Note 29)	**2,154**	586
	53,710	27,280

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12. 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	
	2012	2011
	RMB'000	RMB'000
Profit before income tax	**202,933**	117,633
Tax calculated at statutory tax rates applicable to each group entity	**53,267**	26,589
Expenses not deductible for tax purposes	**443**	646
Others	**—**	45
	53,710	27,280

The weighted average applicable tax rate for the year ended 31 December 2012 is 26% (2011: 23%). The increase of the weighted average applicable tax rate was due to the increase of the PRC CIT rate of Henan Tian Lun Gas.

13. 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	
	2012	2011
Group's profit attributable to owners of the Company (RMB'000)	**135,097**	82,730
Weighted average number of shares in issue (in thousand)	**827,925**	827,925
Basic earnings per share (RMB per share)	**0.16**	0.10

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

14. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB1,777,000 for the year ended 31 December 2012 (2011: RMB3,661,000).

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15. LEASE PREPAYMENTS – GROUP

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Outside of Hong Kong		
– Lease between 35 and 49 years	**48,141**	29,706

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Opening net book value	**29,706**	8,273
Acquisition of subsidiaries (Note 35.1)	**7,023**	20,686
Additions	**19,265**	1,408
Disposal of subsidiaries (Note 36)	**(6,664)**	—
Amortisation charge	**(1,189)**	(661)
Close net book value	**48,141**	29,706

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

(b) As at 31 December 2012, the Group was in the process of obtaining the legal title of lease prepayments with carrying amount of approximately RMB2,641,000 (2011: RMB602,000).

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16. PROPERTY, PLANT AND EQUIPMENT – GROUP

	Buildings RMB'000	Equipment and machinery RMB'000	Gas pipelines RMB'000	Office equipment and motor vehicles RMB'000	CIP RMB'000	Total RMB'000
At 1 January 2011						
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	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 from CIP	18,830	4,323	18,779	143	(42,075)	—
Transfer to investment properties (Note 17)	(524)	—	—	—	—	(524)
Disposals (Note 31)	—	(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
Year ended 31 December 2012						
Opening net book amount	**89,454**	**45,218**	**176,705**	**23,879**	**233,317**	**568,573**
Acquisition of subsidiaries (Note 35.1)	**12,817**	**6,745**	**27,954**	**846**	**2,804**	**51,166**
Additions	**1,606**	**3,275**	**1,612**	**9,692**	**196,969**	**213,154**
Transfer from CIP	**20,249**	**9,207**	**33,845**	**106**	**(63,407)**	**–**
Disposal of subsidiaries (Note 36)	**(17,413)**	**(1,854)**	**–**	**(2,096)**	**(258,538)**	**(279,901)**
Disposals (Note 31)	**(48)**	**(3)**	**–**	**(23)**	**–**	**(74)**
Depreciation charge	**(3,788)**	**(6,525)**	**(10,921)**	**(5,164)**	**–**	**(26,398)**
Closing net book amount	**102,877**	**56,063**	**229,195**	**27,240**	**111,145**	**526,520**
At 31 December 2012						
Cost	**112,037**	**68,608**	**272,846**	**35,578**	**111,145**	**600,214**
Accumulated depreciation	**(9,160)**	**(12,545)**	**(43,651)**	**(8,338)**	**–**	**(73,694)**
Net book amount	**102,877**	**56,063**	**229,195**	**27,240**	**111,145**	**526,520**

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

(a) Depreciation expense of approximately RMB21,559,000 (2011: RMB13,687,000) has been charged in cost of sales, RMB186,000 (2011: RMB95,000) in distribution costs and RMB4,653,000 (2011: RMB2,449,000) in administrative expenses.

(b) Bank borrowings were secured by certain buildings of the Group with a net book value of approximately RMB4,904,000 as at 31 December 2012 (2011: RMB5,159,000) (Note 28).

(c) As at 31 December 2012, the Group was in the process of obtaining the legal title of buildings with carrying amount of approximately RMB7,493,000 (2011: RMB7,760,000).

(d) As at 31 December 2012, the CIP mainly comprises the city pipeline network being constructed in the PRC.

(e) During the year, the Group has capitalised borrowing costs amounting to RMB8,275,000 (2011: RMB4,979,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings at 7.54% (2011: 9.23%).

