

TL NATURAL GAS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8536

Third Quarterly
Report

2021



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

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

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

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

UNAUDITED THIRD QUARTERLY RESULTS

The board of Directors (the "Board") is pleased to report the unaudited condensed consolidated financial results of the Group for the three months and the nine months ended 30 September 2021 (the "Period"), together with the unaudited comparative figures for the corresponding periods in 2020, are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months and the nine months ended 30 September 2021

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
REVENUE	4	10,080	15,153	33,900	34,771
Cost of sales		(11,325)	(14,770)	(37,897)	(34,735)
Gross (loss)/profit		(1,245)	383	(3,997)	36
Other income and gains	4	3,331	337	3,390	3,987
Selling and distribution expenses		(162)	(335)	(458)	(739)
Administrative expenses		(1,734)	(3,139)	(4,817)	(10,572)
Reversal of impairment losses on financial assets		12	-	2,126	-
Share of profits and losses of an associate		(3)	(30)	(23)	(81)
Finance cost	6	(133)	(262)	(716)	(835)
Other expenses		(3,037)	-	(3,037)	(172)
LOSS BEFORE TAX	5	(2,971)	(3,046)	(7,532)	(8,376)
Income tax credit/(expense)	7	186	46	(604)	98
LOSS FOR THE PERIOD		(2,785)	(3,000)	(8,136)	(8,278)
Loss attributable to:					
Owners of the parent		(2,785)	(3,000)	(8,136)	(8,278)
Non-controlling interests		-	-	-	-
		(2,785)	(3,000)	(8,136)	(8,278)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT DURING THE PERIOD			(restated)		(restated)
Basic and diluted (cents)	8	(1.57)	(1.81)	(4.75)	(5.36)

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the three months and the nine months ended 30 September 2021

Notes	Three months ended 30 September		Nine months ended 30 September	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
LOSS FOR THE PERIOD	(2,785)	(3,000)	(8,136)	(8,278)
OTHER COMPREHENSIVE INCOME				
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations	(46)	(1,078)	(244)	(313)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(46)	(1,078)	(244)	(313)
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of the Company's financial statements	(74)	-	154	-
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods	(74)	-	154	-
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(120)	(1,078)	(90)	(313)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(2,905)	(4,078)	(8,226)	(8,591)
Total comprehensive loss attributable to:				
Owners of the parent	(2,905)	(4,078)	(8,226)	(8,591)
Non-controlling interests	-	-	-	-
	(2,905)	(4,078)	(8,226)	(8,591)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2021

	Attributable to Owners of the Parent										
	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Equity component of convertible bonds RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020	4,135	52,723	-	-	17,350	5,059	2,112	1,985	83,364	-	83,364
Loss for the period	-	-	-	-	-	-	-	(8,278)	(8,278)	-	(8,278)
Other comprehensive loss for the period:											
Exchange differences on translation of foreign operations	-	-	-	-	-	(313)	-	-	(313)	-	(313)
Total comprehensive loss for the period	-	-	-	-	-	(313)	-	(8,278)	(8,591)	-	(8,591)
Issue of shares of the Company	1,066	14,333	-	-	-	-	-	-	15,399	-	15,399
Equity-settled share option arrangements	-	-	3,189	-	-	-	-	-	3,189	-	3,189
Issue of convertible bonds	-	-	-	4,642	-	-	-	-	4,642	-	4,642
Conversion of convertible bonds	406	6,935	-	(2,227)	-	-	-	-	5,114	-	5,114
At 30 September 2020	5,607	73,991	3,189	2,415	17,350	4,746	2,112	(6,293)	103,117	-	103,117
At 1 January 2021	5,607	74,190	3,068	2,029	17,350	3,601	2,112	(20,656)	87,301	-	87,301
Loss for the period	-	-	-	-	-	-	-	(8,136)	(8,136)	-	(8,136)
Other comprehensive loss for the period:											
Exchange differences on translation of foreign operations	-	-	-	-	-	(244)	-	-	(244)	-	(244)
Exchange differences on translation of the Company's financial statements	-	-	-	-	-	154	-	-	154	-	154
Total comprehensive loss for the period	-	-	-	-	-	(90)	-	(8,136)	(8,226)	-	(8,226)
Equity-settled share option arrangements	-	-	1,063	-	-	-	-	-	1,063	-	1,063
Conversion of convertible bonds	383	6,370	-	(2,029)	-	-	-	-	4,724	-	4,724
At 30 September 2021	5,990	80,560	4,131	-	17,350	3,511	2,112	(28,792)	84,862	-	84,862

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 24 March 2017. The registered office of the Company is situated at Osiris International Cayman Limited Suite #4-210, Governors Square, 23 Lime Tree Bay Avenue, PO Box 32311 Grand Cayman KY1-1209, Cayman Islands.

