The following is the text of a report, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Prospectus. It is prepared and addressed to the directors of the Company and to CCB International Capital Limited pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F Prince's Building
Central, Hong Kong

27 October 2010

The Directors
China Tian Lun Gas Holdings Limited

CCB International Capital Limited

Dear Sirs,

We report on the financial information (the "Financial Information") of China Tian Lun Gas Holdings Limited (the "Company") and its subsidiaries (together, the "Group") which comprises the combined balance sheets as at 31 December 2007, 2008 and 2009 and 30 June 2010, the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory notes. The Financial Information has been prepared by the directors of the Company and is set out in Sections I to IV below for inclusion in Appendix I to the prospectus of the Company dated 27 October 2010 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 20 May 2010 as an exempted company with limited liability under the Companies Law (2010 Revision) of the Cayman Islands. Pursuant to a group reorganization as described in Note 1 of Section II headed "General information of the Group and reorganization" below, which was completed on 11 October 2010, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganization").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

All companies comprising the Group during the Relevant Periods have adopted 31 December as their financial year end date.

No audited financial statements have been prepared by the Company as it is newly incorporated and has not been involved in any significant business transactions since its date of incorporation other than the Reorganization. The financial statements of the subsidiaries now comprising the

Group that are subject to statutory audit were audited by auditors as set out in Note 1 of Section II below.

The directors of the Company have prepared the combined financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "HKSA") issued by the HKICPA pursuant to separate terms of engagement with the Company.

The Financial Information has been prepared based on the Underlying Financial Statements, with no adjustments made thereon and on the basis set out in Note 2.1 of Section II below.

Directors' responsibility for the Financial Information

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with the basis of presentation set out in Note 2.1 of Section II below and in accordance with HKFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are 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.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Financial Information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the Financial Information gives, for the purpose of the Prospectus and presented on the basis set out in Note 2.1 of Section II below, a true and fair view of the combined state of affairs of the Group as at 31 December 2007, 2008 and 2009 and 30 June 2010 and of the Group's combined results and cash flows for each of the Relevant Periods then ended.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information set out in Sections I to IV below included in Appendix I to the Prospectus which comprises the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for the six months ended 30 June 2009 and a summary of significant accounting policies and other explanatory notes (the "Stub Period Comparative Financial Information").

The directors are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of presentation set out in Note 2.1 of Section II below and the accounting policies set out in Note 2.2 of Section II below which are in conformity with HKFRSs.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review 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. A review consists of making inquiries, 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 HKSA 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.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of the Prospectus and presented on the basis set out in Note 2.1 of Section II below, has not been prepared, in all material respects, in accordance with the accounting policies set out in Note 2.2 of Section II below which are in conformity with HKFRSs.

I FINANCIAL INFORMATION OF THE GROUP

The following is the Financial Information of the Group prepared by the directors of the Company as at 31 December 2007, 2008 and 2009 and 30 June 2010 and for each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, presented on the basis set out in Note 2.1 of Section II below:

Combined Balance Sheets

	Note	As at 31 December			As at 30 June
		2007	2008	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	**6**	112,639	118,717	125,377	130,332
Investment properties	**7**	8,703	10,165	9,511	9,318
Lease prepayments	**8**	1,025	1,006	2,071	2,036
Intangible assets	**9**	30,892	30,156	29,507	29,147
Deferred income tax assets	**18**	4,471	1,530	1,225	1,393
Trade and other receivables	**11**	11,662	11,662	—	—
		169,392	173,236	167,691	172,226
Current assets					
Inventories	**10**	22,486	19,548	17,700	11,777
Trade and other receivables	**11**	43,486	45,332	70,752	15,489
Restricted cash	**12**	500	—	—	—
Cash and cash equivalents	**13**	7,716	11,371	14,860	82,862
		74,188	76,251	103,312	110,128
Total assets		243,580	249,487	271,003	282,354
EQUITY					
Attributable to equity holders of the Company					
Reserves	**14**	44,785	55,786	65,399	72,940
(Accumulated deficit)/retained earnings		(20,260)	2,277	42,395	41,751
		24,525	58,063	107,794	114,691
Minority interest		2,994	5,007	2,829	3,236
Total equity		27,519	63,070	110,623	117,927
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	**18**	—	—	585	—
Borrowings	**17**	85,472	60,258	35,242	35,397
		85,472	60,258	35,827	35,397
Current liabilities					
Trade and other payables	**15**	46,281	48,740	39,473	37,800
Advance from customers	**16**	45,661	48,690	43,046	35,893
Current income tax liabilities		313	475	1,634	205
Borrowings	**17**	38,334	28,254	40,400	52,500
Dividend payable	**30**	—	—	—	2,632
		130,589	126,159	124,553	129,030
Total liabilities		216,061	186,417	160,380	164,427
Total equity and liabilities		243,580	249,487	271,003	282,354
Net current liabilities		(56,401)	(49,908)	(21,241)	(18,902)
Total assets less current liabilities		112,991	123,328	146,450	153,324