17. INVESTMENT PROPERTIES – GROUP

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
At beginning of the year		
Cost	**12,772**	12,099
Accumulated depreciation	**(2,714)**	(2,164)
Net book amount	**10,058**	9,935
For the year		
Opening net book amount	**10,058**	9,935
Acquisition of subsidiaries	**–**	67
Transfer from property, plant and equipment	**–**	524
Depreciation charge	**(497)**	(468)
Closing net book amount	**9,561**	10,058
At end of the year		
Cost	**12,772**	12,772
Accumulated depreciation	**(3,211)**	(2,714)
Net book amount	**9,561**	10,058
Fair value at end of the year (a)	**24,844**	24,102

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17. INVESTMENT PROPERTIES – GROUP *(continued)*

(a) As at 31 December 2012 and 2011, 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	
	2012	2011
	RMB'000	RMB'000
Rental income	**1,556**	1,429
Direct operating expenses from properties that generate rental income	**(1,042)**	(959)
	514	470

(c) Depreciation expense of approximately RMB497,000 (2011: RMB468,000) 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	
	2012	2011
	RMB'000	RMB'000
Within 1 year	**1,010**	1,047
Later than 1 year but no later than 3 years	**30**	633
	1,040	1,680

(e) Bank borrowings were secured by certain of the Group's investment properties with a net book value of approximately RMB7,748,000 as at 31 December 2012 (2011: RMB8,146,000) (Note 28).

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18. INTANGIBLE ASSETS – GROUP

	Goodwill RMB'000	Exclusive operating rights RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2011				
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	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
Year ended 31 December 2012				
Opening net book amount	**282,995**	**140,890**	**106**	**423,991**
Acquisition of subsidiaries (Note 35.1)	**43,274**	**47,739**	**—**	**91,013**
Additions	**—**	**14,700**	**10**	**14,710**
Fair value adjustments on business combination (Note 35.2)	**(1,466)**	**4,174**	**—**	**2,708**
Disposal of subsidiaries (Note 36)	**(83,824)**	**—**	**—**	**(83,824)**
Amortisation charge	**—**	**(7,333)**	**(68)**	**(7,401)**
Closing net book amount	**240,979**	**200,170**	**48**	**441,197**
At 31 December 2012				
Cost	**240,979**	**217,442**	**336**	**458,757**
Accumulated Amortisation	**—**	**(17,272)**	**(288)**	**(17,560)**
Net book amount	**240,979**	**200,170**	**48**	**441,197**

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18. INTANGIBLE ASSETS – GROUP *(continued)*

(a) Amortisation of approximately RMB7,401,000 (2011: RMB5,152,000) is included in cost of sales.

(b) Impairment for goodwill

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

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Jinlin location		
Jinlin Zhongji	**89,045**	90,511
Gansu location		
Gansu Baiyin	**86,715**	86,715
Henan location		
Puyang Tianlun	**6,167**	6,167
Henan Luyuan	**7,663**	7,663
Henan Songxian	**8,115**	8,115
Kaifeng Xi'Na	**10,079**	—
Hunan location		
Dongkou Senbo	**7,572**	—
Sichuan location		
Cangxi County Datong Natural Gas Investment Limited ("Cangxi Datong")	**—**	83,824
Shandong location		
Caoxian Zhongtian	**11,401**	—
Shanxian Zhongtian	**14,222**	—
	240,979	282,995

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

As the CGUs in the same geography share approximately the same gross margin, growth rate and pre-tax discount rate. The CGUs in the same geography had been grouped by location:

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18. INTANGIBLE ASSETS – GROUP *(continued)*

(b) Impairment for goodwill *(continued)*

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

	Jilin Location	**Gansu Location**	**Henan Location**	**Hunan Location**	**Shandong Location**
Gross margin as budgeted	**29%**	**32%**	**38%**	**44%**	**46%**
Growth rate	**3%**	**3%**	**3%**	**3%**	**3%**
Pre-tax discount rate	**19%**	**18%**	**19%**	**18%**	**18%**

The key assumptions used for value-in-use calculations in 2011 are as follows:

	Jilin Location	Gansu Location	Henan Location	Sichuan Location
Gross margin as budgeted	33%	32%	40%	20%
Growth rate	3%	3%	3%	3%
Pre-tax discount rate	18%	18%	19%	20%

These assumptions have been used for the analysis of the CGU within the business. Management determined budgeted gross margin and the weighted average growth rate based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant location.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Balance at 1 January	**62,000**	—
Additions	**89,990**	830,000
Disposals	**(151,990)**	(768,000)
Balance at 31 December	**—**	62,000