The Company is an investment holding company. During the Period, the Company's subsidiaries were principally engaged in the sales of CNG and provision of automated car wash services in the People's Republic of China (the "PRC").

The shares of the Company (the "Shares") were listed on GEM of the Stock Exchange on 18 May 2018 (the "Listing Date").

Pursuant to the ordinary resolutions passed at the extraordinary general meeting of the Company held on 16 July 2021, the Company implemented the share consolidation and change in board lot size of the Shares for trading on GEM of the Stock Exchange from 10,000 Shares to 5,000 Shares with effect from 20 July 2021, on the basis that every four issued and unissued shares of the Company of HK\$0.01 each were consolidated into one consolidated share of HK\$0.04 each, ranked *pari passu* in all respects with each other (the "Share Consolidation"). Upon completion of the Share Consolidation, the Company's share capital consists of 177,255,000 consolidated shares of HK\$0.04 each.

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements for the nine months ended 30 September 2021 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual report for the year ended 31 December 2020, which have been prepared in accordance with HKFRSs.

The preparation of unaudited condensed consolidated results in conformity with HKFRSs requires the management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

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

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (cont'd)

In the Period, the accounting policies applied are consistent with those of the consolidated financial statements for the year ended 31 December 2020, as described in those consolidated financial statements, except for the adoption of the following revised HKFRSs effective from 1 January 2021, noted below.

Amendments to HKFRS 9, HKAS 39, HKFRS 7,
HKFRS 4 and HKFRS 16

*Interest Rate Benchmark Reform –
Phase 2*

The application of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years. The Group has not early applied the new and revised HKFRSs that have been issued but are not yet effective. The Directors anticipate that the application of these new standard(s), amendments and interpretation(s) will have no material impact on the unaudited condensed consolidated financial statements.

3 OPERATING SEGMENT INFORMATION

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

Geographical information

During the Period, all of the Group's revenue was generated from customers located in the PRC.

Non-current assets by geographical location are detailed below:

	As at 30 September 2021 RMB'000	As at 31 December 2020 RMB'000
The PRC	48,137	50,916
Malaysia	14,287	14,977
	62,424	65,893

3 OPERATING SEGMENT INFORMATION (cont'd)

Major customers

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

	Three months ended 30 September		Nine months ended 30 September	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Company A*	3,557	3,037	12,401	6,727
Company B*	1,682	5,435	6,280	12,792
	5,239	8,472	18,681	19,519

* The customers are state-owned enterprises.

4 REVENUE, OTHER INCOME AND GAINS

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

	Three months ended 30 September		Nine months ended 30 September	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Revenue				
Sales of CNG	10,080	14,993	33,900	34,385
Provision of automated car wash services	–	95	–	321
Transmission services	–	65	–	65
	10,080	15,153	33,900	34,771
Other income and gains				
Government grants*	–	–	–	3,027
Compensation income	3,296	–	3,296	–
Interest income from loan to a related party	–	43	–	130
Bank interest income	10	5	45	11
Others	25	289	49	819
	3,331	337	3,390	3,987

* The amount represents grants received from the PRC government authorities by the Group in connection with certain financial rewards when local business enterprises meet certain conditions.

5 LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Three months ended 30 September		Nine months ended 30 September	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Cost of inventories sold	7,792	11,165	28,281	25,778
Depreciation of property, plant and equipment	1,898	1,071	4,084	3,184
Depreciation of right-of-use asset	523	536	1,855	1,486
Utility expense	349	531	1,250	1,214
Auditor's remuneration	–	347	238	632
Transportation expense	71	–	769	–
Amortisation of other intangible assets	128	75	391	148
Employee benefit expense:				
Wages and salaries	662	1,052	2,140	2,745
Equity-settled share option expense	230	755	1,063	3,189
Pension scheme contributions	81	141	261	122
Reversal of impairment losses on financial assets	(12)	–	(2,126)	–
Write off of intangible assets	1,542	–	1,542	–
Write off of property, plant and equipment	1,495	–	1,495	–

6 FINANCE COSTS

An analysis of finance costs is as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Interest on lease liabilities	99	108	376	330
Interest on bank loans	34	–	102	–
Imputed interest on convertible bonds	–	154	238	505
	133	262	716	835

7 INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The major components of income tax (credit)/expense are analysed as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Current – the PRC Charge for the Period	–	–	–	–
Deferred tax	(186)	(46)	604	(98)
Total tax (credit)/expense for the Period	(186)	(46)	604	(98)

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

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

The provision for current income tax in the PRC is based on a statutory tax rate of 25% of the assessable profits of the PRC subsidiary of the Group as determined in accordance with The Enterprise Income Tax Law of the PRC.

