The following is the text of a report, prepared for the purpose of incorporation in this document, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

8th Floor
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[Date]

The Directors
Yingde Gases Group Company Limited
[●]

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Yingde Gases Group Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 (the "Relevant Period"), and the combined balance sheets of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009, together with the notes thereto (the "Financial Information").

The Company was incorporated in the Cayman Islands on 25 September 2007 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 10 July 2009 (the "Reorganisation") as detailed in the section headed "Our History and Reorganisation" in this document, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company, Yingde Gases Investment Limited ("Yingde BVI"), Wellsmith Investment Limited ("Wellsmith Investment"), Ace Turbo Group Limited ("Ace Turbo") and Hengyang Yingde Gases Co., Ltd. (衡陽盈德氣體有限公司, "Hengyang Yingde") as they either have not carried on any business since their respective dates of incorporation/establishment or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in their jurisdiction of incorporation/establishment. We have, however, reviewed all significant transactions of these companies from their respective dates of incorporation/establishment to 30 June 2009 for the purpose of this report.

The statutory financial statements of the other companies now comprising the Group, which were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China (the "PRC"), were audited during the Relevant Period by the respective statutory auditors as indicated below:

Name of company (Note)	Financial period	Statutory auditors (Note)
Hunan Yingde Gases Co., Ltd. 湖南盈德氣體有限公司 ("Hunan Yingde")	Years ended 31 December 2006, 2007 and 2008	Hunan Jianye Certified Public Accountants Co., Ltd. 湖南建業會計師事務所有限公司
Zhuhai Yingde Gases Co., Ltd. 珠海盈德氣體有限公司 ("Zhuhai Yingde")	Years ended 31 December 2006, 2007 and 2008	Zhuhai Lixin Partnership Certified Public Accountants 珠海立信合夥會計師事務所
Jiangsu Yingde Gases Co., Ltd. 江蘇盈德氣體有限公司 ("Jiangsu Yingde")	Years ended 31 December 2006 and 2007	Huai'an Sanhuai Joint Certified Public Accountants 淮安三淮聯合會計師事務所
	Year ended 31 December 2008	Jiangsu Jinling Certified Public Accountants Co., Ltd. 江蘇金陵會計師事務所有限公司
Nanjing Xingang Argon Co., Ltd. 南京新港氬氣有限公司 ("Nanjing Xingang")	Years ended 31 December 2006, 2007 and 2008	Jiangsu Ruiyuan Certified Public Accountants Co., Ltd. 江蘇瑞遠會計師事務所有限公司
Shaanxi Yingde Gases Co., Ltd. 陝西盈德氣體有限公司 ("Shaanxi Yingde")	Years ended 31 December 2006 and 2007	Xi'an Jingwei Certified Public Accountants Co., Ltd. 西安涇渭會計師事務所有限責任公司
	Year ended 31 December 2008	Shaanxi Xinghua Certified Public Accountants Co., Ltd. 陝西興華會計師事務所有限責任公司
Tianjin Yingde Gases Co., Ltd. 天津盈德氣體有限公司 ("Tianjin Yingde")	Years ended 31 December 2006, 2007 and 2008	Tianjin Chengtai Certified Public Accountants Ltd. 天津誠泰有限責任會計師事務所
Zhangjiagang Yingde Gases Co., Ltd. 張家港盈德氣體有限公司 ("Zhangjiagang Yingde")	Years ended 31 December 2006, 2007 and 2008	Suzhou Tianhe Certified Public Accountants Co., Ltd. 蘇州天和會計師事務所有限公司
Yangzhou Yingde Gases Co., Ltd. 揚州盈德氣體有限公司 ("Yangzhou Yingde")	Period from 12 April 2006 (date of establishment) to 31 December 2006 and year ended 31 December 2007	Yanzhou Decheng C.P.A. Partnership 揚州德誠聯合會計師事務所
	Year ended 31 December 2008	Yangzhou Hongrui Certified Public Accountants 揚州弘瑞會計師事務所
Rizhao Yingde Gases Co., Ltd. 日照盈德氣體有限公司 ("Rizhao Yingde")	Period from 30 October 2006 (date of establishment) to 31 December 2006 and years ended 31 December 2007 and 2008	Rizhao Dayang Certified Public Accountants Ltd. 日照大洋有限責任會計師事務所

Name of company (Note)	Financial period	Statutory auditors (Note)
Zibo Yingde Gases Co., Ltd. 淄博盈德氣體有限公司 ("Zibo Yingde")	Period from 8 November 2006 (date of establishment) to 31 December 2006 and years ended 31 December 2007 and 2008	Zibo Zhengde Certified Public Accountants Co., Ltd. 淄博正德會計師事務所有限公司
Hebei Yingde Gases Co., Ltd. 河北盈德氣體有限公司 ("Hebei Yingde")	Period from 4 December 2006 (date of establishment) to 31 December 2006 and years ended 31 December 2007 and 2008	Hebei Kanglongde Accounting Firm Co., Ltd. 河北康龍德會計師事務所有限公司
Huai'an Yingda Gases Co., Ltd. 淮安盈達氣體有限公司 ("Huai'an Yingda")	Period from 26 January 2007 (date of establishment) to 31 December 2007	Huai'an Sanhuai Joint Certified Public Accountants 淮安三淮聯合會計師事務所
	Year ended 31 December 2008	Jiangsu Jinling Certified Public Accountants Co., Ltd. 江蘇金陵會計師事務所有限公司
Laiwu Yingde Gases Co., Ltd. 萊蕪盈德氣體有限公司 ("Laiwu Yingde")	Period from 30 January 2007 (date of establishment) to 31 December 2007 and year ended 31 December 2008	Laiwu Chengda Certified Public Accountants Ltd. 萊蕪誠達有限責任會計師事務所
Zhuzhou Yingde Gases Co., Ltd. 株洲盈德氣體有限公司 ("Zhuzhou Yingde")	Period from 22 March 2007 (date of establishment) to 31 December 2007 and year ended 31 December 2008	Hunan Jianye Certified Public Accountants Co., Ltd. 湖南建業會計師事務所有限公司
Guizhou Yingde Gases Co., Ltd. 貴州盈德氣體有限公司 ("Guizhou Yingde")	Period from 4 September 2007 (date of establishment) to 31 December 2007	Qiannan Qiancheng Certified Public Accountants 黔南黔誠會計師事務所
	Year ended 31 December 2008	Guizhou Yibo Certified Public Accountants Co., Ltd. 貴州義博會計師事務所有限公司
Jiangsu Yingde Logistics Co., Ltd. 江蘇盈德物流有限公司 ("Yingde Logistics")	Period from 15 October 2008 (date of establishment) to 31 December 2008	Jiangsu Jinling Certified Public Accountants Co., Ltd. 江蘇金陵會計師事務所有限公司

Note: The English translation of the names is for reference only. The official names of these entities are in Chinese.

BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate these financial statements to conform with the accounting policies referred to in Section C, which are in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the relevant rules and regulations. IFRSs include International Accounting Standards and interpretations.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with IFRSs promulgated by the IASB, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the relevant rules and regulations. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have carried out such additional procedures as we considered necessary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Information 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 Financial Information.

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

We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 30 June 2009.

OPINION

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in Section A below and in accordance with the accounting policies set out in Section C Note 1 below, gives a true and fair view of the Group's combined results and cash flows for the Relevant Period, and the Group's combined state of affairs as at 31 December 2006, 2007 and 2008 and 30 June 2009 and the Company's state of affairs as at 31 December 2007 and 2008 and 30 June 2009.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the combined statement of comprehensive income, the combined statement of changes in equity and the combined cash flow statement for the six months ended 30 June 2008, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A BASIS OF PRESENTATION

On 25 September 2007, the Company was incorporated in the Cayman Islands as part of the Reorganisation. The companies taking part in the Reorganisation were controlled by the same group of shareholders, namely Ms. Li Hongmei and Mr. Trevor Raymond Strutt, and Mr. Zhao Xiangti, Mr. Yang Yonggang and Mr. Chen Yan (replaced by Mr. Nie Kuang on 6 March 2009) (representatives of 31 individuals), through the relevant investment holding companies (collectively referred to as the "Controlling Shareholders"). In accordance with the voting agreement dated 18 December 2001 and the supplementary agreements dated 18 August 2006 and 23 August 2006 entered into among the Controlling Shareholders, the Controlling Shareholders voted together with respect to decisions in connection with the companies now comprising the Group and collectively controlled the companies now comprising the Group during the Relevant Period. Pursuant to the Reorganisation completed on 10 July 2009, the Company became the holding company of the companies now comprising the Group.

Because the companies now comprising the Group were controlled by the Controlling Shareholders before and after the Reorganisation and, consequently there was a continuation of the risks and benefits to the Controlling Shareholders, the Financial Information has been prepared using the merger basis of accounting as if the Group has always been in existence. The net assets of the combining companies are combined using the existing book values from the Controlling Shareholders' perspective. The interests of equity holders other than the Controlling Shareholders in the combining companies have been presented as minority interests in the Group's Financial Information.

The combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group for the Relevant Period include the results of operations of the companies now comprising the Group as if the current group structure had been in existence and remained unchanged throughout the Relevant Period, or since the dates of their incorporation or establishment where this is a shorter period. The combined balance sheets of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 have been prepared to present the combined assets and liabilities of the companies now comprising the Group as at the respective dates. All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Date and place of incorporation/ establishment	Issued and fully paid up capital	Equity attributable to the Company		Principal activities
			Direct	Indirect	
Yingde BVI	18 April 2006 British Virgin Islands ("BVI")	USD14,700	100%	—	Investment holding
Ace Turbo	1 July 2008 BVI	USD1	—	100%	Import of equipment
Wellsmith Investment	20 June 2007 Hong Kong	HKD10,000	—	100%	Dormant
Hunan Yingde (Note (i))	29 October 2001 PRC	RMB246,000,000	—	100%	Production and sales of industrial gases
Zhuhai Yingde (Note (i))	8 April 2003 PRC	RMB140,000,000	—	100%	Production and sales of industrial gases
Jiangsu Yingde (Note (i))	15 April 2003 PRC	RMB44,000,000	—	100%	Production and sales of industrial gases
Nanjing Xingang (Note (i))	11 June 2003 PRC	USD2,100,000	—	100%	Production and sales of industrial gases
Shaanxi Yingde (Note (i))	24 June 2003 PRC	RMB62,000,000	—	100%	Production and sales of industrial gases
Tianjin Yingde (Note (i))	17 September 2004 PRC	RMB60,000,000	—	100%	Production and sales of industrial gases
Zhangjiagang Yingde (Note (ii))	31 December 2004 PRC	USD10,000,000	—	75%	Under construction
Yangzhou Yingde	12 April 2006 PRC	USD11,499,970	—	100%	Under construction
Rizhao Yingde	30 October 2006 PRC	RMB219,400,000	—	100%	Production and sales of industrial gases
Zibo Yingde	8 November 2006 PRC	USD7,964,258	—	100%	Production and sales of industrial gases
Hebei Yingde	4 December 2006 PRC	RMB81,600,000	—	100%	Production and sales of industrial gases
Huai'an Yingda	26 January 2007 PRC	RMB64,000,000	—	100%	Production and sales of industrial gases

Name of company	Date and place of incorporation/ establishment	Issued and fully paid up capital	Equity attributable to the Company		Principal activities
			Direct	Indirect	
Laiwu Yingde	30 January 2007 PRC	USD10,049,964	—	100%	Production and sales of industrial gases
Zhuzhou Yingde	22 March 2007 PRC	USD8,000,000	—	100%	Production and sales of industrial gases
Guizhou Yingde (Note (iii))	4 September 2007 PRC	USD20,000,000	—	100%	Under construction
Yingde Logistics	15 October 2008 PRC	RMB5,000,000	—	100%	Transportation
Hengyang Yingde	23 December 2008 PRC	RMB120,000,000	—	70%	Production and sales of industrial gases

Notes

(i) Before February 2006, the Group had 48% effective equity interest in Hunan Yingde. Notwithstanding this, Hunan Yingde has been accounted for as a subsidiary because the Controlling Shareholders has the power to govern the financial and operating policies of Hunan Yingde through the control of majority voting rights in the board of directors of Hunan Yingde. In February 2006, the Controlling Shareholders acquired additional 4% equity interest in Hunan Yingde from other then shareholders of Hunan Yingde, and accordingly, the Group's effective equity interest in Hunan Yingde was increased from 48% to 52%. In June 2006, the Group further acquired 48% equity interest in Hunan Yingde from the minority shareholder of Hunan Yingde. Thereafter, Hunan Yingde has become a wholly-owned subsidiary of the Group. The interests of equity holders other than the Controlling Shareholders in Hunan Yingde during January to June 2006 have been presented as minority interests in the Group's Financial Information.