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19. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP *(continued)*

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

	2012 **RMB'000**	2011 RMB'000
Unlisted securities:		
– Debt securities with variable interest rate with maturity dates within January 2012	**–**	62,000

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

20. TRADE AND OTHER RECEIVABLES – GROUP AND COMPANY

	Group		**Company**	
	2012 **RMB'000**	2011 RMB'000	**2012** **RMB'000**	2011 RMB'000
Trade receivables (a)	**100,424**	48,421	**–**	—
Bills receivable	**1,500**	1,000	**–**	—
Prepayments	**28,936**	35,091	**374**	—
Receivables due from related parties (Note 37)	**6,963**	4,026	**358,156**	358,156
Other receivables	**34,220**	21,531	**–**	367
Value-added-tax to be offset	**1,596**	6,130	**–**	—
	173,639	116,199	**358,530**	358,523
Less: long-term prepayments	**(13,336)**	(14,870)	**–**	—
Current portion	**160,303**	101,329	**358,530**	358,523

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

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

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

Group	**As at 31 December**	
	2012	2011
	RMB'000	RMB'000
Less than 30 days	**67,743**	17,345
31 days to 90 days	**20,403**	23,554
91 days to 1 year	**8,094**	4,401
Over 1 year	**4,184**	3,121
	100,424	48,421

As at 31 December 2012, trade receivables of approximately RMB1,333,000 (2011: RMB994,000) were past due but not impaired. These relate to a number of independent customers that have good trading records with the Group. Based on the past experiences, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are considered fully recoverable. The ageing analysis of these trade receivables is as follows:

Group	**As at 31 December**	
	2012	2011
	RMB'000	RMB'000
Over 1 year	**1,333**	994

As at 31 December 2012, trade receivables of approximately RMB99,091,000 (2011: RMB47,427,000) 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**	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**173,265**	115,832	**358,156**	358,156
HK$	**374**	367	**374**	367
	173,639	116,199	**358,530**	358,523

(c) As at 31 December 2012 and 2011, 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.

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21. INVENTORIES – GROUP

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Materials for gas pipelines	**19,107**	10,119
Consumables	**80**	65
Work in progress	**28,683**	8,983
Finished pipeline network	**25,804**	25,900
	73,674	45,067

The cost of inventories recognised as the Group's expense and included in cost of sales amounted to approximately RMB348,715,000 (2011: RMB206,669,000).

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Investment in trust	**375,983**	—

Changes in fair values of financial assets at fair value through profit or loss are recorded in "Finance income" in the consolidated financial statements.

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

23. CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash in hand	**1,020**	1,043	**—**	—
Cash at banks	**367,920**	309,719	**673**	2,761
	368,940	310,762	**673**	2,761

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23. CASH AND CASH EQUIVALENTS – GROUP AND COMPANY *(continued)*

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**366,552**	306,197	**8**	8
HK$	**2,388**	4,565	**665**	2,753
Cash and cash equivalents	**368,940**	310,762	**673**	2,761

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.

24. SHARE CAPITAL AND PREMIUM – GROUP AND COMPANY

	Number of Shares	**Ordinary shares**	**Share premium**	**Total**
	In thousand	RMB'000	RMB'000	RMB'000
Issued and fully paid				
At 1 January 2011	827,925	7,077	454,188	461,265
At 31 December 2011	827,925	7,077	454,188	461,265
At 31 December 2012	**827,925**	**7,077**	**454,188**	**461,265**

The total authorised number of ordinary shares is 2,000,000,000 shares (2011: 2,000,000,000 shares) with a par value of HK$0.01 per share (2011: HK$0.01 per share).

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25. RESERVES – GROUP

	Capital reserves RMB'000	Statutory reserves RMB'000	Total RMB'000
At 1 January 2011	5,493	13,399	18,892
Appropriation (a)	—	8,925	8,925
Business combination under common control	(23,000)	—	(23,000)
At 31 December 2011	(17,507)	22,324	4,817
At 1 January 2012	**(17,507)**	**22,324**	**4,817**
Appropriation (a)	**—**	**14,260**	**14,260**
Transaction with non-controlling interests	**(16)**	**—**	**(16)**
At 31 December 2012	**(17,523)**	**36,584**	**19,061**

(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 2012, approximately RMB14,260,000 (2011: RMB8,925,000) were appropriated to the statutory surplus reserves funds from net profits of certain PRC Subsidiaries.