8 LOSS PER SHARE

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

8 LOSS PER SHARE (cont'd)

The basic loss per share is calculated as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2021	2020 (restated)	2021	2020 (restated)
Loss attributable to equity holders of the Company (RMB'000)	(2,785)	(3,000)	(8,136)	(8,278)
Weighted average number of ordinary shares in issue ('000)	177,255	165,590	171,251	154,325
Basic loss per share (cents)	(1.57)	(1.81)	(4.75)	(5.36)

In respect of the diluted loss per share amount for the Period, no adjustment has been made to the basic loss per share amount presented for the three months and nine months ended 30 September 2021 and 30 September 2020 as the impact of the share options and convertible bonds outstanding during the Period either had no dilutive effect or had an anti-dilutive effect on the basic loss per share amounts presented.

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the three months and nine months ended 30 September 2020 has been adjusted to reflect the effect of the Share Consolidation as detailed in Note 1.

9 DIVIDEND

The Board did not declare the payment of any dividend for the three and nine months ended 30 September 2021 (for the three and nine months ended 30 September 2020: Nil).

10 APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These condensed consolidated financial statements were approved by the Board on 12 November 2021.

MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS REVIEW

The Group's principal place of business is in Jingzhou, Hubei Province, the PRC. During the Period, the Group was involved in the (i) sales of CNG; and (ii) provision of automated car wash services in the PRC.

Sales of CNG

The Group mainly supplies CNG and derives revenue mainly from the distribution of CNG to both (i) retail customers which are mostly vehicular end-users; and (ii) wholesale customers which are urban gas companies, gas refuelling station operators and industrial users. The principal product offering is CNG and the Group purchases natural gas from PetroChina Company Limited.

Provision of automated car wash services

During the Period, the Group was also involved in the provision of automated car wash services through its car washing facilities set up in a number of gas refuelling and petroleum stations in the PRC.

FINANCIAL REVIEW

Revenue

Revenue amounted to approximately RMB33.9 million for the nine months ended 30 September 2021, decreased by approximately RMB0.9 million or 2.6% when compared with approximately RMB34.8 million for the corresponding period of 2020. The decrease was primarily due to the decrease in sales of CNG to retail customers, which was partially offset by the increase in sales of CNG to wholesale customers.

The revenue from sales of CNG to retail customers decreased by RMB2.7 million or 17.4% from RMB15.5 million for the nine months ended 30 September 2020 to RMB12.8 million for the nine months ended 30 September 2021, primarily due to the decrease in sales volume of CNG and average selling price. On the contrary, the revenue from sales of CNG to wholesale customers increased by RMB2.1 million or 11.1% from RMB19.0 million for the nine months ended 30 September 2020 to RMB21.1 million for the nine months ended 30 September 2021, due to increase in sales volume of CNG and a slight increase in average selling price of CNG to wholesale customers.

For the three months ended 30 September 2021, revenue amounted to approximately RMB10.1 million, decreased by approximately RMB5.1 million or 33.6% from approximately RMB15.2 million for the three months ended 30 September 2020, which is mainly attributable to the main roads closure near one of the Group's gas refuelling substations and hence, minimal revenue was generated accordingly.

FINANCIAL REVIEW (cont'd)

Revenue (cont'd)

During the nine months ended 30 September 2021, the Group did not derive any revenue from the provision of automated car wash services.

Cost of Sales

Cost of sales amounted to approximately RMB37.9 million for the nine months ended 30 September 2021, representing an increase of approximately RMB3.2 million or 9.2% as compared to approximately RMB34.7 million for the nine months ended 30 September 2020, which was primarily due to the increase in cost of inventories sold by approximately RMB2.5 million or 9.7% from approximately RMB25.8 million for the nine months ended 30 September 2020 to approximately RMB28.3 million for the nine months ended 30 September 2021, as a result of the high procurement cost of natural gas.

Gross (loss)/profit

Gross loss for the nine months ended 30 September 2021 amounted to approximately RMB4.0 million, compared to a gross profit of approximately RMB36,000 for the corresponding period of 2020. Gross loss was resulted mainly due to (i) the impact of high procurement cost of the natural gas which cannot be fully passed on to our customers in a timely manner due to the pricing guidelines imposed by Hubei Price Bureau and Jingzhou Price Bureau; and (ii) certain fixed costs of the Group such as depreciation of property, plant and equipment and right-of-use asset, and gas refuelling stations rental expenses.