Before February 2006, the Group had 60%, 60%, 73%, 59% and 60% effective equity interests in Zhuhai Yingde, Jiangsu Yingde, Nanjing Xingang, Shaanxi Yingde and Tianjin Yingde respectively, in which 36%, 36%, 19%, 36% and 36% effective equity interests were held through Hunan Yingde and the remaining interests were held through certain members of the Controlling Shareholders. The Group also had the power to govern the financial and operating policies of these subsidiaries through the control of majority voting rights in the board of directors of Hunan Yingde as mentioned above. After the acquisitions of the minority interests in Hunan Yingde by the Group in February and June 2006, respectively, these entities have become wholly-owned subsidiaries of the Group. The interests of equity holders other than the Controlling Shareholders in these subsidiaries during January to June 2006 have been presented as minority interests in the Group's Financial Information.

Except for the changes set out above, the Group's effective equity interests in the subsidiaries remained the same during the Relevant Period.

(ii) In May 2006, the Group, through Hunan Yingde, entered into an agreement to acquire 75% equity interest in Zhangjiagang Yingde. The 25% equity interests in Zhangjiagang Yingde held by equity holders other than the Controlling Shareholders have been presented as minority interests in the Group's Financial Information.

(iii) On 10 November 2006, Yingde BVI entered into a 25-year gas supply contract with an on-site customer of Guizhou Yingde. In accordance with the terms of the contract, this on-site customer has an option to purchase between 25% to 49% of the issued capital of Guizhou Yingde after the construction of the production facility at Guizhou Yingde is completed. The consideration is to be determined on the basis of a valuation to be performed by an accounting firm recognised by both parties. On the other hand, Yingde BVI agreed in principle to invest RMB250,000,000 for a 25% equity interest in the registered capital of this on-site customer (Note 28(c)).

(iv) The Group established Shanxi Yingde Gases Co., Ltd. (山西盈德氣體有限公司), a wholly-owned subsidiary, in the PRC on 3 September 2009.

B FINANCIAL INFORMATION

1 COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Section C Note	Years ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Turnover	2	485,054	783,717	1,411,713	619,960	917,163
Cost of sales		(256,566)	(464,166)	(828,156)	(351,722)	(586,072)
Gross profit		228,488	319,551	583,557	268,238	331,091
Other revenue	3	1,037	987	1,352	499	208
Selling expenses		(8,909)	(9,933)	(15,088)	(7,727)	(7,834)
Administrative expenses		(40,718)	(58,603)	(79,946)	(25,739)	(45,448)
Profit from operations		179,898	252,002	489,875	235,271	278,017
Finance income	4(a)	5,307	27,899	36,469	12,979	2,771
Finance costs	4(a)	(161,201)	(95,963)	(58,492)	(26,563)	(44,030)
Profit before taxation	4	24,004	183,938	467,852	221,687	236,758
Income tax	5	—	(8,055)	(39,192)	(21,489)	(4,234)
Profit and total comprehensive income for the year/period		24,004	175,883	428,660	200,198	232,524
Attributable to:						
Equity holders of the Company		(6,729)	177,049	430,133	200,721	232,487
Minority interests		30,733	(1,166)	(1,473)	(523)	37
Profit and total comprehensive income for the year/period		24,004	175,883	428,660	200,198	232,524
(Loss)/earnings per share (RMB)	7					
-Basic		(0.005)	0.120	0.293	0.137	0.158
-Diluted		(0.005)	0.120	0.279	0.133	0.158

The accompanying notes form part of the Financial Information. Details of dividends payable for the Relevant Period are set out in Note 6.

2 COMBINED BALANCE SHEETS

	Section C Note	31 December 2006	31 December 2007	31 December 2008	30 June 2009
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment, net	10	611,025	1,123,091	1,751,968	2,176,570
Construction in progress	11	14,948	291,874	488,655	391,293
Lease prepayments	12	13,595	17,532	17,245	17,064
Intangible assets	13	11,256	10,667	10,199	9,924
Receivables under finance lease	14	—	5,036	13,053	12,855
Other non-current assets	15	78,936	90,175	131,809	76,489
Deferred tax assets	5(d)	—	—	2,680	2,680
Total non-current assets		729,760	1,538,375	2,415,609	2,686,875
Current assets					
Inventories		1,463	5,013	9,646	6,775
Trade and other receivables	16	82,089	167,786	126,676	284,463
Receivables under finance lease	14	—	928	1,872	1,872
Income tax recoverable	5(c)	4,101	8,973	130	10,278
Pledged bank deposits	17	37,652	154,530	227,422	231,546
Cash and cash equivalents	18	119,347	169,562	28,463	232,824
Total current assets		244,652	506,792	394,209	767,758
Current liabilities					
Bank and other loans	19	157,334	316,754	500,262	560,115
Trade and other payables	20	117,031	317,092	572,710	515,064
Obligations under finance leases	21	2,963	2,963	2,963	3,077
Convertible loans	22	81,306	—	—	—
Convertible redeemable preferred shares	23	142,675	161,668	141,224	156,500
Dividends payable		26,930	—	—	—
Income tax payable	5(c)	—	2,859	7,057	12,230
Amount due to a shareholder	27(b)	1,777	—	—	—
Total current liabilities		530,016	801,336	1,224,216	1,246,986
Net current liabilities		(285,364)	(294,544)	(830,007)	(479,228)
Total assets less current liabilities		444,396	1,243,831	1,585,602	2,207,647
Non-current liabilities					
Bank and other loans	19	130,000	417,760	400,350	746,780
Obligations under finance lease	21	30,477	29,952	29,385	30,515
Deferred tax liabilities	5(d)	—	—	10,991	16,952
Total non-current liabilities		160,477	447,712	440,726	794,247
Net assets		283,919	796,119	1,144,876	1,413,400
Equity					
Share capital	25	—	—	—	—
Reserves	26	269,533	782,899	1,133,129	1,365,616
Total equity attributable to equity holders of the Company		269,533	782,899	1,133,129	1,365,616
Minority interests		14,386	13,220	11,747	47,784
Total equity		283,919	796,119	1,144,876	1,413,400

The accompanying notes form part of the Financial Information.

3 COMBINED STATEMENTS OF CHANGES IN EQUITY

	Section C Note	Attributable to equity holders of the Company					Minority interests	Total equity
		Share capital	Statutory reserve	Other reserve	Retained earnings	Total		
		RMB'000 (Note 25)	RMB'000 (Note 26(a))	RMB'000 (Note 26(b))	RMB'000 (Note 26(c))	RMB'000	RMB'000	RMB'000
At 1 January 2006		—	24,896	150,364	18,249	193,509	153,685	347,194
Total comprehensive income for the year		—	—	—	(6,729)	(6,729)	30,733	24,004
Appropriation	26(a)	—	14,636	—	(14,636)	—	—	—
Capital injections	26(b)	—	—	14,790	—	14,790	(14,767)	23
Acquisition of a subsidiary		—	—	—	—	—	15,761	15,761
Acquisition of minority interests	26(b)	—	—	(100,858)	—	(100,858)	(171,026)	(271,884)
Conversion of USD20,200,000 loan facility	22(a)	—	—	49,760	—	49,760	—	49,760
Equity component of convertible redeemable preferred shares	23	—	—	106,544	—	106,544	—	106,544
Equity settled share-based transactions	24	—	—	12,517	—	12,517	—	12,517
At 31 December 2006		—	39,532	233,117	(3,116)	269,533	14,386	283,919
At 1 January 2007		—	39,532	233,117	(3,116)	269,533	14,386	283,919
Total comprehensive income for the year		—	—	—	177,049	177,049	(1,166)	175,883
Capital injections	26(b)	—	—	290,399	—	290,399	—	290,399
Conversion of USD2,000,000 Subscription Agreement	22(b)	—	—	36,397	—	36,397	—	36,397
Equity settled share-based transactions	24	—	—	1,259	—	1,259	—	1,259
Exercise of share options	24	—	—	8,262	—	8,262	—	8,262
At 31 December 2007		—	39,532	569,434	173,933	782,899	13,220	796,119
At 1 January 2008		—	39,532	569,434	173,933	782,899	13,220	796,119
Total comprehensive income for the year		—	—	—	430,133	430,133	(1,473)	428,660
Dividends declared during the year	6	—	—	—	(79,903)	(79,903)	—	(79,903)
At 31 December 2008		—	39,532	569,434	524,163	1,133,129	11,747	1,144,876
At 1 January 2009		—	39,532	569,434	524,163	1,133,129	11,747	1,144,876
Total comprehensive income for the period		—	—	—	232,487	232,487	37	232,524
Capital injections		—	—	—	—	—	36,000	36,000
At 30 June 2009		—	39,532	569,434	756,650	1,365,616	47,784	1,413,400
Unaudited								
At 1 January 2008		—	39,532	569,434	173,933	782,899	13,220	796,119
Total comprehensive income for the period		—	—	—	200,721	200,721	(523)	200,198
Dividends declared during the period	6	—	—	—	(79,903)	(79,903)	—	(79,903)
At 30 June 2008		—	39,532	569,434	294,751	903,717	12,697	916,414

The accompanying notes form part of the Financial Information.

4 COMBINED CASH FLOW STATEMENTS

	Section C Note	Years ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Operating activities						
Profit before taxation		24,004	183,938	467,852	221,687	236,758
Adjustments for:						
Depreciation		32,088	48,601	75,903	33,117	52,983
Amortisation		924	1,065	994	480	512
Finance income		(5,307)	(27,899)	(36,469)	(12,979)	(2,771)
Finance costs		161,201	95,963	58,492	26,563	44,030
Equity settled share-based transactions		6,187	7,589	—	—	—
Net loss/(gain) on disposal of property, plant and equipment		—	21	104	—	(10)
		219,097	309,278	566,876	268,868	331,502
Decrease/(increase) in inventories		468	(3,550)	(4,633)	495	2,871
(Increase)/decrease in trade and other receivables		(32,189)	(64,863)	22,622	38,232	(110,985)
Increase/(decrease) in trade and other payables		11,256	26,701	7,581	(8,132)	(4,308)
		198,632	267,566	592,446	299,463	219,080
Interest received		268	2,350	5,291	1,993	1,798
Interest paid		(12,617)	(45,345)	(66,096)	(27,907)	(31,817)
Income tax paid		(4,101)	(15,266)	(29,589)	(12,337)	(9,183)
Income tax refund		—	5,198	11,749	3,334	5,935
Net cash generated from operating activities		182,182	214,503	513,801	264,546	185,813
Investing activities						
Capital expenditure		(91,291)	(698,165)	(670,023)	(361,416)	(382,015)
Increase in pledged bank deposits		(37,652)	(116,878)	(72,892)	(9,966)	(4,124)
Payment for acquisition of minority interests	26(b)	(271,884)	—	—	—	—
Payment for acquisition of a subsidiary, net of cash acquired (Note (b))		(16,041)	—	—	—	—
Proceeds from disposal of property, plant and equipment		—	—	—	—	177
Collection of receivables under finance lease		—	—	1,904	907	994
Net cash used in investing activities		(416,868)	(815,043)	(741,011)	(370,475)	(384,968)

The accompanying notes form part of the Financial Information.

	Section C Note	Years ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Financing activities						
Proceeds from bank and other loans		226,000	644,000	580,700	248,500	773,200
Repayment of bank and other loans		(131,000)	(194,050)	(414,690)	(153,050)	(369,610)
Proceeds from the USD20,200,000 loan facility	22(a)	161,653	—	—	—	—
Repayment of the USD20,200,000 loan facility	22(a)	(50,239)	(65,606)	—	—	—
Proceeds from the USD2,000,000 Subscription Agreement	22(b)	15,617	—	—	—	—
Proceeds from issuance of convertible redeemable preferred shares	23	112,036	—	—	—	—
Advances/loans from shareholders		—	83,617	1,415	1,415	—
Repayment of advances from minority shareholders		—	(13,174)	—	—	—
Repayment of advances/loans from shareholders		—	(75,652)	(1,400)	(1,400)	—
Capital injections from equity holders of the Company	26(b)	23	290,399	—	—	—
Proceeds from exercise of share options	24	—	2,141	—	—	—
Dividends paid (Note (c))		—	(20,176)	(79,903)	(79,903)	—
Net cash generated from financing activities		334,090	651,499	86,122	15,562	403,590
Net increase/(decrease) in cash and cash equivalents		99,404	50,959	(141,088)	(90,367)	204,435
Cash and cash equivalents at beginning of year/period		20,095	119,347	169,562	169,562	28,463
Effect of foreign exchange rate changes		(152)	(744)	(11)	(77)	(74)
Cash and cash equivalents at end of year/period	18	119,347	169,562	28,463	79,118	232,824

The accompanying notes form part of the Financial Information.