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26. TRADE AND OTHER PAYABLES – GROUP AND COMPANY

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables (a and b)	**63,677**	40,448	**—**	—
Amounts due to related parties (a and b) (Note 37)	**994**	916	**5,961**	5,961
Accrued payroll and welfare	**2,055**	3,214	**—**	—
Interest payables	**1,023**	1,114	**—**	—
Other taxes payables	**3,008**	2,259	**—**	—
Other payables (a)	**70,668**	149,944	**250**	554
	141,425	197,895	**6,211**	6,515
Less: long – term other payables	**—**	(25,000)	**—**	—
Current portion	**141,425**	172,895	**6,211**	6,515

(a) As at 31 December 2012 and 2011, 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 ageing analysis of the trade payables, including amounts due to related parties which were trade in nature was as follows:

Group	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Less than 30 days	**27,937**	12,057
31 days to 90 days	**11,895**	8,665
91 days to 1 year	**13,175**	8,175
1 year to 2 years	**10,071**	9,746
2 years to 3 years	**900**	1,134
Over 3 years	**663**	671
	64,641	40,448

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

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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**141,175**	197,490	**5,961**	6,110
HK$	**250**	405	**250**	405
	141,425	197,895	**6,211**	6,515

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27. ADVANCE FROM CUSTOMERS – GROUP

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Advance from customers	**114,750**	87,123

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

28. BORROWINGS – GROUP

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Non-current		
Bank borrowings		
– unsecured	**160,000**	170,000
Other borrowings (c)	**5,901**	16,074
Total non-current borrowings	**165,901**	186,074
Current		
Bank borrowings		
– pledged (a)	**35,000**	35,000
– guaranteed (b)	**60,000**	20,000
– unsecured	**314,000**	215,000
Other borrowings (c)	**230,824**	14,677
Total current borrowings	**639,824**	284,677
Total borrowings	**805,725**	470,751

(a) As at 31 December 2012 and 2011, all these bank borrowings were secured by certain property, plant and equipment and investment properties of the Group (Note 16 and 17).

(b) As at 31 December 2012, such bank borrowings were guaranteed by Henan Tian Lun Gas.

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

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28. BORROWINGS – GROUP *(continued)*

(c) As at 31 December 2012, such borrowings mainly represented (i) borrowings of RMB6,059,000 from local government assumed by the Group to acquire the 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 RMB11,445,000 which were unsecured, bore interests at rate ranging from 8.75% to 12% per annum, and (iii) borrowings due to an independent third-party of RMB219,221,000 which were unsecured and bearing no interest. These borrowings will be repaid in a short period, no later than April 2013.

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 interests 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	
	2012	2011
	RMB'000	RMB'000
– Within 1 year	**639,824**	284,677
– Between 1 and 2 years	**10,164**	20,158
– Between 2 and 5 years	**90,527**	70,510
– Over 5 years	**65,210**	95,406
	805,725	470,751

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
RMB	**799,666**	464,524
US$	**6,059**	6,227
	805,725	470,751

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Carrying amount	**165,901**	186,074
Fair value	**167,763**	186,154

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28. BORROWINGS – GROUP *(continued)*

(f) *(continued)*

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 7.62% as at 31 December 2012 (2011: 7.47%).

(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	
	2012	2011
RMB	**6.55% – 12.00%**	6.56% – 12.60%
US$	**6.09%**	6.09%

29. DEFERRED INCOME TAX – GROUP

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Deferred tax assets		
– Deferred tax assets to be recovered after more than 12 months	**1,217**	936
– Deferred tax assets to be recovered within 12 months	**1,020**	981
	2,237	1,917
Deferred tax liabilities:		
– Deferred tax liability to be recovered after more than 12 months	**(41,238)**	(28,463)
– Deferred tax liability to be recovered within 12 months	**(2,087)**	(1,725)
	(43,325)	(30,188)
Deferred tax liabilities (net)	**(41,088)**	(28,271)

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29. DEFERRED INCOME TAX – GROUP *(continued)*

(a) *(continued)*

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
At beginning of year	**(28,271)**	1,581
Acquisition of subsidiaries (Note 35.1)	**(9,620)**	(29,266)
Fair value adjustments on business combination (Note 35.2)	**(1,043)**	—
Charged to profit or loss	**(2,154)**	(586)
At end of year	**(41,088)**	(28,271)

(b) The movements on the deferred income tax assets and liabilities are as follows:

Deferred tax assets

	Provision for impairment of assets	Accrued expenses	Tax losses	Depreciation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2011	221	643	—	717	1,581
Acquisition of subsidiaries	—	—	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
Acquisition of subsidiaries (Note 35.1)	2,544	—	—	—	2,544
(Charged)/credited to profit or loss	(2,618)	164	—	230	(2,224)
As at 31 December 2012	**147**	**872**	**52**	**1,166**	**2,237**

Deferred tax liabilities

	Fair value adjustments upon business combination
	RMB'000
As at 1 January 2011	—
Acquisition of subsidiaries	31,224
Credited to profit or loss	(1,036)
As at 31 December 2011	30,188
Acquisition of subsidiaries (Note 35.1)	12,164
Fair value adjustments on business combination (Note 35.2)	1,043
Credited to profit or loss	(70)
As at 31 December 2012	**43,325**

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29. DEFERRED INCOME TAX – GROUP *(continued)*

(b) *(continued)*

As at 31 December 2012, deferred income tax liabilities of approximately RMB23,283,000 (2011: RMB12,564,000) had not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries. Unremitted earnings totalled approximately RMB232,829,000 as at 31 December 2012 (2011: RMB125,639,000). The Group does not intend to remit these unremitted earnings from the relevant subsidiaries to the Hong Kong holding entity in the foreseeable future.

30. DIVIDENDS

Pursuant to the resolution of the Board of Directors dated 28 March 2013, the directors of the Company proposed not to recommend any dividend for the year ended 31 December 2012 (2011: nil).

31. CASH GENERATED FROM OPERATIONS

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Profit before income tax	**202,933**	117,633
Adjustments for:		
– Depreciation of property, plant and equipment and investment properties	**26,895**	16,699
– Amortisation of intangible assets and lease prepayments	**8,590**	5,813
– Finance income	**(32,488)**	(5,454)
– Finance costs	**33,996**	14,315
– Gains on disposal of available-for-sale financial assets	**(877)**	(1,298)
– Gains on disposal of subsidiaries	**(11,801)**	—
– Losses on disposal of property, plant and equipment (b)	**72**	91
	227,320	147,799
Changes in working capital :		
– Inventories	**(9,515)**	(1,180)
– Trade and other receivables	**(48,211)**	(32,395)
– Trade and other payables	**32,272**	(29,935)
– Advance from customers	**4,344**	4,990
	(21,110)	(58,520)
Cash generated from operations	**206,210**	89,279

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31. CASH GENERATED FROM OPERATIONS *(continued)*

(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	
	2012	2011
	RMB'000	RMB'000
Net book amount (Note 16)	**74**	1,173
Losses on disposal of property, plant and equipment (Note 7)	**(72)**	(91)
Other receivables generated from disposal of property, plant and equipment	**—**	(1,079)
Proceeds from disposal of property, plant and equipment	**2**	3

32. CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any material contingent liabilities.

33. COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Property, plant and equipment	**11,688**	47,905

(b) Operating lease commitments

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Not later than one year	**160**	160
Later than one year and no later than five years	**160**	320
	320	480

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33. COMMITMENTS *(continued)*

(c) Licensing fee commitments (Note 8)

	As at 31 December	
	2012	2011
	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	**16,500**	17,600
	22,000	23,100

34. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(a) Acquisition of additional interest in a subsidiary

On 13 February 2012, the Group acquired an additional 20% of the equity interests of Xinye Tianlun for a consideration of RMB2,000,000. The carrying amount of the non-controlling interests on the date of acquisition was approximately RMB1,984,000. The effect of changes on the equity attributable to owners of the Company during the year is summarised as follows:

	As at 31 December 2012 RMB'000
Carrying amount of non-controlling interests acquired	**1,984**
Consideration paid to non-controlling interests	**(2,000)**
Excess of consideration paid recognised within equity	**(16)**

(b) Effects of transactions with non-controlling interests on the equity attributable to owners of the Company for year ended 31 December 2012

	RMB'000
Total comprehensive income for the year attributable to owners of the Company	**135,097**
Changes in equity attributable to owners of the Company arising from:	
– Acquisition of additional interests in a subsidiary	**(16)**
	135,081

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35. BUSINESS COMBINATION

35.1 Business combination through purchase of subsidiaries in 2012

On 31 March 2012, the Group acquired 100% of the equity interests of Kaifeng Xi'Na, an independent third party established in the PRC with limited liability, which is principally engaged in the gas business in Lankao County and Weishi County in Henan Province. The total consideration was approximately RMB38,096,000.