Other income and gains

Other income and gains amounted to approximately RMB3.3 million for the nine months ended 30 September 2021, mainly attributable to the compensation income received from the Shacheng District Government for the demolition of our gas refuelling station located at Shihao Road (十號路), Jingzhou, Hubei Province, according to the unified planning requirements of the Shacheng District Government, as compared to approximately RMB3.4 million for the nine months ended 30 September 2020, which mainly represents the government grants received from the PRC government authorities in connection with certain financial rewards where the local business enterprises meet certain conditions.

Selling and distribution expenses

Selling and distribution expenses, which mainly represent staff costs and other office expenses incurred in our operation department, decreased by approximately RMB281,000 or 38.0%, from approximately RMB739,000 for the nine months ended 30 September 2020 to approximately RMB458,000 for the nine months ended 30 September 2021, mainly due to the decrease in rental expenses for gas refuelling stations.

FINANCIAL REVIEW *(cont'd)*

Administrative expenses

Administrative expenses, which mainly represent employee benefit expenses and legal and professional fee, decreased by approximately RMB5.8 million or 54.7% from approximately RMB10.6 million for the nine months ended 30 September 2020 to approximately RMB4.8 million for the nine months ended 30 September 2021. The decrease was mainly attributable to (i) decrease in legal and professional fee as a result of the acquisitions during the nine months ended 30 September 2020; and (ii) recognition of fair value of the share options granted amounted to approximately RMB1.1 million during the Period, as compared to approximately RMB3.2 million during the nine months ended 30 September 2020.

Reversal of impairment losses of financial assets

Balance mainly represents reversal of loss allowance for impairment of approximately RMB2.1 million on the Group's financial assets, including trade and other receivables.

Finance costs

Finance costs mainly represent interest on lease liabilities, interest on bank loans and amortised cost on the convertible bonds.

Other expenses

Other expenses mainly represent write off of intangible assets of approximately RMB1.5 million and write off of property, plant and equipment of approximately RMB1.5 million during the Period.

Income tax credit/(expense)

Income tax expense amounted to approximately RMB604,000 for the nine months ended 30 September 2021, compared to the income tax credit of approximately RMB98,000 for the nine months ended 30 September 2020. The income tax credit/(expense) represents deferred tax due to the temporary differences arising from the impairment allowance on the trade receivables, accelerated accounting depreciation and lease liabilities.

Loss for the period

Loss attributable to the owners of the Company for the nine months ended 30 September 2021 remained stable at approximately RMB8.1 million, compared with the net loss of approximately RMB8.3 million for the same period last year.

PROSPECTS

The global economy has been significantly affected by the prolonged COVID-19 pandemic. Whilst mass vaccination programmes have begun in different countries and regions starting from the first quarter of 2021, progress remains to be made in light of the logistical challenge in administering the same to the global population. Until the spread of the coronavirus has been halted, the pace of global economic recovery is unlikely to be expeditious. Accordingly, the Group's revenue and profitability for the Period had still been affected by COVID-19 and the Directors expect the forthcoming business environment would remain challenging.

PROSPECTS *(cont'd)*

The Board pays great attention to the development of the outbreak of the COVID-19 and makes every effort on prevention and control, and daily operation management. The Group has adjusted its business strategies to mitigate the impact of COVID-19 on the Group's business operations by taking various proactive measures, including but not limited to (i) streamlining workflows and eliminating non-value added positions or activities; (ii) offering more promotion to attract customers; and (iii) actively managing its working capital to ensure that it remains in a healthy liquidity position.

The Group will continue to actively explore new business opportunities in the PRC and other locations in order to diversify the income source of the Group. The Directors believe that recovery and growth will be supported in the near future by strong national policies and fiscal programmes in shifting towards recovery. Besides, the PRC government has announced a number of policies and initiatives for newer and cleaner energy sources, including 13th Five-Year Plan for Natural Gas Development (天然氣發展「十三五」規劃) and Opinions on Accelerating the Use of Natural Gas (加快推進天然氣利用的意見). The Group expects that these policies would stimulate the natural gas industry and would foster development of other related products. The Group will endeavour to seize the growth potential resulting from such policies and industry trends.

The Board will continue to assess the impact of the COVID-19 on the Group's operation and financial performance and closely monitor the Group's exposure to the risks and uncertainties in connection with the outbreak of the COVID-19. The Group will take appropriate measures as necessary to minimise the risks exposed and will act prudently in considering any new investment opportunities, and will in the meantime also pursue other means of enhancing shareholder value.

DIVIDENDS

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2021 (for the nine months ended 30 September 2020: Nil).