(a) Major non-cash transactions

	Section C Note	Years ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Sale of unlisted equity security	i	14,985	—	—	—	—
Conversion of USD20,200,000 loan facility	ii	49,760	—	—	—	—
Conversion of USD2,000,000 Subscription Agreement	iii	—	36,397	—	—	—
Repayment of loans from shareholders	iv	—	6,121	—	—	—
Capital injection from minority shareholder	v	—	—	—	—	36,000

(i) In March 2004, the Group acquired 18% equity interest in Anhui Torch Energy and Chemicals Co., Ltd. ("Anhui Torch"), an unlisted company in the PRC. Pursuant to an agreement for disposal of equity interest in Anhui Torch signed between the Group and a shareholder in 2006, consideration receivable for the sale of investment in Anhui Torch, amounting to RMB14,985,000, was applied to set off the amount due to the shareholder and dividend payable of RMB5,364,000 and RMB9,621,000 respectively, during the year ended 31 December 2006.

(ii) On 29 December 2006, Loan C of USD20,200,000 loan facility and the interest accrued thereon were converted into 502 ordinary shares of Yingde BVI (see Note 22(a)).

(iii) On 29 June 2007, the USD2,000,000 Subscription Agreement was converted into 102 ordinary shares of Yingde BVI (see Note 22(b)).

(iv) On 11 November 2007, part of the loans from shareholders amounting to RMB6,121,000 was applied to settle the consideration payable for shares issued upon the exercise of share options (see Notes 24(a) and (b)).

(v) In March 2009, the minority shareholder of Hengyang Yingde contributed certain production facilities to Hengyang Yingde for payment of capital amounting to RMB36,000,000.

(b) Acquisition of a subsidiary

In May 2006, the Group entered into an agreement to acquire 75% equity interest of Zhangjiagang Yingde. The net assets of Zhangjiagang Yingde acquired were as following:

	RMB'000
Cash and cash equivalents acquired	559
Inventories	11
Prepayment for equipment	18,487
Intangible assets	12,173
Property, plant and equipment	237
Construction in progress	949
Other receivables	16
Trade and other payables	(71)
Minority interest	(15,761)
Total purchase price	16,600
Less: cash and cash equivalents acquired	(559)
Net cash outflow on acquisition	16,041

(c) Dividends paid

Dividends of RMB20,176,000 paid during the year ended 31 December 2007 represent dividends declared in 2005 by certain subsidiaries of the Company.

Dividends of RMB79,903,000 were declared and paid by Yingde BVI during the year ended 31 December 2008.

The accompanying notes form part of the Financial Information.

C NOTES TO THE FINANCIAL INFORMATION

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes International Accounting Standards ("IASs") and related interpretations, promulgated by the International Accounting Standards Board ("IASB"). Further details of the significant accounting policies adopted are set out in the remainder of this Section C Note 1.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the Relevant Period. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Period are set out in Note 31.

This Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the relevant rules and regulations.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of combination

The Financial Information comprises the Company and its subsidiaries and has been prepared using the merger basis of accounting as if the Group had always been in existence, as further explained in Section A.

(c) Basis of measurement

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand. It is prepared on the historical cost basis except derivative financial instruments (see Note 1(h)) that are stated at their fair value.

(d) Going concern

The Financial Information has been prepared assuming the Group will continue as a going concern notwithstanding the net current liabilities of the Group at 31 December 2006, 2007 and 2008 and 30 June 2009. The directors are of the opinion that, based on a detailed review of the working capital forecast of the Group for the eighteen months period ending 31 December 2010, the Group will have necessary liquid funds to finance its working capital and capital expenditure requirements.

(e) Use of estimates and judgements

The preparation of Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Note 30.

(f) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the combined balance sheet within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the combined statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the period between minority interests and the equity holders of the Company.

Where losses applicable to the minority exceed the minority's interests in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loan from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the combined balance sheet in accordance with Notes 1(p) or (r) depending on the nature of the liability.

(g) Other investment in equity securities

Investment in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see Note 1(l)).

(h) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(i) Property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 1(l)).

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is initially recognised in the balance sheet at cost less impairment losses (see Note 1(l)). Cost comprises cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs (see Note 1(y)). The construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant PRC authorities.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	15-20 years
Plant and machinery	10-20 years
Motor vehicles, office equipment and others	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses (see Note 1(l)). Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of 5 to 20 years.

(k) Lease

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 1(i). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(l). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iv) Receivables under finance lease

Where the Group leased out assets under finance leases, the initial direct costs incurred on such assets are recorded as receivables under finance leases. Finance income implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the receivables for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(v) Lease prepayments

Lease prepayments represent the purchase costs of land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses (Note 1(l)). Amortisation is charged to profit or loss on a straight line basis over the period of the land use rights.

(l) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset’s carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impaired loss previously recognised no longer exist or may have decreased:

- property, plant and equipment
- construction in progress
- lease prepayments
- intangible assets
- other non-current assets (excluding receivables)

If any such indication exists, the asset’s recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see Note 1(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment losses of doubtful debts.

(o) Convertible notes

(i) Convertible notes that contain an equity component

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the other reserve until either the note is converted or redeemed.

If the note is converted, the other reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the other reserve is released directly to retained profits.

(ii) Other convertible notes

Convertible notes which do not contain an equity component (when the conversion option can be settled other than by issuance of a fixed number of shares for a fixed amount of cash) are accounted for as follows:

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments (see Note 1(h)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with Note 1(h). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the note is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Preferred shares

Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Company's option and any dividends are discretionary. Dividends on preferred shares classified as equity are recognised as distributions within equity.

Preferred shares are classified as liabilities if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. The liability is recognised in accordance with the Group's policy for derivative financial instruments and interest-bearing borrowings set out in Notes 1(h) and (p) respectively. Non-discretionary dividends on preferred shares are recognised on an accrual basis in profit or loss as part of finance costs.

(r) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 1(v)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the combined cash flow statement.

(t) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.

Obligations for contributions to PRC local government defined contribution retirement plans pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss when incurred.

(ii) Share-based payment transactions

The fair value of share options granted to employees is recognised as an employees cost with a corresponding increase in an other reserve within equity. The fair value is measured at grant date using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that are expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/ credited to the profit or loss for the period of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the other reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the other reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the other reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(u) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 1(v)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(w) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue is recognised when gas products are delivered at the customers' premises or collected by the customers which is taken to be the point in time when the customer has accepted the gas products and the related risks and rewards of ownership. Revenue excludes value added tax and other sales tax and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(x) Translation of foreign currencies

Foreign currency transactions during the period are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the applicable PBOC rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using applicable PBOC rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the applicable PBOC rates ruling at the dates the fair value was determined.

(y) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(z) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is a member of key management personnel of the Group or the Group's parent, or, a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(iv) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(v) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type of class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group is engaged in the production and sales of industrial gases in the PRC. Although the industrial gases are sold to on-site and merchant customers, the Group's most senior executive management regularly review their combined financial information to assess the performance and make resource allocation decisions. Accordingly, no segment information is presented.

Substantially all of the Group's external customers and non-current assets are located in the PRC.

2 TURNOVER

The Group is principally engaged in the production and sales of industrial gases in the PRC. Turnover represents the aggregate of the invoiced value of goods sold, net of value added tax ("VAT").

During the year ended 31 December 2006, the Group had four customers that individually exceeded 10% of the Group's turnover, being RMB106,141,000, RMB89,809,000, RMB88,190,000 and RMB67,601,000 respectively.

During the year ended 31 December 2007, the Group had five customers that individually exceeded 10% of the Group's turnover, being RMB118,717,000, RMB105,204,000, RMB103,276,000, RMB102,407,000 and RMB82,397,000 respectively.

During the year ended 31 December 2008, the Group had three customers that individually exceeded 10% of the Group's turnover, being RMB303,640,000, RMB209,773,000 and RMB144,529,000 respectively.

During the six months ended 30 June 2009, the Group had three customers that individually exceeded 10% of the Group's turnover, being RMB222,662,000, RMB110,694,000 and RMB106,225,000 respectively.

During the six months ended 30 June 2008 (unaudited), the Group had three customers that individually exceeded 10% of the Group's turnover, being RMB132,432,000, RMB109,779,000 and RMB63,633,000 respectively.

Details of concentration of credit risk arising from the customers are set out in Note 29(a).

3 OTHER REVENUE

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Refund of VAT	1,037	987	1,346	499	—
Others	—	—	6	—	208
	1,037	987	1,352	499	208

Pursuant to a notice issued in 2003 by the relevant government authority in Loudi, Hunan Province, for the encouragement of foreign investments, Hunan Yingde applied and got approval for the refund of VAT paid during the Relevant Period.

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance income/(costs)

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest income	268	2,350	5,291	2,701	1,798
Finance income on receivables under finance lease	—	—	1,555	742	796
Termination gain on conversion of USD2,000,000 Subscription Agreement (Note 22(b))	—	12,478	—	—	—
Fair value adjustment on convertible redeemable preferred shares (Note 23)	—	—	21,301	1,724	—
Foreign currency exchange gain	5,039	13,071	8,322	7,812	177
Finance income	5,307	27,899	36,469	12,979	2,771
Interest on bank and other loans	(12,509)	(42,575)	(66,184)	(30,454)	(34,510)
Finance charges on obligations under finance lease	(2,318)	(2,675)	(2,633)	(1,317)	(1,244)
Interest on the liability component of USD20,200,000 loan facility (Note 22(a))	(3,424)	(489)	—	—	—
Interest on the liability component of USD2,000,000 Subscription Agreement (Note 22(b))	—	(314)	—	—	—
Interest on the liability component of convertible redeemable preferred shares (Note 23)	(7,766)	(9,752)	(9,148)	(4,555)	(4,373)
Total interest expense	(26,017)	(55,805)	(77,965)	(36,326)	(40,127)
Less: borrowing costs capitalised	36	12,843	22,200	10,632	7,213
	(25,981)	(42,962)	(55,765)	(25,694)	(32,914)
Fair value adjustment on the derivative component of USD20,200,000 loan facility (Note 22(a))	(2,493)	—	—	—	—
Fair value adjustment on the derivative component of USD2,000,000 Subscription Agreement (Note 22(b))	—	(33,327)	—	—	—
Fair value adjustment on convertible redeemable preferred shares (Note 23)	(76,406)	(17,483)	—	—	(10,953)
Termination loss on conversion of USD20,200,000 loan facility (Note 22(a))	(1,117)	—	—	—	—
Loss on modification of terms of convertible redeemable preferred shares (Note 23)	(55,041)	—	—	—	—
Foreign currency exchange loss	(163)	(2,191)	(2,727)	(869)	(163)
Finance costs	(161,201)	(95,963)	(58,492)	(26,563)	(44,030)
	(155,894)	(68,064)	(22,023)	(13,584)	(41,259)

During the Relevant Period, borrowing costs have been capitalised at the following rates:

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Capitalisation rate (per annum)	6.3%	6.3%-8.4%	5.7%-8.5%	7.5%-8.4%	5.4%-7.9%

(b) Staff costs

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries, wages, bonuses and benefits	13,393	29,927	48,162	20,834	34,310
Contributions to defined contribution retirement schemes	313	1,334	2,794	1,081	1,474
Equity settled share-based payment expenses (Note 24)	6,187	7,589	—	—	—
	19,893	38,850	50,956	21,915	35,784

Staff costs included directors' remuneration (see Note 8).

Pursuant to the relevant labour rules and regulations in the PRC, the companies now comprising the Group participate in defined contribution retirement benefit schemes ("the Schemes") organised by the respective local government authorities whereby the Group is required to make contributions to the Schemes at rates in the range of 10% to 22% of the eligible employees' salaries during the Relevant Period.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

(c) Other items

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Electricity	213,771	371,900	718,419	304,926	513,045
Depreciation	32,088	48,601	75,903	33,117	52,983
Amortisation					
Land lease premium	7	433	352	162	181
Intangible assets	917	632	642	318	331
Auditors' remuneration					
Audit service	966	93	108	66	79
Non-audit service	640	—	—	—	—
Consulting fees (Note (i))	4,614	5,666	1,540	232	119
Operating lease charges: minimum lease payment (Note (ii))	2,915	2,241	4,452	2,179	2,243
Net loss/(gain) on disposal of property, plant and equipment	—	21	104	—	(10)
Management fee (Note 28(d))	117	4,401	3,500	1,162	468
Penalty (Note (iii))	1,405	1,252	111	81	—
Impairment loss					
Trade and other receivables	—	—	10,721	—	—
Prepayment for equipment	—	—	2,395	—	—
Provision/(write-back) of claims (Note (iv))	1,800	700	(2,020)	(2,020)	—

Notes:

(i) Consulting fees represent fees paid to independent third parties for investment consulting and financing advisory services.