On 30 September 2012, the Group acquired 80% of the equity interests of Caoxian Zhongtian, an independent third party established in the PRC with limited liability, which is principally engaged in the gas business in Shandong Province. The total consideration was approximately RMB28,159,000 including the repayment of other payables of RMB22,000,000 due to the vendor.

On 30 September 2012, the Group acquired 80% of the equity interests of Shanxian Zhongtian, an independent third party established in the PRC with limited liability, which is principally engaged in the gas business in Shandong Province. The total consideration was approximately RMB32,914,000 including the repayment of other payables of RMB24,400,000 due to the vendor.

On 30 November 2012, the Group acquired 100% of the equity interests of Dongkou Senbo, an independent third party established in the PRC with limited liability, which is principally engaged in the gas business in Hunan Province. The total consideration was RMB23,900,000 including the repayment of other payables of RMB1,956,000 due to the vendor.

As a result of the abovementioned acquisitions, the Group is expected to increase its presence in these markets. The goodwill of approximately RMB43,274,000 arising from the acquisitions are attributable to the pre-existing, well positioned business operating in competitive markets and the expected synergies acquired through combining a highly skilled workforce and ultimately obtain the economies of scale.

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

	Kaifeng Xi'Na as at 30 March 2012	Caoxian Zhongtian as at 30 September 2012	Shanxian Zhongtian as at 30 November 2012	Dongkou Senbo as at 31 November 2012	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Consideration					
– Cash	35,296	25,159	29,514	21,500	111,469
– Contingent consideration	2,800	3,000	3,400	2,400	11,600
Total consideration	38,096	28,159	32,914	23,900	123,069
In respect of indebtedness arrangement	—	(22,000)	(24,400)	(1,956)	(48,356)
Purchase consideration for acquisition	38,096	6,159	8,514	21,944	74,713

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35. BUSINESS COMBINATION *(continued)*

35.1 Business combination through purchase of subsidiaries in 2012 *(continued)*

	Kaifeng Xi'Na Fair value as at 31 March 2012 RMB'000	Caoxian Zhongtian Fair value as at 30 September 2012 RMB'000	Shanxian Zhongtian Fair value as at 30 September 2012 RMB'000	Dongkou Senbo Fair value as at 30 November 2012 RMB'000	Total RMB'000
Recognised amounts of identifiable assets acquired and liabilities assumed:					
Cash and cash equivalents	653	124	188	147	1,112
Property, plant and equipment	16,555	15,549	14,526	4,536	51,166
Intangibles:					
– Operation rights	6,939	9,929	16,542	14,329	47,739
Lease prepayments	—	4,060	2,030	933	7,023
Inventories	4,117	8,069	5,843	1,066	19,095
Receivables	12,093	75	992	321	13,481
Current income tax liabilities	—	31	(50)	—	(19)
Trade and other payables	(1,005)	(32,120)	(33,122)	(3,746)	(69,993)
Advance from customers	(11,975)	(9,101)	(9,768)	(439)	(31,283)
Net deferred tax assets/(liabilities)	640	(3,168)	(4,317)	(2,775)	(9,620)
Total identifiable net assets acquired	28,017	(6,552)	(7,136)	14,372	28,701
Non-controlling interests	—	1,310	1,428	—	2,738
Goodwill	10,079	11,401	14,222	7,572	43,274
	38,096	6,159	8,514	21,944	74,713

	Kaifeng Xi'Na RMB'000	Caoxian Zhongtian RMB'000	Shanxian Zhongtian RMB'000	Dongkou Senbo RMB'000	Prior year acquisitions RMB'000	Total RMB'000
Outflow of cash to acquire businesses, net of cash acquired						
– cash paid	35,296	25,159	29,514	21,500	14,372*	125,841
– cash and cash equivalents in subsidiaries acquired	(653)	(124)	(188)	(147)	—	(1,112)
Cash outflow on acquisition	34,643	25,035	29,326	21,353	14,372	124,729

* For the year ended 31 December 2012, such cash consideration paid out included the amount of approximately RMB6,372,000 and RMB8,000,000 for the acquisitions of Henan Songxian and Gansu Baiyin in 2011.

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35. BUSINESS COMBINATION *(continued)*

35.1 Business combination through purchase of subsidiaries in 2012 *(continued)*

(a) Acquisition-related costs of approximately RMB4,000 have been charged to administrative expenses in the profit or loss for the year ended 31 December 2012.