FOREIGN CURRENCY RISK

The Group carries out its business in the PRC and most of its transactions are denominated in RMB. The Group did not experience any material impact or difficulties in liquidity on its operations resulting from the fluctuation in exchange rate, and no hedging transaction or forward contract arrangement was made by the Group during the nine months ended 30 September 2021.

INTEREST RATE RISK

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

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 1 September 2021, Hubei Tonglin Natural Gas Service Company Limited (湖北桐林石油天然氣服務有限公司) (“Tonglin Gas”), an indirect wholly-owned subsidiary of the Company, and Guangzhou Ruichuang New Energy Technology Co., Ltd. (廣州市銳創新能源科技有限公司) (“Ruichuang New Energy”), a company established in the PRC, entered into a memorandum of understanding (“MOU”), pursuant to which Tonglin Gas and Ruichuang New Energy agreed to cooperate in the construction and operation of electric vehicle charging business in the commercial areas of Guangzhou, the PRC. According to the MOU, the terms and conditions of the potential business cooperation between Tonglin Gas and Ruichuang New Energy will be subject to the execution of the formal agreement(s) to be entered between the parties. Tonglin Gas and Ruichuang New Energy further agreed that it and its respective affiliates shall not directly or indirectly discuss, negotiate or enter into any form of agreement or arrangement with any third party relating to the potential business cooperation for an exclusive period of a month from the date of the MOU. As at the date of this report, the Group is in negotiation with Ruichuang New Energy in relation to the potential business cooperation. For further details, please refer to the announcement of the Company dated 1 September 2021.

Save as disclosed above, there were no other significant investments held by the Company, nor were there any material acquisitions and disposals of subsidiaries, associates and joint ventures during the Period.

Save as disclosed in this report, there is no other plan authorised by the Board for other material investments or additions of capital assets as at the date of this report.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2021, the Group has a total of 68 employees (as at 31 December 2020: 67 employees). Staff costs, including Directors’ remuneration and equity-settled share option expense, of our Group were approximately RMB3.5 million for the nine months ended 30 September 2021 (for the nine months ended 30 September 2020: RMB6.1 million). Remuneration is determined with reference to factors such as comparable market salaries, work performance, time commitment and responsibilities of each individual. Employees are provided with relevant in-house and/or external training from time to time. The Group reviews the performance of employees from time to time.

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

As at 30 September 2021, interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”)) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

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

Long positions in ordinary shares and underlying Shares of the Company:

Name	Capacity/Nature of interests	Number of Shares held	Share Options	Approximate percentage of the total issued Shares*
Mr. Liu Yong Cheng	Interest in controlled corporation and parties acting in concert	93,750,000 (Note 1)	1,655,900 (Note 2)	53.82%
	Beneficial owner	-	1,655,900 (Note 3)	0.93%
Mr. Liu Yong Qiang	Interest in controlled corporation and parties acting in concert	93,750,000 (Note 4)	1,655,900 (Note 3)	53.82%
	Beneficial owner	-	1,655,900 (Note 2)	0.93%
Mr. Liu Chunde	Beneficial owner	-	1,655,900 (Note 5)	0.93%

* The percentage was calculated based on 177,255,000 Shares in issue as at 30 September 2021.

Notes:

- As at 30 September 2021, Mr. Liu Yong Cheng directly owned 100% of Yongsheng Enterprise Limited ("Yongsheng"), which in turn held 27,187,500 shares or approximately 15.34% of the issued Shares; therefore he was deemed, or taken to be interested in, all the shares held by Yongsheng for the purpose of the SFO; pursuant to the acting in concert confirmation dated 14 June 2017, in which Mr. Liu Yong Cheng was also deemed to be interested in 66,562,500 Shares or approximately 37.55% of the issued Shares owned by Hongsheng Enterprise Limited ("Hongsheng") as at 30 September 2021 as a result of being a party acting in concert with Mr. Liu Yong Qiang.
- On 21 January 2020 and 23 June 2020, Mr. Liu Yong Qiang was granted an option to subscribe for 1,375,000 Shares and 280,900 Shares, respectively, under the share option scheme approved and adopted by the shareholders of the Company by way of written resolutions passed on 20 April 2018 (the "Share Option Scheme"). For further details of the Share Option Scheme, please refer to the section headed Share Option Scheme in this report.
- On 21 January 2020 and 23 June 2020, Mr. Liu Yong Cheng was granted an option to subscribe for 1,375,000 Shares and 280,900 Shares, respectively, under the Share Option Scheme.