(ii) Operating lease charges represent payment for lease of land and buildings.

(iii) Penalty in 2006 included an amount of RMB1,400,000 paid to Industrial and Commercial Administration Bureau in the PRC due to the production at Hunan Yingde without an approved production certificate before March 2006. Hunan Yingde obtained the production certificate in June 2006.

Penalty in 2007 included an amount of RMB1,100,000 paid to the local custom department due to the pledge of certain duty free imported machineries for bank loans without approval by the local custom department.

(iv) Nanjing Xingang consumed argon fraction for the production of industrial argon gas. Due to the shortage of argon fraction, Nanjing Xingang could not produce sufficient gas as agreed in the sales contract. Claims were brought by the customer against Nanjing Xingang and, based on the legal advice, provisions for claims of RMB1,800,000 and RMB700,000 were accrued during the years ended 31 December 2006 and 2007, respectively.

Upon the completion of negotiations with the customer, Nanjing Xingang and the customer agreed to terminate the sales contract in June 2008 and a termination fee of RMB480,000 was subsequently paid to the customer. Accordingly, a write-back of provision for claim amounting to RMB2,020,000 was credited to the profit or loss during the year ended 31 December 2008.

5 INCOME TAX

(a) Income tax in the combined statement of comprehensive income represents:

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current income tax					
Provision/(write-back) for the year/period	—	8,055	30,881	16,356	(1,727)
Deferred tax					
Origination of temporary differences	—	—	8,311	5,133	5,961
	—	8,055	39,192	21,489	4,234

(b) Reconciliation between actual income tax expense and profit before taxation at applicable tax rates:

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before taxation	24,004	183,938	467,852	221,687	236,758
Expected PRC income tax expense at the statutory tax rate of 33%/25% (Note (iii))	7,921	60,699	116,963	55,422	59,190
Tax effect of non-deductible expenses	2,332	4,621	4,672	1,989	5,384
Differential tax rate on subsidiaries' income (Notes (i), (ii) and (iii))	9,697	(34,806)	(93,434)	(41,055)	(47,807)
Tax credit of domestic equipment purchases (Note (iv))	(19,950)	(22,459)	—	—	(18,494)
Tax on distributable profits of subsidiaries in the PRC (Note (v))	—	—	10,991	5,133	5,961
Actual income tax expense	—	8,055	39,192	21,489	4,234

(i) Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.

(ii) The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the Relevant Period.

(iii) Prior to 1 January 2008, PRC entities were, in general, subject to the statutory income tax rate of 33%, consisting of 30% state tax and 3% local tax, on their assessable profits. Zhuhai Yingde, being an entity located in the designated Special Economic Zone, was entitled to a preferential income tax rate of 15%. Nanjing Xingang and Tianjin Yingde, being entities located in the old urban districts in which Economic and Technological Development Zones are located, were entitled to a preferential income tax rate of 24%. In addition, certain of the Group's PRC subsidiaries, being production-oriented foreign investment enterprises under the Foreign Enterprise Income Tax law and its implementation rules, were each entitled to a tax holiday of a 2-year full exemption followed by a 3-year 50% exemption commencing from their respective first profit-making year after offsetting accumulated tax losses, if any ("2+3 tax holiday").

The preferential tax treatment entitlements of the Group's subsidiaries in the PRC before 1 January 2008 were as follows:

Name of company	Tax rate applicable to the company	2+3 tax holiday period	Tax rate during the 2+3 tax holiday period	
			1st and 2nd year	3rd, 4th and 5th year
Hunan Yingde	33%	2003-2007	Exempted	15%
Zhuhai Yingde	15%	2005-2009	Exempted	7.5%
Jiangsu Yingde	33%	2004-2008	Exempted	15%
Nanjing Xingang	24%	2007-2011	Exempted	12%
Shaanxi Yingde	33%	2004-2008	Exempted	15%
Tianjin Yingde	24%	2006-2010	Exempted	12%

In addition, Rizhao Yingde, Zibo Yingde, Hebei Yingde, Huai'an Yingda and Laiwu Yingde were also entitled to the 2+3 tax holiday.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which has been effective on 1 January 2008. As a result of the new tax law, the statutory income tax rate in the PRC is reduced from 33% to 25%. Detailed rules for implementation of the new tax law and the grandfathering relief under the new tax law were announced in December 2007 and February 2008. The grandfathering relief allows entities which were established before 16 March 2007 and which were entitled to the 2+3 tax holiday under the then effective tax laws and regulations continue to enjoy the 2+3 tax holiday until they expire. It also requires the 2+3 tax holiday to start from 1 January 2008 should they be not started prior to 1 January 2008.

From 1 January 2008, the Group's subsidiaries in the PRC are subject to the statutory income tax rate of 25%. Zhuhai Yingde, Jiangsu Yingde, Nanjing Xingang, Shaanxi Yingde and Tianjin Yingde continue to enjoy the 2+3 tax holiday with reference to the new statutory income tax rate until they expire. Further, Rizhao Yingde, Zibo Yingde, Hebei Yingde, Huai'an Yingda and Laiwu Yingde started their 2+3 tax holiday on 1 January 2008.

(iv) Before 31 December 2007, certain subsidiaries in the PRC obtained the approval of income tax credit for purchasing qualified domestic equipment from the local tax authorities in accordance with the relevant tax regulations issued by the State Administration of Taxation. The tax credits utilised for the years ended 31 December 2006 and 2007 were RMB19,950,000 and RMB22,459,000 respectively. Pursuant to Guoshuifa [2008] No.52 issued by the State Administration of Taxation in May 2008, such tax credit policy ceased to be effective since 1 January 2008. During the six months ended 30 June 2009, certain subsidiaries utilised the unused tax credit of RMB18,494,000 granted by the relevant local tax authorities prior to 31 December 2007.

(v) The new tax law and the relevant regulations impose a withholding tax at 10%, unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside mainland China for earnings generated beginning on 1 January 2008 and undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax.

(c) Income tax (recoverable)/payable in the combined balance sheet represents:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	—	(4,101)	(6,114)	6,927
Provision/(write-back) for PRC income tax for the year/period	—	8,055	30,881	(1,727)
PRC income tax paid	(4,101)	(15,266)	(29,589)	(9,183)
PRC income tax refund	—	5,198	11,749	5,935
At 31 December/30 June	(4,101)	(6,114)	6,927	1,952
Representing:				
Income tax recoverable	(4,101)	(8,973)	(130)	(10,278)
Income tax payable	—	2,859	7,057	12,230
	(4,101)	(6,114)	6,927	1,952

(d) Deferred tax assets/liabilities recognised

(i) The components of deferred tax (assets)/liabilities recognised in the combined balance sheet and the movements during the Relevant Period are set out as follows:

Deferred tax arising from:

	Allowance for doubtful debts	Profits expected to distribute	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2006	—	—	—
Charged to profit or loss	—	—	—
At 31 December 2006	—	—	—
At 1 January 2007	—	—	—
Charged to profit or loss	—	—	—
At 31 December 2007	—	—	—
At 1 January 2008	—	—	—
(Credited)/charged to profit or loss	(2,680)	10,991	8,311
At 31 December 2008	(2,680)	10,991	8,311
At 1 January 2009	(2,680)	10,991	8,311
Charged to profit or loss	—	5,961	5,961
At 30 June 2009	(2,680)	16,952	14,272

(ii) Reconciliation to the combined balance sheet

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Net deferred tax asset recognised on the combined balance sheet	—	—	2,680	2,680
Net deferred tax liability recognised on the combined balance sheet	—	—	(10,991)	(16,952)
	—	—	(8,311)	(14,272)

Deferred tax liabilities on undistributed profits represent temporary differences relating to the distributable profits accumulated since 1 January 2008 of the Group's subsidiaries in the PRC that are expected to be distributed in the foreseeable future.

(e) Deferred tax assets/liabilities not recognised

As at 31 December 2008 and 30 June 2009, temporary differences relating to the distributable profits accumulated since 1 January 2008 of the Group's subsidiaries in the PRC, that are not expected to be distributed in the foreseeable future, amounted to approximately RMB373,284,000 and RMB561,254,000, respectively. Deferred tax liabilities of approximately RMB37,328,000 and RMB56,125,000 as at 31 December 2008 and 30 June 2009 respectively have not been recognised in respect of the tax that would be payable on distribution of these retained earnings as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

There were no other significant temporary differences relating to deferred tax assets or liabilities as at 31 December 2006, 2007 and 2008 and 30 June 2009.

6 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation. Dividends for the year ended 31 December 2008 represent dividends declared and paid by Yingde BVI to its then shareholders.

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Yingde BVI	—	—	79,903	79,903	—

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

The directors consider that the dividend payments made during the Relevant Period are not indicative of the future dividend policy of the Company.

7 (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to ordinary equity holders of the Company for each of the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 and 1,270,000,000 ordinary shares of the Company in issue pursuant to the Reorganisation as if these shares were outstanding throughout the entire Relevant Period.

Since the impact on (loss)/earnings of conversion of convertible redeemable preferred shares to ordinary shares is greater than that on the weighted average number of ordinary shares during the years ended 31 December 2006 and 2007, and the six months ended 30 June 2009, they are treated as anti-dilutive in the respective periods. As a result, the calculation of diluted (loss)/earnings per share does not assume conversion of convertible redeemable preferred shares during the years ended 31 December 2006 and 2007, and the six months ended 30 June 2009.

The calculation of the basic and diluted (loss)/earnings per share is based on the following data:

(i) (Loss)/earnings

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(Loss)/profit attributable to equity holders of the Company	(6,729)	177,049	430,133	200,721	232,487
Loss/(profit) attributable to the holders of convertible redeemable preferred shares	916	(24,088)	(58,521)	(27,309)	(31,631)
(Loss)/profit attributable to ordinary equity holders of the Company (basic)	(5,813)	152,961	371,612	173,412	200,856
Profit attributable to the holders of convertible redeemable preferred shares			58,521	27,309	
After tax effect of income recognised in respect of convertible redeemable preferred shares			(20,444)	(4,966)	
(Loss)/profit attributable to ordinary equity holders of the Company (diluted)			409,689	195,755	

(ii) Number of shares

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	'000	'000	'000	'000 (unaudited)	'000
Weighted average number of ordinary shares (basic)	1,270,000	1,270,000	1,270,000	1,270,000	1,270,000
Effect of convertible redeemable preferred shares			200,000	200,000	
Weighted average number of ordinary shares (diluted)			1,470,000	1,470,000	

8 DIRECTORS' REMUNERATION

Details of directors' remuneration of the Company are set out below:

	Year ended 31 December 2006					
	Fees	Basic salaries, allowances and other benefits	Bonus	Contributions to retirement benefit schemes	Equity settled share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors						
Zhongguo Sun	—	379	—	—	—	379
Zhao Xiangti	—	—	—	—	1,333	1,333
Chen Yan	—	70	—	—	—	70
Non-executive director						
Chen Da Cin	—	—	—	—	—	—
Independent non-executive directors						
Xu Zhao	—	—	—	—	—	—
Zheng Fuya	—	—	—	—	—	—
Kam Son Leong	—	—	—	—	—	—
Total	—	449	—	—	1,333	1,782

	Year ended 31 December 2007					
	Fees	Basic salaries, allowances and other benefits	Bonus	Contributions to retirement benefit schemes	Equity settled share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors						
Zhongguo Sun	—	633	900	—	—	1,533
Zhao Xiangti	—	399	—	19	—	418
Chen Yan	—	109	500	—	—	609
Non-executive director						
Chen Da Cin	—	—	—	—	—	—
Independent non-executive directors						
Xu Zhao	—	—	—	—	—	—
Zheng Fuya	—	—	—	—	—	—
Kam Son Leong	—	—	—	—	—	—
Total	—	1,141	1,400	19	—	2,560