(b) *Contingent consideration*

According to the acquisition agreement, the Group will pay RMB2.8 million as part of the consideration to the vendor under the condition that after one year of the equity transfer of Kaifeng Xi'Na, no undisclosed obligations or unrecorded liabilities to be discovered by the Group.

According to the acquisition agreement, the Group will pay RMB3.0 million as part of the consideration to the vendor under the condition that no dispute on the legal right of the equity of Caoxian Zhongtian and the amount payable to the vendor within one year since the acquisition date.

According to the acquisition agreement, the Group will pay RMB3.4 million as part of the consideration to the vendor under the condition that no dispute on the legal right of the equity of Shanxian Zhongtian and the amount payable to the vendor within one year since the acquisition date.

According to the acquisition agreement, the Group will pay RMB2.4 million as part of the consideration to the vendor under the condition that after one year of the equity transfer of Dongkou Senbo, no undisclosed obligations or unrecorded liabilities to be discovered by the Group.

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

(c) *Acquired receivables*

The fair value of trade and other receivables is approximately RMB13,481,000 and includes trade receivables with a fair value of approximately RMB1,939,000, which is the gross contractual amount of the trade receivables. The Group received other receivables from the vendors of approximately RMB10,096,000 in July 2012.

(d) *Non-controlling interests*

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

(e) *Revenue and profit contribution*

The acquired businesses contributed aggregated revenues of approximately RMB47,246,000 and aggregated net profit of approximately RMB20,466,000 to the Group for the periods from the respective acquisition dates to 31 December 2012.

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35. BUSINESS COMBINATION *(continued)*

35.1 Business combination through purchase of subsidiaries in 2012 *(continued)*

(e) Revenue and profit contribution (continued)

If the acquisition had occurred on 1 January 2012, consolidated revenue and consolidated net profit of the Group for the year ended 31 December 2012 would have been approximately RMB49,608,000 and approximately RMB21,627,000 respectively, excluding the impact of Caoxian Zhongtian and Shanxian Zhongtian since the Group cannot obtain their pre-acquisition results from the vendors, it is impracticable to disclose their pre-acquisition revenue and profit.

35.2 Business combination through purchase of subsidiaries in 2011

	Jilin Zhongji provisional fair value as at 30 April 2011 RMB'000	**Fair values adjustments** RMB'000	**Fair values** RMB'000
Recognised amounts of identifiable assets acquired and liabilities assumed:			
Cash and cash equivalents	4,638	—	4,638
Property, plant and equipment	93,723	—	93,723
Intangibles:			
– Software	42	—	42
– Operation rights	109,645	4,174	113,819
Lease prepayments	8,931	—	8,931
Inventories	15,119	—	15,119
Receivables	17,085	—	17,085
Other non-current assets	1,101	—	1,101
Borrowings	(40,000)	—	(40,000)
Current income tax liabilities	(2,374)	—	(2,374)
Trade and other payables	(37,211)	—	(37,211)
Advance from customers	(18,646)	—	(18,646)
Net deferred tax liabilities	(29,382)	(1,043)	(30,425)
Total identifiable net assets acquired	122,671	3,131	125,802
Non-controlling interests	(60,182)	(1,405)	(61,587)
Goodwill	90,511	(1,466)	89,045
	153,000	260	153,260

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35. BUSINESS COMBINATION *(continued)*

35.2 Business combination through purchase of subsidiaries in 2011 *(continued)*

On 30 April 2011, the Group acquired 51% of the equity interests 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.

The valuation of Jilin Zhongji was completed by an independent valuer. The identified fair value of identifiable assets and liabilities did not have significant changes comparing to the provisional fair value as at 30 April 2011.

The financial results of 2011 have not been restated for the insignificant impact of the valuation.

36 DISPOSAL OF SUBSIDIARIES

Pursuant to the agreement with Golden Dragon Company, an independent third party, Henan Tian Lun Gas disposed its entire equity interests in Cangxi Datong for a total consideration of RMB90,000,000 on 13 September 2012. In addition, pursuant to the agreement with Cangxi Datong, Henan Tian Lun Gas disposed its entire equity interests in Cangxi Tian Lun Gas Investment Limited for a total consideration of RMB5,100,000 on 18 October 2012.