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

Long positions in ordinary shares and underlying Shares of the Company: (cont'd)

Notes: (cont'd)

- (4) As at 30 September 2021, Mr. Liu Yong Qiang directly owned 100% of Hongsheng, which in turn held 66,562,500 shares or approximately 37.55% of the issued Shares; therefore he was deemed, or taken to be interested in, all the shares held by Hongsheng for the purpose of the SFO; pursuant to the acting in concert confirmation dated 14 June 2017, in which Mr. Liu Yong Qiang was also deemed to be interested in 27,187,500 Shares or approximately 15.34% of the issued Shares owned by Yongsheng as at 30 September 2021 as a result of being a party acting in concert with Mr. Liu Yong Cheng.
- (5) On 21 January 2020 and 23 June 2020, Mr. Liu Chunde was granted an option to subscribe for 1,375,000 Shares and 280,900 Shares, respectively, under the Share Option Scheme.

Save as disclosed above, as at 30 September 2021, none of the Directors nor chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

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

As at 30 September 2021, other than the Directors and chief executive of the Company, the following persons/entities have an interest or a short position in the Shares or the underlying Shares as recorded in the register of the Company required to be kept under section 336 of the SFO:

Long position in ordinary shares and underlying Shares of the Company:

Name	Capacity	Number of Shares held	Share Options	Approximate percentage of the total issued Shares*
Yongsheng	Beneficial owner and parties acting in concert	93,750,000 (Note 1)	3,311,800 (Note 2)	54.76%
Hongsheng	Beneficial owner and parties acting in concert	93,750,000 (Note 3)	3,311,800 (Note 2)	54.76%
Stable Development Company Limited	Beneficial owner	13,872,500 (Note 4)	–	7.83%
Mr. Lee Kwok Wah	Beneficial owner	9,492,500	–	5.36%

* The percentage was calculated based on 177,255,000 Shares in issue as at 30 September 2021.

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

Long position in ordinary shares and underlying Shares of the Company: (cont'd)

Notes:

- (1) As at 30 September 2021, Mr. Liu Yong Cheng directly owned 100% of Yongsheng, which in turn held 27,187,500 shares or approximately 15.34% of the issued Shares; therefore he was deemed, or taken to be interested in, all the shares held by Yongsheng for the purpose of the SFO; pursuant to the acting in concert confirmation dated 14 June 2017, in which Mr. Liu Yong Cheng was also deemed to be interested in 66,562,500 Shares or approximately 37.55% of the issued Shares owned by Hongsheng as at 30 September 2021 as a result of being a party acting in concert with Mr. Liu Yong Qiang. Mr. Liu Yong Cheng, an executive Director, is also a director of Yongsheng.
- (2) On 21 January 2020 and 23 June 2020, each of Mr. Liu Yong Cheng and Mr. Liu Yong Qiang was granted an option to subscribe for 1,375,000 Shares and 280,900 Shares, respectively, under the Share Option Scheme. For further details of the Share Option Scheme, please refer to the section headed Share Option Scheme in this report.
- (3) As at 30 September 2021, Mr. Liu Yong Qiang directly owned 100% of Hongsheng, which in turn held 66,562,500 shares or approximately 37.55% of the issued Shares; therefore he is deemed, or taken to be interested in, all the shares held by Hongsheng for the purpose of the SFO; pursuant to the acting in concert confirmation dated 14 June 2017, in which Mr. Liu Yong Qiang was also deemed to be interested in 27,187,500 Shares or approximately 15.34% of the issued Shares owned by Yongsheng as at 30 September 2021 as a result of being a party acting in concert with Mr. Liu Yong Cheng. Mr. Liu Yong Qiang, an executive Director, is also a director of Hongsheng.
- (4) As at 30 September 2021, Mr. Yu Kin Wai Perway directly owned 100% of Stable Development Company Limited, which in turn held 13,872,500 Shares, therefore he was deemed, or taken to be interested in, all the Shares held by Stable Development Company Limited for the purpose of the SFO.

Save as disclosed above, as at 30 September 2021 and so far as known to the Directors, no person, other than the Directors and chief executive of the Company whose interests are set out in the section "Directors' and Chief Executives' Interests and/or Short Positions in the Shares, Underlying Shares and Debentures of the Company and any Associated Corporation" above, had notified the Company of an interest or short position in the Shares or underlying Shares which had been required to be recorded in the register required to be kept by the Company pursuant Section 336 of the SFO.

SHARE OPTION SCHEME

The Share Option Scheme was approved and adopted by the shareholders of the Company by way of written resolutions passed on 20 April 2018. Details of the Share Option Scheme are set out in the annual report of the Company for the year ended 31 December 2020.