	Year ended 31 December 2008					
	Fees	Basic salaries, allowances and other benefits	Bonus	Contributions to retirement benefit schemes	Equity settled share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors						
Zhongguo Sun	—	1,351	—	—	—	1,351
Zhao Xiangti	—	685	—	22	—	707
Chen Yan	—	492	500	—	—	992
Non-executive director						
Chen Da Cin	—	—	—	—	—	—
Independent non-executive directors						
Xu Zhao	—	—	—	—	—	—
Zheng Fuya	—	—	—	—	—	—
Kam Son Leong	—	—	—	—	—	—
Total	—	2,528	500	22	—	3,050

	Six months ended 30 June 2009					
	Fees	Basic salaries, allowances and other benefit	Bonus	Contributions to retirement benefit schemes	Equity settled share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors						
Zhongguo Sun	—	600	—	—	—	600
Zhao Xiangti	—	342	—	15	—	357
Chen Yan	—	246	—	—	—	246
Non-executive director						
Chen Da Cin	—	—	—	—	—	—
Independent non-executive directors						
Xu Zhao	—	—	—	—	—	—
Zheng Fuya	—	—	—	—	—	—
Kam Son Leong	—	—	—	—	—	—
Total	—	1,188	—	15	—	1,203

	Six months ended 30 June 2008 (unaudited)					
	Fees	Basic salaries, allowances and other benefits	Bonus	Contributions to retirement benefit schemes	Equity settled share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors						
Zhongguo Sun	—	600	—	—	—	600
Zhao Xiangti	—	342	—	11	—	353
Chen Yan	—	123	—	—	—	123
Non-executive director						
Chen Da Cin	—	—	—	—	—	—
Independent non-executive directors						
Xu Zhao	—	—	—	—	—	—
Zheng Fuya	—	—	—	—	—	—
Kam Son Leong	—	—	—	—	—	—
Total	—	1,065	—	11	—	1,076

During the Relevant Period, no amount was paid or payable by the Group to the directors or any of the non-director highest paid individuals set out in Note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director or any of the non-director highest paid individuals waived or agreed to waive any remuneration during the Relevant Period.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include two, one, one, two (unaudited) and one directors during the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2008 and 2009, respectively, whose emolument is disclosed in Note 8. Details of remuneration paid to the remaining highest paid individuals of the Group are as follows:

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Basic salaries, allowances and other benefits	632	3,524	3,425	1,742	2,197
Bonus	—	1,670	2,580	—	—
Equity settled share-based payments	529	1,259	—	—	—
Contributions to retirement benefit schemes	21	18	79	—	20
	1,182	6,471	6,084	1,742	2,217

The emoluments of these individuals are within the following bands:

	Number of individuals				
	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008 (unaudited)	2009
Nil to HKD1,000,000 (Nil to RMB882,000)	2	—	—	—	1
HKD1,000,000 to HKD1,500,000 (RMB882,000 to RMB1,323,000)	1	1	1	3	3
HKD1,500,000 to HKD2,500,000 (RMB1,323,000 to RMB2,205,000)	—	3	3	—	—
	3	4	4	3	4

10 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles, office equipment and others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At 1 January 2006	22,681	569,137	8,144	599,962
Acquisition of a subsidiary	—	—	237	237
Additions	—	41,081	2,773	43,854
Transferred from construction in progress	—	35,929	—	35,929
At 31 December 2006	22,681	646,147	11,154	679,982
At 1 January 2007	22,681	646,147	11,154	679,982
Additions	105	32,425	10,607	43,137
Transferred from construction in progress	30,226	487,325	—	517,551
Disposal	(671)	—	(88)	(759)
At 31 December 2007	52,341	1,165,897	21,673	1,239,911
At 1 January 2008	52,341	1,165,897	21,673	1,239,911
Additions	25	11,432	3,193	14,650
Transferred from construction in progress	8,181	682,352	—	690,533
Disposal	—	(438)	(95)	(533)
At 31 December 2008	60,547	1,859,243	24,771	1,944,561
At 1 January 2009	60,547	1,859,243	24,771	1,944,561
Additions	—	55,147	10,417	65,564
Transferred from construction in progress	65,708	346,480	—	412,188
Disposal	—	—	(304)	(304)
At 30 June 2009	126,255	2,260,870	34,884	2,422,009
Accumulated depreciation:				
At 1 January 2006	(1,528)	(33,377)	(1,964)	(36,869)
Charge for the year	(1,080)	(29,282)	(1,726)	(32,088)
At 31 December 2006	(2,608)	(62,659)	(3,690)	(68,957)
At 1 January 2007	(2,608)	(62,659)	(3,690)	(68,957)
Charge for the year	(2,411)	(43,061)	(3,129)	(48,601)
Written back on disposal	671	—	67	738
At 31 December 2007	(4,348)	(105,720)	(6,752)	(116,820)
At 1 January 2008	(4,348)	(105,720)	(6,752)	(116,820)
Charge for the year	(2,174)	(69,658)	(4,071)	(75,903)
Written back on disposal	—	40	90	130
At 31 December 2008	(6,522)	(175,338)	(10,733)	(192,593)
At 1 January 2009	(6,522)	(175,338)	(10,733)	(192,593)
Charge for the period	(1,645)	(49,334)	(2,004)	(52,983)
Written back on disposal	—	—	137	137
At 30 June 2009	(8,167)	(224,672)	(12,600)	(245,439)
Carrying amount:				
At 31 December 2006	20,073	583,488	7,464	611,025
At 31 December 2007	47,993	1,060,177	14,921	1,123,091
At 31 December 2008	54,025	1,683,905	14,038	1,751,968
At 30 June 2009	118,088	2,036,198	22,284	2,176,570

(a) All the Group's property, plant and equipment are located in the PRC.

(b) As at 31 December 2006, 2007 and 2008 and 30 June 2009, certain of the Group's bank and other loans were secured by the Group's plant and machinery with net book value of RMB283,780,000, RMB336,157,000, RMB541,360,000 and RMB617,981,000, respectively.

(c) Certain of the Group's leased plant and machinery are considered as being held under finance lease (see Note 21). The lease term is 25 years and represents a major part of the economic life of the leased plant and machinery. Net book value of plant and machinery held under finance lease was as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Net book value of plant and machinery held under finance lease	31,725	30,103	28,480	27,669

(d) The Group has entered into long-term gas supply agreements with certain customers for periods of 15 to 25 years. Certain of the Group's buildings are located on land leased from these customers for periods of 15 to 25 years. Accordingly, building ownership certificate is not obtained in respect of such buildings. The carrying value of such buildings amounted to RMB10,924,000, RMB29,950,000, RMB33,444,000 and RMB44,425,000 as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively.

(e) As at 31 December 2006, 2007 and 2008 and 30 June 2009, the Group was in the process of applying for the ownership certificate for certain buildings with an aggregate net book value amounting to RMB6,373,000, RMB15,006,000, RMB11,439,000 and RMB20,415,000, respectively. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy and use of the above mentioned buildings.

11 CONSTRUCTION IN PROGRESS

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	27,274	14,948	291,874	488,655
Acquisition of a subsidiary	949	—	—	—
Additions	22,654	800,441	896,624	314,826
Transferred to property, plant and equipment	(35,929)	(517,551)	(690,533)	(412,188)
Transferred to receivables under finance leases	—	(5,964)	(9,310)	—
At 31 December/30 June	14,948	291,874	488,655	391,293

12 LEASE PREPAYMENTS

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in the PRC as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Land use rights held under long term leases	13,595	17,532	17,245	17,064

The land use rights are amortised on a straight-line basis over the operating lease periods of 50 years.

As at 31 December 2006, 2007 and 2008 and 30 June 2009, certain of the Group's bank and other loans were secured by the Group's land use rights with net book value of RMB6,419,000, RMB10,225,000, RMB17,245,000 and RMB3,308,000 respectively.

13 INTANGIBLE ASSETS

	31 December 2006	31 December 2007	31 December 2008	30 June 2009
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At 1 January	—	12,173	12,216	12,390
Acquisition of a subsidiary	12,173	—	—	—
Additions	—	43	174	56
At 31 December/30 June	12,173	12,216	12,390	12,446
Accumulated amortisation:				
At 1 January	—	(917)	(1,549)	(2,191)
Charge for the year/period	(917)	(632)	(642)	(331)
At 31 December/30 June	(917)	(1,549)	(2,191)	(2,522)
Carrying amount:				
At 31 December/30 June	11,256	10,667	10,199	9,924

Intangible assets mainly represent patented technology in Zhangjiagang Yingde which is amortised over 20 years, the operating period of Zhangjiagang Yingde.

14 RECEIVABLES UNDER FINANCE LEASE

The gross investment and present value of receivables relating to future minimum lease payments under non-cancellable finance lease agreement or arrangement accounted for as finance lease are as follows:

	31 December 2006		31 December 2007		31 December 2008		30 June 2009	
	Present value of the minimum lease payments	Gross investment	Present value of the minimum lease payments	Gross investment	Present value of the minimum lease payments	Gross investment	Present value of the minimum lease payments	Gross investment
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	—	—	928	996	1,872	1,988	1,872	1,988
After 1 year but within 2 years	—	—	813	996	1,674	1,988	1,674	1,988
After 2 years but within 5 years	—	—	1,884	2,988	4,041	5,964	4,041	5,964
After 5 years	—	—	2,339	6,972	7,338	21,276	7,140	20,282
	—	—	5,036	10,956	13,053	29,228	12,855	28,234
Total	—	—	5,964	11,952	14,925	31,216	14,727	30,222
Less: total future interest income		—		(5,988)		(16,291)		(15,495)
Present value of lease receivables		—		5,964		14,925		14,727

15 OTHER NON-CURRENT ASSETS

	31 December 2006	31 December 2007	31 December 2008	30 June 2009
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayment for equipment	71,706	87,175	128,634	68,214
Prepayment for land use right	900	3,000	3,175	3,175
Deferred expenses on limited ordinary shares (Note 24(c))	6,330	—	—	—
Long term receivables	—	—	—	5,100
	78,936	90,175	131,809	76,489

16 TRADE AND OTHER RECEIVABLES

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	67,471	92,406	108,665	165,418
Bills receivable	798	22,069	9,216	49,883
Less: allowance for doubtful debts	—	—	(10,721)	(10,721)
	68,269	114,475	107,160	204,580
Deposits and other receivables	13,820	53,311	19,516	79,883
	82,089	167,786	126,676	284,463

All of the trade and bills receivables are expected to be recovered within one year. Credit terms may be granted to customers, depending on the credit assessment carried out by the management on an individual basis. The Group does not hold any collateral over these balances.

(a) Ageing analysis

Included in trade and other receivables are trade receivables and bills receivable (net of allowance for doubtful debts) with the ageing analysis as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Current	68,269	114,475	107,160	157,949
Less than 1 month past due	—	—	—	31,446
1 to 3 months past due	—	—	—	15,185
Amounts past due	—	—	—	46,631
	68,269	114,475	107,160	204,580

The credit terms for trade receivables are generally 30 to 45 days. The bills receivable are normally due within 180 days from the date of issuing. Further details on the Group's credit policy are set out in Note 29(a).

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and other receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivable directly (see Note 1(l)(i)).

The movement in the allowance for doubtful debts during the Relevant Period is as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	—	—	—	10,721
Impairment loss recognised	—	—	10,721	—
At 31 December/30 June	—	—	10,721	10,721

During the year ended 31 December 2008, a trade receivable of the Group, related to a merchant customer that was in financial difficulty, amounting to RMB10,721,000 was determined to be impaired.

(c) Trade and bills receivables that are not impaired

Except for the specific trade receivable of RMB10,721,000 as detailed in Note 16(b), all trade and bills receivables are not impaired.

Trade and bills receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade and bills receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

17 PLEDGED BANK DEPOSITS

Bank deposits are pledged to banks for issuing bank accepted bills and letters of credit to the Group.