Combined Statements of Comprehensive Income

	Note	Year ended 31 December			Six months ended 30 June	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	5	65,888	127,657	179,223	81,869	114,950
Cost of sales	19	(37,185)	(77,623)	(100,393)	(46,366)	(62,976)
Gross profit		28,703	50,034	78,830	35,503	51,974
Distribution cost	19	(1,978)	(1,553)	(2,236)	(715)	(1,402)
Administrative expenses	19	(5,489)	(8,318)	(9,723)	(4,580)	(5,490)
Other gains — net	21	824	5	671	195	32
Operating profit		22,060	40,168	67,542	30,403	45,114
Finance income		1,893	1,874	1,066	527	589
Finance costs		(11,465)	(9,625)	(7,063)	(3,913)	(2,805)
Finance costs — net	22	(9,572)	(7,751)	(5,997)	(3,386)	(2,216)
Profit before income tax		12,488	32,417	61,545	27,017	42,898
Income tax expense	23	(4,198)	(6,866)	(13,992)	(6,235)	(10,048)
Profit for the year/period		8,290	25,551	47,553	20,782	32,850
Other comprehensive income for the year/period, net of tax		—	—	—	—	—
Total comprehensive income for the year/period		8,290	25,551	47,553	20,782	32,850
Profit and total comprehensive income attributable to:						
Equity holders of the Company		7,540	23,538	44,299	19,228	32,443
Minority interest		750	2,013	3,254	1,554	407
		8,290	25,551	47,553	20,782	32,850
Earning per share for profit attributable to equity holders of the Company						
— Basic and diluted	25	N/A	N/A	N/A	N/A	N/A
Dividends	30	—	—	—	—	33,087

Combined Statements of Changes in Equity

	Attributable to equity holders of the Company				
	Reserves	(Accumulated deficit)/retained earnings	Total	Minority interest	Total equity
	RMB'000 (Note 14)	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2007	28,255	(27,770)	485	744	1,229
Total comprehensive income	—	7,540	7,540	750	8,290
Capital injection	16,500	—	16,500	1,500	18,000
Appropriation	30	(30)	—	—	—
Balance at 31 December 2007	44,785	(20,260)	24,525	2,994	27,519
Total comprehensive income	—	23,538	23,538	2,013	25,551
Capital injection	10,000	—	10,000	—	10,000
Appropriation	1,001	(1,001)	—	—	—
Balance at 31 December 2008	55,786	2,277	58,063	5,007	63,070
Total comprehensive income	—	44,299	44,299	3,254	47,553
Appropriation	4,181	(4,181)	—	—	—
Acquisition of minority interest	5,432	—	5,432	(5,432)	—
Balance at 31 December 2009	65,399	42,395	107,794	2,829	110,623
Total comprehensive income	—	32,443	32,443	407	32,850
Capital injection	15,000	—	15,000	—	15,000
Dividends	—	(33,087)	(33,087)	—	(33,087)
Share issuance costs	(3,306)	—	(3,306)	—	(3,306)
Deemed distribution to Owners	(4,153)	—	(4,153)	—	(4,153)
Balance at 30 June 2010	72,940	41,751	114,691	3,236	117,927
Six months ended 30 June 2009 (unaudited)					
Balance at 1 January 2009	55,786	2,277	58,063	5,007	63,070
Total comprehensive income	—	19,228	19,228	1,554	20,782
Balance at 30 June 2009	55,786	21,505	77,291	6,561	83,852

Combined Statements of Cash Flows

	Note	Year ended 31 December			Six months ended 30 June	
		2007	2008	2009	2009	2010
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash flows from operating activities						
Cash generated from operations	**26**	26,736	58,528	69,937	32,194	50,445
Interest paid		(11,385)	(9,537)	(6,975)	(3,399)	(2,756)
Income tax paid		(9)	(3,763)	(11,943)	(2,651)	(12,230)
Net cash generated from operating activities		15,342	45,228	51,019	26,144	35,459
Cash flows from investing activities						
Purchases of property, plant and equipment and investment properties		(14,083)	(13,212)	(13,506)	(6,749)	(9,099)
Increase in lease prepayments		—	(1,089)	—	—	—
Net repayments from/(to) related parties		35,337	5,430	(21,283)	(24,279)	50,779
Purchase of intangible assets		(7)	(10)	(68)	(2)	—
Proceeds from disposal of property, plant and equipment	**26**	616	10	189	211	26
Net cash outflow for the acquisition of a business	**29**	(9,500)	—	—	—	—
Interest received		83	93	62	19	19
Net cash generated from/(used in) investing activities		12,446	(8,778)	(34,606)	(30,800)	41,725
Cash flows from financing activities						
Proceeds from borrowings		20,000	22,000	34,100	19,500	35,000
Repayments of borrowings		(53,917)	(56,735)	(47,024)	(9,849)	(22,677)
Settlement of the liability assumed from the acquisition of a business to a related party	**29**	(8,200)	(8,060)	—	—	—
Capital injection		18,000	10,000	—	—	15,000
Dividends	**30**	—	—	—	—	(30,455)
Payments of share issuance costs		—	—	—	—	(1,897)
Deemed distribution to Owners	**14**	—	—	—	—	(4,153)
Net cash (used in)/generated from financing activities		(24,117)	(32,795)	(12,924)	9,651	(9,182)
Net increase in cash and cash equivalents		3,671	3,655	3,489	4,995	68,002
Cash and cash equivalents at beginning of the year/period		4,045	7,716	11,371	11,371	14,860
Cash and cash equivalents at end of the year/period	**13**	7,716	11,371	14,860	16,366	82,862