Details of net assets disposed of and gain on disposal are as follows:

	As at 13 September 2012 RMB'000
Disposal proceeds:	
Cash received	95,100
Discharge of contingent consideration payable (a)	45,000
Less: Net assets disposed	(44,475)
Goodwill	(83,824)
Gain on disposal of subsidiaries (Note 7)	11,801

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36 DISPOSAL OF SUBSIDIARIES *(continued)*

(a) According to the then acquisition agreement, the Group should pay contingent consideration of RMB 45 million to the then vendor when certain conditions were met. Upon disposal of Cangxi Datong, those conditions were not met, hence the obligation for contingent consideration payable was discharged.

The assets and liabilities derecognised as a result of the disposal are as follows:

	As at 13 September 2012 RMB'000
Property, plant and equipment	279,901
Cash and cash equivalents	2,158
Inventories	3
Trade and other receivables	33,706
Lease prepayments	6,664
Borrowings	(50,346)
Advance from customers	(8,000)
Trade and other payables	(178,567)
Net assets	85,519
Non-controlling interests	(41,044)
Net assets disposed	44,475
Cash received	95,100
Less: Cash and cash equivalents of subsidiaries disposed	(2,158)
Net cash inflow on disposal of subsidiaries	92,942

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36 DISPOSAL OF SUBSIDIARIES *(continued)*

The effect of the disposal to consolidated statement of comprehensive income is as follows:

	Period from 1 January to 13 September 2012 RMB'000
Administrative expenses	(3,196)
Other income	9,546
Finance costs – net	(76)
Profit before tax	6,274
Income tax expense	(1,703)
Profit for the year	4,571
Attributable to:	
– Owners of the company	2,331
– Non-controlling interests	2,240
	4,571

The effect of the disposal to consolidated statement of cash flows is as follows:

	Period from 1 January to 13 September 2012 RMB'000
Operating cash flows	18,055
Investing cash flows	(40,840)
Financing cash flows	24,179
Total cash flows	1,394

37. 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 Mr. Zhang Yingcen and his family members comprising his wife and eldest son ("Controlling Shareholders").

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2012 and 2011, and balances arising from related party transactions as at 31 December 2012 and 2011.

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37. RELATED PARTY TRANSACTIONS *(continued)*

(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	
	2012	2011
	RMB’000	RMB’000
Purchase of construction service		
– Hexiang Engineering	**9,895**	8,192

	Year ended 31 December	
	2012	2011
	RMB’000	RMB’000
Rendering of service		
– Henan Tian Lun Engineering Investment	**200**	200

	Year ended 31 December	
	2012	2011
	RMB’000	RMB’000
Interest income from receivables		
– Henan Tian Lun Real Estate	**–**	1,363

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

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37. RELATED PARTY TRANSACTIONS *(continued)*

(c) Balances with related parties

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and other receivables				
Other receivables due from				
– Henan Tian Lun Engineering Investment	**6,963**	990	**–**	—
– Henan Tian Lun Real Estate	**–**	2,845	**–**	—
– Hexiang Engineering	**–**	191	**–**	—
– Upsky Holdings	**–**	—	**247,486**	247,486
– Tian Lun New Energy	**–**	—	**110,670**	110,670
	6,963	4,026	**358,156**	358,156

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and other payables				
Trade payables due to				
– Hexiang Engineering	**964**	—	**–**	—
Other payables due to				
– Hexiang Engineering	**30**	916	**–**	—
– Henan Tian Lun Gas	**–**	—	**5,961**	5,961
	994	916	**5,961**	5,961

(d) Key management compensation

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Basic salaries and allowances	**3,898**	3,513
Discretionary bonuses	**296**	1,364
Retirement benefit contributions	**423**	272
	4,617	5,149

Five Year Financial Summary

RESULTS	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000 Restated	RMB'000	RMB'000
Revenue	**716,362**	450,931	258,255	179,223	127,657
Gross profit	**251,236**	172,004	121,074	78,830	50,034
Profit before income tax	**202,933**	117,633	97,683	61,545	32,417
Income tax expense	**(53,710)**	(27,280)	(21,715)	(13,992)	(6,866)
Profit for the year	**149,223**	90,353	75,968	47,553	25,551

ASSETS, LIABILITIES AND EQUITY	As at 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000 Restated	RMB'000	RMB'000
Total assets	**2,021,967**	1,575,655	683,378	271,003	249,487
Total liabilities	**1,125,701**	791,435	124,133	160,380	186,417
Total equity	**896,266**	784,220	559,245	110,623	63,070