18 CASH AND CASH EQUIVALENTS

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and in hand	119,347	169,562	28,463	232,824

The Group's cash and bank balances in the PRC amounted to RMB119,246,000, RMB158,152,000, RMB28,348,000 and RMB229,358,000 at 31 December 2006, 2007 and 2008 and 30 June 2009 respectively. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

Included in cash and cash equivalents in the combined balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	31 December			30 June
	2006	2007	2008	2009
	'000	'000	'000	'000
Hong Kong dollars	HKD13	HKD744	HKD131	HKD34,210
United States dollars	USD4,799	USD5,518	USD8	USD991

19 BANK AND OTHER LOANS

(a) The bank and other loans comprise:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term loans	96,000	165,000	329,200	412,200
Current portion of long-term loans	61,334	151,754	171,062	147,915
	157,334	316,754	500,262	560,115
Long-term portion of long-term loans	130,000	417,760	400,350	746,780
	287,334	734,514	900,612	1,306,895

The interest rates per annum of bank loans and other loans were:

	31 December			30 June
	2006	2007	2008	2009
Short-term loans	5.9%-7.0%	3.6%-7.5%	2.5%-9.7%	1.7%-7.9%
Long-term loans	6.1%-10.4%	6.3%-10.4%	5.7%-10.4%	5.4%-10.4%

(b) The bank and other loans were repayable as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year or on demand	157,334	316,754	500,262	560,115
After 1 year but within 2 years	75,000	120,410	226,590	333,140
After 2 years but within 5 years	5,000	247,350	173,760	408,640
After 5 years	50,000	50,000	—	5,000
	287,334	734,514	900,612	1,306,895

(c) The bank and other loans were secured as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans				
- unsecured	67,000	87,000	22,000	—
- secured	147,000	597,286	828,442	1,254,125
	214,000	684,286	850,442	1,254,125
Other loans				
- secured	73,334	50,228	50,170	52,770
	287,334	734,514	900,612	1,306,895

(d) The carrying value of assets secured for bank and other loans were as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	283,780	336,157	541,360	617,981
Lease prepayments	6,419	10,225	17,245	3,308
	290,199	346,382	558,605	621,289

In addition, certain bank loans were secured by the Group's 75% equity interests in Zhuhai Yingde, Shaanxi Yingde, Tianjin Yingde and Rizhao Yingde during the Relevant Period.

(e) Guarantees

As at 31 December 2006, bank loans amounting to RMB38,000,000 were guaranteed by Torch Automobile Group Company Limited, a then shareholder of Hunan Yingde. The guarantee was released during the year ended 31 December 2007.

The Group obtained a bank loan of RMB10,000,000 under a cross guarantee arrangement between the Group and Longmen Steel Group Co., Ltd., a customer of the Group, during the year ended 31 December 2006. The cross guarantee arrangement was terminated during the year ended 31 December 2007.

20 TRADE AND OTHER PAYABLES

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payable	562	9,498	5,719	10,204
Bills payable	42,952	120,000	150,123	105,259
Payable for property, plant and equipment	42,392	151,878	369,792	361,318
Accrued expenses and other payables	31,125	35,716	47,076	38,283
	117,031	317,092	572,710	515,064

An ageing analysis of trade payables is as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	269	1,533	4,851	9,675
Due after 1 month but within 3 months	176	7,965	728	109
Due after 3 months but within 6 months	117	—	140	420
	562	9,498	5,719	10,204

21 OBILIGATIONS UNDER FINANCE LEASES

Finance lease liabilities are payable as follows:

	31 December						30 June 2009	
	2006		2007		2008			
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	2,963	3,200	2,963	3,200	2,963	3,200	3,077	3,200
After 1 year but within 2 years	2,743	3,200	2,743	3,200	2,743	3,200	2,849	3,200
After 2 years but within 5 years	7,070	9,600	7,070	9,600	7,070	9,600	7,342	9,600
After 5 years	20,664	59,200	20,139	56,000	19,572	52,800	20,324	52,800
	30,477	72,000	29,952	68,800	29,385	65,600	30,515	65,600
Total	33,440	75,200	32,915	72,000	32,348	68,800	33,592	68,800
Less: total future interest expenses		(41,760)		(39,085)		(36,452)		(35,208)
Present value of lease obligations		33,440		32,915		32,348		33,592

22 CONVERTIBLE LOANS

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
USD20,200,000 loan facility (Note a)	65,689	—	—	—
USD2,000,000 Subscription Agreement (Note b)	15,617	—	—	—
	81,306	—	—	—

(a) USD20,200,000 loan facility

	Liability component	Derivative component	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2006	—	—	—
Issuance of USD20,200,000 loan facility	164,770	(3,117)	161,653
Interest charged during the year	3,424	—	3,424
Fair value adjustment	—	2,493	2,493
Foreign currency exchange gain	(2,999)	—	(2,999)
Repayment of Loan A	(50,239)	—	(50,239)
Conversion of Loan C	(49,267)	624	(48,643)
At 1 January 2007	65,689	—	65,689
Interest charged during the year	489	—	489
Foreign currency exchange gain	(572)	—	(572)
Repayment of Loan B	(65,606)	—	(65,606)
At 31 December 2007	—	—	—

On 23 June 2006, Yingde BVI obtained an unsecured USD20,200,000 loan facility ("USD20,200,000 loan facility") from Proper Sonic Finance Limited, an affiliate of Baring Private Equity Asia III Holding (7A) Limited. Baring Private Equity Asia III Holding (7A) Limited is a shareholder of the Company. The USD20,200,000 loan facility was transferred from Proper Sonic Finance Limited to Baring Private Equity Asia III Holding (7A) Limited on 31 December 2006. The USD20,200,000 loan facility comprised three parts:

Tranche I: USD6,200,000 loan with repayment date of 31 August 2006 ("Loan A")
Tranche II: USD8,000,000 loan with repayment date of 28 February 2007 ("Loan B")
Tranche III: USD6,000,000 convertible loan ("Loan C")

The USD20,200,000 loan facility was bearing interest at the Singapore Inter-bank Borrowing Rate for United States dollars plus 3%. Yingde BVI had the option to prepay all or part of the USD20,200,000 loan facility. Any repayment should be first treated as the repayment of Loan A and Loan B, and any excess should be for the repayment of Loan C. Loan C would be mandatorily converted into ordinary shares of Yingde BVI if Loan A and Loan B were fully repaid and Loan C was not fully repaid or extinguished as at 28 February 2007. The conversion price was to be the lower of (i) a price determined equivalent to six times of the net profit after tax of the companies comprising the Group for the year ended 31 December 2006; or (ii) the lowest value of shares issued to a third party, if any.

Loan A was repaid on 31 August 2006. As agreed among the contracting parties, Loan C was early converted into 502 ordinary shares of Yingde BVI on 29 December 2006 at a price determined equivalent to six times of the net profit after tax of the companies comprising the Group for the year ended 31 December 2006 pursuant to the terms of the agreement.

The USD20,200,000 loan facility has been accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component (prepayment and conversion options) was calculated as a debit amount of RMB3,117,000 on initial recognition. The liability component was initially recognised at RMB164,770,000. The net amount of the derivative component and the liability component is presented as a financial liability on the combined balance sheet. The derivative component was carried at fair value and the liability component was carried at amortised cost.

Upon conversion of Loan C on 29 December 2006, the liability component and derivative component totalling RMB48,643,000 were derecognised. The 502 ordinary shares of Yingde BVI from conversion of Loan C were recognised within the equity at fair value of RMB49,760,000. As a result, a termination loss on conversion of RMB1,117,000 was recognised in the profit or loss for the year ended 31 December 2006.

Fair value of the derivative component of the USD20,200,000 loan facility was valued by the directors with reference to a valuation report issued by Jones Lang LaSalle Sallmanns Limited ("Sallmanns"), an independent business valuer, using the binomial option pricing model. Inputs used in the model are as follows:

	23 June 2006	29 December 2006
Total fair value of Yingde BVI and its subsidiaries at the measurement date	USD68,592,000	USD176,726,000
Share price	USD6,658	USD12,694
Expected volatility	27.14%	23.50%
Maturity date	28 February 2007	28 February 2007
Dividend yield	0.00%	0.00%
Risk-free interest rate	5.27%	5.00%

(b) USD2,000,000 Subscription Agreement

	Liability component	Derivative component	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2006	—	—	—
Issuance of USD2,000,000 Subscription Agreement	15,299	318	15,617
At 1 January 2007	15,299	318	15,617
Interest charged during the year	314	—	314
Fair value adjustment	—	33,327	33,327
Foreign currency exchange gain	(383)	—	(383)
Conversion	(15,230)	(33,645)	(48,875)
At 31 December 2007	—	—	—

In accordance with the USD2,000,000 subscription agreement ("USD2,000,000 Subscription Agreement") entered into between Yingde BVI and Baring Private Equity Asia III Holding (7A) Limited on 29 December 2006, Baring Private Equity Asia III Holding (7A) Limited prepaid USD2,000,000 to Yingde BVI for the subscription of ordinary shares of Yingde BVI. Subject to the fulfilment of certain condition precedent under the USD2,000,000 Subscription Agreement ("Condition Precedent"), Yingde BVI should allot and issue to Baring Private Equity Asia III Holding (7A) Limited ordinary shares equivalent to 0.977475% of the entire issued share capital of Yingde BVI on a fully diluted basis ("New Ordinary Shares") as if the restructuring had been completed (minority shareholders selling their respective interests in the companies comprising the Group to Yingde BVI), and Loan C of USD20,200,000 loan facility (see Note 22(a)) and the convertible redeemable preferred shares (see Note 23) had been converted into ordinary shares of Yingde BVI. Condition precedent refers to Yingde BVI and qualified lender(s) incorporated outside the PRC entering into a loan in favour of Yingde BVI, whether in the form of bridge loan, term loan or otherwise by 30 June 2007.

If the subscription of New Ordinary Shares did not take place on or before 30 June 2007, Yingde BVI was required to refund the whole amount of USD2,000,000 to Baring Private Equity Asia III Holding (7A) Limited on 1 July 2007, otherwise, Yingde BVI was required to allot and issue the New Ordinary Shares to Baring Private Equity Asia III Holding (7A) Limited.

The USD2,000,000 Subscription Agreement has been accounted for as a hybrid financial instrument containing both a derivative component (contingent mandatory conversion feature) and a liability component. The derivative component was initially recognised at RMB318,000. The liability component was initially recognised at RMB15,299,000. The derivative component was carried at fair value and the liability component was carried at amortised cost.

On 29 June 2007, as agreed among the contracting parties, the Condition Precedent was waived and the percentage for calculation of number of shares to be issued under the USD2,000,000 Subscription Agreement was amended from 0.977475% to 0.7%. As a result, Yingde BVI issued

102 ordinary shares to Baring Private Equity Asia III Holding (7A) Limited for completion of USD2,000,000 Subscription Agreement which were recognised within the equity at fair value of RMB36,397,000. A termination gain of RMB12,478,000 was recognised in the profit or loss for the year ended 31 December 2007.

The fair value of the derivative component of the USD2,000,000 Subscription Agreement was valued by the directors with reference to a valuation report issued by Sallmanns using the binomial option pricing model. Inputs used in the model are as follows:

	29 December and 31 December 2006	29 June 2007
Total fair value of Yingde BVI and its subsidiaries at the measurement date	USD176,726,000	USD656,556,000
Share price	USD12,694	USD46,857
Expected volatility	23.50%	24.90%
Maturity date	30 June 2007	30 June 2007
Dividend yield	0.00%	0.00%
Risk-free interest rate	5.00%	4.90%

23 CONVERTIBLE REDEEMABLE PREFERRED SHARES

	Liability component	Derivative component (conversion option)	Derivative component (currency swap)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	—	—	—	—
Issuance of CRPS	79,864	32,172	—	112,036
Interest charged during the year	7,766	—	—	7,766
Fair value adjustment	—	76,406	—	76,406
Foreign currency exchange gain	(2,030)	—	—	(2,030)
De-recognition of the original CRPS	(85,600)	(108,578)	—	(194,178)
Recognition of the modified CRPS	122,627	—	20,048	142,675
At 1 January 2007	122,627	—	20,048	142,675
Interest charged during the year	9,752	—	—	9,752
Fair value adjustment	—	—	17,483	17,483
Foreign currency exchange gain	(8,242)	—	—	(8,242)
At 1 January 2008	124,137	—	37,531	161,668
Interest charged during the year	9,148	—	—	9,148
Fair value adjustment	—	—	(21,301)	(21,301)
Foreign currency exchange gain	(8,291)	—	—	(8,291)
At 1 January 2009	124,994	—	16,230	141,224
Interest charged during the period	4,373	—	—	4,373
Fair value adjustment	—	—	10,953	10,953
Foreign currency exchange gain	(50)	—	—	(50)
At 30 June 2009	129,317	—	27,183	156,500

On 23 June 2006, Yingde BVI issued 2,000 convertible redeemable preferred shares ("CRPS") to Baring Private Equity Asia III Holding (7) Limited, an affiliate of Baring Private Equity Asia III Holding (7A) Limited, for a cash consideration of USD14,000,000 (equivalent to USD7,000 per CRPS) according to the subscription agreement for CRPS (the "CRPS Subscription Agreement").

The CRPS, subject to certain terms as set out below, is convertible into ordinary shares of Yingde BVI at the option of the holders of CRPS at any time before 31 December 2010 without the payment of any additional consideration. The CRPS is also automatically converted upon the completion of the initial public offering of Yingde BVI or its holding company. The conversion price was initially set at USD7,000, subject to adjustment in case that Yingde BVI pays a dividend, sub-divides or consolidates its ordinary shares and issues any ordinary shares.