SHARE OPTION SCHEME (cont'd)

Movements of the share options of the Company during the Period are as follows:

Name or category of participant	Number of share options					As at 30 September 2021	Exercise period of share options	Exercise price of share options HK\$ (Note 5)	Date of grant of share options	Closing price of the Shares immediately before the date of grant of share options HK\$ (adjusted)	Weighted average closing price of the Shares immediately before the exercise date HK\$
	At 1 January 2021	Granted	Exercised	Cancelled	Adjustments made as a result of the Share Consolidation						
Directors, chief executive, substantial shareholders and/or their respective associates											
Liu Yong Cheng	5,500,000 1,123,600	- -	- -	- -	(4,125,000) (842,700)	1,375,000 280,900	21 January 2020 to 20 January 2025 23 June 2020 to 22 June 2025	0.664 0.520	21 January 2020 23 June 2020	0.812 0.544	- -
Liu Yong Qiang	5,500,000 1,123,600	- -	- -	- -	(4,125,000) (842,700)	1,375,000 280,900	21 January 2020 to 20 January 2025 23 June 2020 to 22 June 2025	0.664 0.520	21 January 2020 23 June 2020	0.812 0.544	- -
Liu Qionde	5,500,000 1,123,600	- -	- -	- -	(4,125,000) (842,700)	1,375,000 280,900	21 January 2020 to 20 January 2025 23 June 2020 to 22 June 2025	0.664 0.520	21 January 2020 23 June 2020	0.812 0.544	- -
Employees (other than Directors)											
In aggregate	27,500,000 55,905,600	- -	- -	- -	(20,625,000) (4,629,200)	6,875,000 12,317,409	21 January 2020 to 20 January 2025 23 June 2020 to 22 June 2025	0.664 0.520	21 January 2020 23 June 2020	0.812 0.544	- -
Shareholder and supervisor of an associate of the Group											
In aggregate	5,500,000 1,123,600	- -	- -	- -	(4,125,000) (842,700)	1,375,000 280,900	21 January 2020 to 20 January 2025 23 June 2020 to 22 June 2025	0.664 0.520	21 January 2020 23 June 2020	0.812 0.544	- -
Total	109,500,000	-	-	-	(82,125,000)	25,816,009					

SHARE OPTION SCHEME (cont'd)

Notes:

1. The share options are subject to the vesting period as follows:
 - (a) 30% of the share options will be vested on, and exercisable from, the date of grant to the expiry of the option period (both days inclusive);
 - (b) a further 30% of the share options will be vested on, and exercisable from, the first anniversary of the date of grant to the expiry of the option period (both days inclusive); and
 - (c) the remaining 40% of the share options will be vested on, and exercisable from, the second anniversary of the date of grant to the expiry of the option period (both days inclusive).
2. The share options are exercisable for a period of five years from the date of grant and the fair values of the share options were calculated using the Binomial Option Pricing Model. The inputs to the model were as follows:

	Share options granted on 23 June 2020	Share options granted on 21 January 2020
Share price at the date of grant (before the Share Consolidation)	HK\$0.130	HK\$0.166
Exercise price per share (before the Share Consolidation) (note 5)	HK\$0.130	HK\$0.166
Expected volatility (%)	42.55	42.33
Risk-free interest rate (%)	0.31	1.62

The expected volatility reflected the assumption that the historical volatility was indicative of future trends, which may not necessarily be the actual outcome.

3. The fair value of the share options granted during the Period was estimated at RMB4,655,000 using the Binomial Option Pricing Model, of which the Group recognised share option expenses of RMB1,063,000 (for the nine months ended 30 September 2020: RMB3,189,000) during the Period. The fair value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.
4. Share options which are cancelled/lapsed/forfeited prior to their exercise date will be removed from the Company's register of outstanding share options. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits/accumulated losses as a movement in reserves.

SHARE OPTION SCHEME (cont'd)

Notes: (cont'd)

5. Due to the Share Consolidation, adjustments were made to the number of outstanding share options and the exercise price with effective from 20 July 2021 (the "Adjustments"). The exercise price of the share options granted on 21 January 2020 was adjusted from HK\$0.166 to HK\$0.664 and the exercise price of the share options granted on 23 June 2020 was adjusted from HK\$0.130 to HK\$0.520. For further details, please refer to the announcement of the Company dated 16 July 2021.
6. On 23 June 2020, 6,236,000 share options (before the Share Consolidation) were granted to a consultant of the Company, namely Lui Mei Ka, and such 6,236,000 share options (before the Share Consolidation) have been lapsed as at 31 December 2020.