The holders of the CRPS have the right to one vote for each CRPS and one vote for every ordinary share of Yingde BVI in which the CRPS is converted. The holders of CRPS have the right to receive a dividend whenever the holders of ordinary shares of Yingde BVI receive a dividend.

Yingde BVI will redeem all the CRPS without any further act of the holders of CRPS on 31 December 2010. The holders have the right to request Yingde BVI to redeem all or part of the CRPS before 31 December 2010 or before 31 December 2012 if extended in case of certain events (such as failure of the Reorganisation of the Group or listing of shares of Yingde BVI or its holding company).

The CRPS will be redeemed at a price equal to the sum of: (a) the aggregate of relevant amount of the CRPS and (b) an additional amount for receiving a 10% internal rate of return per annum on such relevant amount for the period from the date of issue of the CRPS up to and including the redemption date.

The CRPS have been accounted for as a hybrid financial instrument containing both a derivative component and a liability component. The derivative component was initially recognised at RMB32,172,000. The liability component was initially recognised at RMB79,864,000.

On 31 December 2006, the terms of the CRPS Subscription Agreement have been amended and the exchange rate regarding the conversion, redemption and other matters relating to the CRPS was fixed at USD1:RMB7.999. At the same time, the holder of the CRPS was changed from Baring Private Equity Asia III Holding (7) Limited to Baring Private Equity Asia III Holding (7A) Limited. Accordingly, the original CRPS was derecognised and the modified CRPS was considered as a new financial instrument and was recognised as a hybrid financial instrument containing a derivative component, a liability component and an equity component. A loss of RMB55,041,000 was recognised in the profit or loss as a result of the modification of terms of the CRPS Subscription Agreement on 31 December 2006. The modified CRPS contains: (a) a derivative component on currency swap initially recognised at RMB20,048,000; (b) a liability component initially recognised at RMB122,627,000; and (c) an equity component recognised at fair value in equity of RMB106,544,000.

The derivative component is carried at fair value and the liability component is carried at amortised cost.

The fair value of the derivative components of the CRPS was valued by the directors with reference to a valuation report issued by Sallmanns using the binomial option pricing model and discounted cash flows method. Inputs used in the model are as follows:

(a) Conversion option

	23 June 2006	31 December 2006
Total fair value of Yingde BVI and its subsidiaries at measurement date	USD68,592,000	USD176,726,000
Share price	USD6,658	USD12,694
Expected volatility	27.14%	23.50%
Maturity date	31 December 2010	31 December 2010
Dividend yield	0.00%	0.00%
Risk-free interest rate	5.16%	4.61%

(b) Currency swap

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Fixed exchange rate RMB:USD	7.999	7.999	7.999	7.999
Spot exchange rate RMB:USD	7.809	7.305	6.835	6.832
Forward exchange rate RMB:USD	6.884	6.092	7.234	6.721
Maturity date	31 December 2010	31 December 2010	31 December 2010	31 December 2010
Risk-free interest rate	4.61%	3.06%	0.76%	0.84%

24 EQUITY SETTLED SHARE-BASED TRANSACTIONS

(a) Share options to Mr. Trevor Raymond Strutt

On 20 June 2006, Yingde BVI granted 100 share options to Mr. Trevor Raymond Strutt, an executive of the Company. Each option gives the holder the right to subscribe for one ordinary share in Yingde BVI.

(i) The terms and conditions of the grants that existed during the Relevant Period are as follows, whereby all options are settled by physical delivery of shares:

Grant date	Number of options	Vesting conditions	Contractual life of options
20 June 2006	33	One year from the date of grant	3.5 years
20 June 2006	33	Two years from the date of grant	3.5 years
20 June 2006	34	Three years from the date of grant	3.5 years
	100		

(ii) The number and weighted average exercise prices of share options are as follows:

	Year ended 31 December 2006		Year ended 31 December 2007	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	—	—	USD5,500	100
Granted during the year	USD5,500	100	—	—
Exercised during the year	—	—	(USD5,500)	(100)
Outstanding at the end of the year	USD5,500	100	—	—
Exercisable at the end of the year	—	—	—	—

The options outstanding as at 31 December 2006 had an exercise price of USD5,500 per share and a weighted average remaining contractual life of 3 years.

On 11 November 2007, the 100 share options held by Mr. Trevor Raymond Strutt were early exercised at the exercise price of USD5,500 per share, amounting to USD550,000 (equivalent to RMB4,131,000). Other terms for the exercise of share options remain unchanged. According to the instruction of Mr. Trevor Raymond Strutt, 100 ordinary shares of Yingde BVI were issued to Bubbly Brook Holding Limited, a shareholder of the Company.

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The fair value of the share options was valued by the directors with reference to a valuation report issued by Sallmanns. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option pricing model.

	20 June 2006
Share price	USD6,658
Exercise price	USD5,500
Expected volatility	27.14%
Option life (expressed as weighted average life used in modelling under binomial option pricing model)	3.5 years
Expected dividends	0.00%
Risk-free interest rate	5.16%

The expected volatility is based on the historic volatility of entities in the same industry (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on management estimate. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with the share option grants.

Equity settled share-based payment expenses amounting to RMB529,000, RMB1,259,000 and Nil during the years ended 31 December 2006, 2007 and 2008 and Nil (unaudited) and Nil during the six months ended 30 June 2008 and 2009, respectively, were recognised in the profit or loss.

(b) Share options to Mr. Zhao Xiangti

On 20 June 2006, Yingde BVI granted 100 share options to Mr. Zhao Xiangti, a director of the Company. Each option gives the holder the right to subscribe for one ordinary share in Yingde BVI. The fair value of the share options was valued by the directors with reference to a valuation report issued by Sallmanns. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model under the assumptions as mentioned in Note 24(a)(iii) above except that the option life is two years from 20 June 2006. The share options were granted without a service condition and exercisable immediately on 20 June 2006. Equity settled share-based payment expense of RMB1,333,000 was recognised in the profit or loss on the grant date.

On 11 November 2007, the 100 share options held by Mr. Zhao Xiangti were exercised at the exercise price of USD5,500 per share, amounting to USD550,000 (equivalent to RMB4,131,000). According to the instruction of Mr. Zhao Xiangti, 100 ordinary shares of Yingde BVI were issued to Rongton Investment Limited, a shareholder of the Company.

Except for the two share options issued to Mr. Trevor Raymond Strutt and Mr. Zhao Xiangti as disclosed above, no other share option was issued by the Group during the Relevant Period.

(c) Limited ordinary shares

On 20 June 2006, Baslow Technology Limited ("Baslow"), a shareholder of the Company, and Yingde BVI entered into a management agreement for the provision of management service by Baslow to Yingde BVI for a period of three years from 20 June 2006 to 19 June 2009 ("Management Agreement"). As a reward, Yingde BVI issued 200 ordinary shares at par (USD1 each) to Baslow. Baslow's management service is carried out through Mr. Zhongguo Sun and Mr. Trevor Raymond Strutt during their employment with Yingde BVI.

For each 100 shares granted by Yingde BVI to Baslow, the shares were subject to a repurchase option held by Yingde BVI. Yingde BVI has the right to repurchase these shares at par (USD1 each) should Mr. Zhongguo Sun and Mr. Trevor Raymond Strutt cease to be employees of Yingde BVI. The number of shares that could be repurchased would be calculated pro rata for the period that Mr. Zhongguo Sun and Mr. Trevor Raymond Strutt were not serving Yingde BVI.

The limited ordinary shares issued to Baslow have been accounted for as equity settled share-based payments. The 200 ordinary shares issued on 20 June 2006, at the fair value of RMB10,655,000, were recognised as deferred expenses (Note 15) with a corresponding adjustment to the equity. The deferred expenses were amortised over the period of the management service of three years.

The Management Agreement was terminated on 11 November 2007 according to a termination agreement entered into between Yingde BVI and Baslow. Under the termination agreement, Baslow is entitled to retain all the 200 ordinary shares issued under the Management Agreement. Accordingly, the remaining balance of unamortised deferred expenses was charged to the profit or loss on 11 November 2007.

Equity settled share-based payment expenses amounting to RMB4,325,000, RMB6,330,000 and Nil during the years ended 31 December 2006, 2007 and 2008 and Nil (unaudited) and Nil during the six months ended 30 June 2008 and 2009, respectively, were recognised in the profit or loss.

25 SHARE CAPITAL

The Company was incorporated on 25 September 2007 with an authorised capital of USD50,000 comprising 50,000 shares of USD1.00 each. One nil-paid subscriber share of USD1.00 was issued on 25 September 2007. On 21 July 2008, each share in the capital of the Company of US$1.00 each was sub-divided into 1,000,000 shares of US$0.000001 each. Following the subdivision, 400,000,000 of such ordinary shares were redesignated as preferred shares of US$0.000001 each. Accordingly, the authorised share capital of the Company of US$50,000 was divided into 49,600,000,000 ordinary shares of US$0.000001 each and 400,000,000 preferred shares of US$0.000001 each. As of 31 December 2008 and 30 June 2009, the issued share capital of the Company was 1,000,000 ordinary shares of US$0.000001 each.

For the purpose of this report, the aggregate amount of share capital or paid-in capital of the companies now comprising the Group, after elimination of investments in subsidiaries, was included in other reserve during the Relevant Period (see Note 26(b)).

26 RESERVES

(a) Statutory reserve

Pursuant to the Articles of Association of the Company's subsidiaries in the PRC, appropriations to the statutory reserve were made at a certain percentage of profit after taxation determined in accordance with the accounting rules and regulations of the PRC. The percentage for this appropriation is to be decided by the directors of the subsidiaries. During the year ended 31 December 2006, amount in the retained earnings of RMB14,636,000 was transferred from retained earnings to statutory reserve. No appropriations were made during the years ended 31 December 2007 and 2008 and the six months ended 30 June 2009.

The statutory reserve can be utilised in setting off accumulated losses or increasing capital of the subsidiaries and is non-distributable other than in liquidation.

(b) Other reserve

Other reserve as at the respective balance sheet dates included the aggregate amount of share capital or paid-in capital of the companies now comprising the Group after elimination of investments in subsidiaries (see Note 25).

(i) Capital injections

In February 2006, the Controlling Shareholders acquired additional 4% equity interest in Hunan Yingde from other then shareholders of Hunan Yingde. Accordingly, the Controlling Shareholders' effective equity interest in Hunan Yingde was increased from 48% to 52%. At the time of acquisition, Hunan Yingde had 75%, 75%, 40%, 75% and 75% equity interests in Zhuhai Yingde, Jiangsu Yingde, Nanjing Xingang, Shaanxi Yingde and Tianjin Yingde, respectively. As a result, the minority interests amounting to RMB14,767,000 was transferred to other reserve during the year ended 31 December 2006.

Yingde BVI was incorporated on 18 April 2006 with an authorised capital of USD50,000, comprising 50,000 shares of USD1.00 each. Yingde BVI issued 2,000 shares and 850 shares at par to the Controlling Shareholders on 12 May 2006 and 23 June 2006 respectively, for total cash considerations amounting to RMB23,000.

On 19 November 2007, Yingde BVI received a cash consideration amounting to RMB290,399,000 for issuing 488 shares of USD1.00 each to Deutsche Securities Nominees Hong Kong Limited.

(ii) Acquisition of minority interest

In June 2006, the Group acquired 48% equity interest in Hunan Yingde from minority shareholders for a cash consideration of RMB271,884,000. At the time of acquisition, Hunan Yingde had 75%, 75%, 40%, 75% and 75% equity interests in Zhuhai Yingde, Jiangsu Yingde, Nanjing Xingang, Shaanxi Yingde and Tianjin Yingde, respectively. The difference of RMB100,858,000 between the carrying value of the minority interests of RMB171,026,000 and the consideration of RMB271,884,000 was recorded in other reserve.

(c) Distributablility of reserves

The Company was incorporated on 25 September 2007 but has not carried on any business up to 30 June 2009. Accordingly, there was no reserve available for distribution to shareholders as at 30 June 2009.

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

27 RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Short-term employee benefits	842	5,076	6,445	2,206	2,790
Post-employment benefits	—	19	22	11	14
Equity compensation benefits	1,862	1,259	—	—	—
	2,704	6,354	6,467	2,217	2,804

Total remuneration is included in "staff costs" (see Note 4(b)).

The Group participates in various defined contribution post-employment benefit plans organised by municipal and provincial governments for its employees. Further details are disclosed in Note 4(b).

(b) Advances/loans

(i) Non-trade transactions during the Relevant Period

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Advances/loans received from shareholders	—	83,617	1,415	1,415	—
Repayment of advances/loans from shareholders	5,364	81,773	1,400	1,400	—
Interest on loans from shareholders	—	4,518	13	13	—

Loans from shareholders were unsecured and bearing interest at 8% per annum. Advances from shareholders were unsecured and interest free. Loans and advances from shareholders were fully repaid before 30 June 2009.

(ii) Non-trade balances at the year/period end

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due to a shareholder	1,777	—	—	—

(c) Share transfer

On 30 March 2006, the Group transferred its 18% equity interest in Anhui Torch Energy and Chemical Co., Ltd to a member of the Controlling Shareholders for a consideration of RMB14,985,000.

(d) Provision of management service

Baslow provided management service to the Group which was carried out through Mr. Zhongguo Sun and Mr. Trevor Raymond Strutt during their employment with Yingde BVI (see Note 24(c)). The equity settled share-based payment expenses in relation to the management service provided to the Group are as follows:

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Provision of management service	4,325	6,330	—	—	—

The agreement for the provision of management service was terminated on 11 November 2007.

In the opinion of the directors of the Company, the above related party transactions were conducted in the ordinary course of business and on normal commercial terms.

28 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

At 31 December 2006, 2007 and 2008 and 30 June 2009, the Group had capital commitments for acquisition and construction of properties and equipment as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Authorised and contracted for	212,990	632,460	375,226	309,543
Authorised but not contracted for	666,721	1,182,384	783,890	2,318,922
	879,711	1,814,844	1,159,116	2,628,465

(b) Operating lease commitment

As at 31 December 2006, 2007 and 2008 and 30 June 2009, the total future minimum lease payments under non-cancellable operating leases in respect of land and properties, are payable as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	1,422	4,553	4,651	4,393
After 1 year but within 5 years	5,431	13,114	10,449	8,732
After 5 years	9,783	26,053	24,366	26,778
	16,636	43,720	39,466	39,903

The Group leases several parcels of land under operating leases. The leases typically run for an initial period of from 15 to 25 years, with an option to renew when all terms are renegotiated. None of the leases includes contingent rentals.

(c) Investment commitment

According to the agreement entered into between Yingde BVI and the on-site customer of Guizhou Yingde on 10 November 2006, Yingde BVI agreed in principle to invest RMB250,000,000 for a 25% equity interest in the registered capital of this on-site customer. The proposed investment is subject to the approval by the existing shareholders of the on-site customer and the relevant government authorities in the PRC.

(d) Other commitments

In 2006, Nanjing Xingang entered into an agreement with an independent third party in respect of the provision of management and maintenance services. The terms of the agreement are for a period of 30 years.

Before 31 December 2007, annual management fee of RMB910,000 was paid each year. As agreed among the contracting parties of the agreement, the annual management fee was increased to RMB1,735,000 during the year ended 31 December 2008, and further revised to RMB1,325,000 per annum since 1 January 2009.

Commitments under the agreement to make minimum payments in future years are as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	858	910	1,735	1,325
After 1 year but within 5 years	3,639	3,639	6,938	5,302
After 5 years	22,745	21,548	39,459	29,489
	27,242	26,097	48,132	36,116

In addition, a variable management fee which is determined at 30% of net profits of Nanjing Xingang is payable according to the terms of the agreement. The variable management fee are Nil, RMB3,920,000 and RMB2,350,000 during the years ended 31 December 2006, 2007 and 2008, and RMB587,000 (unaudited) and Nil during the six months ended 30 June 2008 and 2009, respectively.

(e) Construction permits in certain subsidiaries

The Group had not obtained the construction planning permit and/or the construction permit in respect of certain production facilities during the Relevant Period. As at the date of this report, the Group has not been subject to any penalty or fine from the government authorities in respect of the absence of the construction planning permits and/or construction permits. The maximum penalty and fine to the Group is estimated to be approximately RMB3,300,000. The directors consider that any payment to be made by the Group in this regard would not be material. Accordingly, no provision has been made in the Financial Information.

29 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk and concentration risk

The Group's credit risk is primarily attributable to trade and other receivables. The management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are generally due within 30 to 45 days from the date of billing. Moreover, extended credit terms are granted to certain on-site customers depending on the credit assessment carried out by the management on an individual basis.

Significant amounts of revenue are derived from a limited number of on-site customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At 31 December 2006, 2007 and 2008 and 30 June 2009, the Group had a concentration of credit risk as 97%, 87%, 74% and 79% of the total trade and bill receivables, respectively, which were due from the Group's on-site customers. The Group has no significant credit risk with any of these customers since the Group maintains stable business relationships with these large customers. Trade receivables are unsecured and denominated in RMB, and are derived from revenues earned from operations arising in the PRC. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheet.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 16.

The Group does not provide any guarantees which would expose the Group to credit risk.

(b) Foreign currency exchange risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through PBOC or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

All the revenue-generating operations of the Group are transacted in Renminbi. The Group is exposed to foreign currency risk on financing transactions that are denominated in currencies other than Renminbi. Depreciation or appreciation of the Renminbi against foreign currencies can affect the Group's results. The Group did not hedge its foreign currency exposure.

A 5 percent strengthening of Renminbi against United States dollars as at the respective balance sheet dates would increase/(decrease) profit after tax by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Effect on profit	2,191	(2,050)	(9)	(1,470)

A 5 percent weakening of Renminbi against United States dollars as at the respective balance sheet dates would have had the equal but opposite effect on the above currencies to the amount shown above, on the basis that all other variables remain constant.

(c) Liquidity risk

The Group has to maintain a suitable level of liquidity to finance the daily operation, capital expenditure and repayment of borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show details the remaining contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group can be required to pay.

	31 December 2006					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank and other loans	287,334	340,071	174,477	84,554	20,711	60,329
Trade and other payables	117,031	117,031	117,031	—	—	—
Obligations under finance leases	33,440	75,200	3,200	3,200	9,600	59,200
Convertible loans	81,306	81,798	81,798	—	—	—
Convertible redeemable preferred shares	142,675	162,380	—	—	162,380	—
Dividends payable	26,930	26,930	26,930	—	—	—
Amount due to a shareholder	1,777	1,777	1,777	—	—	—
	690,493	805,187	405,213	87,754	192,691	119,529

	31 December 2007					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank and other loans	734,514	867,308	382,411	150,550	279,375	54,972
Trade and other payables	317,092	317,092	317,092	—	—	—
Obligations under finance leases	32,915	72,000	3,200	3,200	9,600	56,000
Convertible redeemable preferred shares	161,668	162,380	—	—	162,380	—
	1,246,189	1,418,780	702,703	153,750	451,355	110,972

	31 December 2008					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank and other loans	900,612	1,003,240	550,539	253,970	198,731	—
Trade and other payables	572,710	572,710	572,710	—	—	—
Obligations under finance leases	32,348	68,800	3,200	3,200	9,600	52,800
Convertible redeemable preferred shares	141,224	162,380	—	162,380	—	—
	1,646,894	1,807,130	1,126,449	419,550	208,331	52,800

	30 June 2009					
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank and other loans	1,306,895	1,442,959	622,695	368,896	446,271	5,097
Trade and other payables	515,064	515,064	515,064	—	—	—
Obligations under finance leases	33,592	68,800	3,200	3,200	9,600	52,800
Convertible redeemable preferred shares	156,500	162,380	—	162,380	—	—
	2,012,051	2,189,203	1,140,959	534,476	455,871	57,897

(d) Interest rate risk

The interest rates and terms of repayment of the Group's borrowings are disclosed in Notes 19, 21, 22, 23 and 27, respectively. The Group has not used any forward contracts or derivatives to hedge its exposure to interest rate risk.

It is estimated that a general increase of 100 basic points in interest rates, with all other variables held constant, would decrease the Group's profit after tax by the amount as shown below:

	31 December			30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Effect on profit	1,139	3,147	5,727	8,648

(e) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in IFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

	31 December 2006		
	Level 2	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Liability			
Derivative financial instruments:			
— Conversion option of USD2,000,000 Subscription Agreement	—	318	318
— Currency swap of convertible redeemable preferred shares	20,048	—	20,048
	20,048	318	20,366

	31 December 2007		
	Level 2	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Liability			
Derivative financial instrument:			
— Currency swap of convertible redeemable preferred shares	37,531	—	37,531

	31 December 2008		
	Level 2	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Liability			
Derivative financial instrument:			
— Currency swap of convertible redeemable preferred shares	16,230	—	16,230

	30 June 2009		
	Level 2	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Liability			
Derivative financial instrument:			
— Currency swap of convertible redeemable preferred shares	27,183	—	27,183

(ii) Fair value of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair value as at 31 December 2006, 2007 and 2008 and 30 June 2009 respectively.

30 ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the Financial Information. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in Note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(b) Impairment of assets

If circumstances indicate that the carrying amount of an asset may not be recoverable, this asset may be considered "impaired", and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales revenue and amount of operating costs.

(c) Derivative financial instruments

In determining the fair value of the derivative financial instruments, considerable judgement is required to interpret market data used in the valuation techniques. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

(d) Determining whether an arrangement contains a lease

During the Relevant Period, the Group has entered into long-term gas supply contracts with on-site customers for periods of 15 to 25 years. The production facilities are built on or in close proximity to the on-site customers for the supply of industrial gases to such customers ("on-site facilities"). The Group receives fixed annual amounts over the term of the long-term gas supply contracts plus variable charges based on the quantity of industrial gases supplied. The Group also sells gas products produced from the on-site facilities to merchant customers.

In determining whether the arrangement contains a lease, the Group has considered the terms of the long-term gas supply contracts. Pursuant to the terms of the long-term gas supply contracts, the on-site customers do not have the right to operate or control physical access to the on-site facilities. In addition, gas products produced from the on-site facilities are also sold to merchant customers. The amounts sold to the merchant customers are more than an insignificant amount of the total gas products produced from the on-site facilities. Accordingly, the Group concluded that the arrangement of long-term gas supply contracts does not contain any lease.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIOD

As at the date of this report, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the Relevant Period and which have not been adopted in preparing the Financial Information:

	Effective for accounting period beginning on or after
IFRIC 17, "Distributions of non-cash assets to owners"	1 July 2009
IFRIC 18, "Transfers of assets from customers"	Applies to transfers of assets from customers received on or after 1 July 2009
IFRS 1 (revised), "First-time adoption of International Financial Reporting Standards"	1 July 2009
IFRS 3 (revised), "Business combinations"	Applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009
Amendments to IFRIC 9, "Reassessment of Embedded Derivatives"	1 July 2009
Amendments to IAS 27, "Consolidated and separate financial statements"	1 July 2009
Amendment to IAS 39, "Financial instruments: Recognition and measurement — Eligible hedged items"	1 July 2009
Improvements to IFRSs 2009	1 July 2009 or 1 January 2010
Amendments to IFRS1, "First-time adoption of International Financial Reporting Standards — Additional exemption for first-time adopters"	1 January 2010
Amendments to IFRS2, "Share-based payment — Group cash-settled share-based payment transactions"	1 July 2010

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 June 2009:

1 REORGANISATION

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure. Details of the Reorganisation are set out in the section headed "Our History and Reorganisation" in this document.

Pursuant to the written resolutions of the sole shareholder of the Company dated 10 July 2009, in connection with the Reorganisation, the Company allotted and issued 1,269,000,000 ordinary shares and 200,000,000 preferred shares of the Company in consideration for the share exchange with Yingde BVI and its then shareholders.

In addition, the authorised share capital of the Company was redesignated from 49,600,000,000 ordinary shares of US$0.000001 each and 400,000,000 preferred shares of US$0.000001 each to 49,800,000,000 ordinary shares of US$0.000001 each and 200,000,000 preferred shares of US$0.000001.

As a result of the Reorganisation, the Company became the holding company of the Group on 10 July 2009.

2 SHARE OPTION SCHEME

Pursuant to written resolutions passed by the shareholders of the Company on 12 September 2009, the Company has conditionally adopted a share option scheme ("Share Option Scheme"). The principal terms of the Share Option Scheme are set out in the section headed "Share Option Scheme" in Appendix VI to this document.

E BALANCE SHEETS OF THE COMPANY

The balance sheets of the Company at 31 December 2007 and 2008 and 30 June 2009 were as follows:

	31 December		30 June
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Current assets			
Amount due from shareholder	—	—	—
Equity			
Share capital (Note 25)	—	—	—

F SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2009.

Yours faithfully,

Certified Public Accountants
Hong Kong