At the date of this report, the Company had utilised all of the existing scheme mandate limit under the Share Option Scheme and had 25,816,009 share options outstanding under the Share Option Scheme (as adjusted by the Adjustments), which represented approximately 14.56% of the issued Shares in issue as at the date of this report.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save for the Share Option Scheme, at no time during the nine months ended 30 September 2021 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30 September 2021.

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

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings during the nine months ended 30 September 2021.

DEED OF NON-COMPETITION

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

DEED OF NON-COMPETITION *(cont'd)*

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

COMPETING INTERESTS

During the nine months ended 30 September 2021, so far as the Directors are aware, none of the Directors, controlling shareholders and substantial shareholders of the Company, neither themselves nor their respective close associates (as defined under the GEM Listing Rules) had held any position or had interest in Restricted Business or any businesses or companies that were materially competing or might materially compete with the business of the Group, or gave rise to any concern regarding conflict of interest.

INTERESTS OF THE COMPLIANCE ADVISER

The Company had appointed Giraffe Capital Limited as its compliance adviser from the date of listing of the shares on GEM of the Stock Exchange to 31 March 2021, being the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the date of listing. Except for the compliance adviser agreement entered into between the Company and the compliance adviser dated 14 July 2017, neither the compliance adviser nor any of its directors, employees or close associates (as defined under the GEM Listing Rules) had any interests in the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

CORPORATE GOVERNANCE CODE

The Company has adopted and complied with, where applicable, the Corporate Governance Code (the "CG Code") contained in Appendix 15 of the GEM Listing Rules for the nine months ended 30 September 2021 to ensure that the Group's business activities and decision making processes are regulated in a proper and prudent manner, save for the deviation stipulated below.

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

CORPORATE GOVERNANCE CODE *(cont'd)*

Following the resignation of Mr. Li Wai Kwan on 30 September 2021, the Company failed to meet (i) the requirement set out in Rule 5.05(1) of the GEM Listing Rules that the Company must have at least three independent non-executive directors; (ii) the requirement set out in Rule 5.05(2) of GEM Listing Rules that the Company must have at least one of the independent non-executive directors having appropriate professional qualifications or accounting or related financial management expertise; and (iii) the requirement set out in Rule 5.28 of the GEM Listing Rules that the audit and risk management committee of the Company must comprise a minimum of three members. The Company is endeavouring to identify suitable candidate to meet the requirements under the GEM Listing Rules as soon as practicable, with the relevant appointment to be made within three months from the effective date of Mr. Li's resignation as required under Rule 5.06 and Rule 5.33 of the GEM Listing Rules. Further announcement will be made by the Company in relation to such appointment as and when appropriate.

CHANGES IN DIRECTORS' INFORMATION

Subsequent to the date of the 2020 annual report of the Company, the changes in Directors' information as required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules for the nine months ended 30 September 2021 and up to the date of this report are set out below:

- (a) Ms. Li Helen Hoi Lam has resigned as an independent non-executive Director and ceased to be a member of the nomination committee and a member of the audit and risk management committee of the Company with effect from 30 April 2021;
- (b) Ms. Zeng Li has been appointed as an independent non-executive Director and a member of the nomination committee and a member of the audit and risk management committee of the Company with effect from 30 April 2021. For the biographical details of Ms. Zeng Li, please refer to the announcement of the Company dated 30 April 2021;
- (c) Mr. Li Wai Kwan has resigned as an independent non-executive Director and ceased to be a member of each of the audit and risk management committee, the remuneration committee and the nomination committee of the Company with effect from 30 September 2021; and
- (d) Ms. Luo Hongru and Ms. Zeng Li, as the independent non-executive Directors, were appointed as the member of the nomination committee and the remuneration committee of the Company, respectively, with effect from 30 September 2021.

AUDIT AND RISK MANAGEMENT COMMITTEE

The Company has established an audit and risk management committee with written terms of reference in compliance with the code provision C.3.3 of the CG Code. The audit and risk management committee consists of two independent non-executive Directors, namely Ms. Luo Hongru and Ms. Zeng Li as its members. The audit and risk management committee has reviewed the unaudited condensed consolidated financial statements of the Group for the nine months ended 30 September 2021 and this report.

FORWARD LOOKING STATEMENTS

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

By order of the Board

TL Natural Gas Holdings Limited
Liu Yong Cheng

Executive Director, Chairman & Chief Executive Officer

Hong Kong, 12 November 2021

As at the date of this report, the Board comprises Mr. Liu Yong Cheng, Mr. Liu Yong Qiang and Mr. Liu Chunde as executive Directors; Ms. Luo Hongru and Ms. Zeng Li as independent non-executive Directors.