II NOTES TO THE FINANCIAL INFORMATION

1. General information of the Group and reorganization

(i) General information of the Group

China Tian Lun Gas Holdings Limited (the "Company") was incorporated on 20 May 2010 in the Cayman Islands under the Companies Law (2010 Revision) of the Cayman Islands as an exempted company with limited liability. The address of its registered office is Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands. The Company is an investment holding company. The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the transportation and sales of pipelined gas operation and the gas pipeline connections operation in certain cities of the People's Republic of China ("PRC") (the "Listing Business").

Prior to the incorporation of the Company and the completion of the reorganization as described in Note 1(ii) below (the "Reorganization"), the Listing Business were carried out by the companies now comprising the Group, which were collectively controlled by Mr. Zhang Yingcen and his family members comprising his wife and eldest son (collectively the "Controlling Shareholders" or "Owners").

(ii) The Reorganization

The Group underwent the following reorganization in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Listing").

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

(b) On 10 May 2010, Tian Lun New Energy Limited ("Tian Lun New Energy") was incorporated in Hong Kong with an authorized share capital of Hong Kong dollar ("HKD") 10,000 at HKD1 each. One share was allotted and issued at par to Upsky Holdings.

(c) Pursuant to an equity transfer agreement dated 15 May 2010, Upsky Holdings and Henan Tian Lun Engineering Investment transferred their respective 80% and 20% equity interests in Hebi Tian Lun to Tian Lun New Energy for a consideration of RMB9.2 million and RMB2.3 million, respectively. Such considerations were based on the valuation of Hebi Tian Lun as at 31 March 2010 by an independent valuer in the PRC.

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

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

(f) Pursuant to various equity transfer agreements dated 29 June 2010, the then holding company transferred its entire shareholdings of the four operating companies to Hebi Tian Lun. The total considerations for such transfers of shareholdings were approximately RMB67 million, which were based on the respective valuation of the four operating companies as at 31 March 2010 by an independent valuer in the PRC. In order to finance the payment obligation of such consideration, capital injection has been made by Tian Lun Group as disclosed in (h) below. On 30 June and 13 September 2010, Hebi Tian Lun paid consideration of approximately RMB4 million and RMB63 million to the then holding company, respectively. As a result of the aforesaid transfers, Tian Lun New Energy became the holding company of all the operating companies and Hebi New Energy within the Group.

(g) On 6 July 2010, pursuant to a share transfer agreement entered into between Tian Lun Group and Pleasant New Limited ("Pleasant New"), a company incorporated in the BVI and is beneficially owned by certain executive directors of the Company, Tian Lun Group transferred a 6.7% equity interests in Upsky Holdings to Pleasant New for a consideration of approximately HKD35 million, which approximated the fair value of such equity interest as at 6 July 2010 as determined by an independent valuer.

(h) In August 2010, Tian Lun Group subscribed one share at United States Dollars ("USD") 0.1 each of Upsky Holdings at a consideration of approximately HKD93 million. Upsky Holdings injected approximately HKD94 million into Tian Lun New Energy by the subscription of one share in Tian Lun New Energy. In August 2010, Tian Lun New Energy injected cash of approximately HKD92 million, equivalent to approximately RMB80 million into Hebi Tian Lun as registered capital. The cash so injected was paid out to the then holding company as described in (d) and (f) above.

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

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

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries. Such interests, directly or indirectly held by the Controlling Shareholders, have remained unchanged during the Relevant Periods except for Xuchang Tian Lun as explained below the table.

Name	Country/place and date of incorporation	Type of legal entity	Issued/paid in capital	Attributable equity interest		Auditors	Year of audit	Principal activities
				Directly held	Indirectly held			
			(RMB'000)					
Upsky Holdings	BVI/ 8 July 2003	Limited liability company	7*	100%	—	N/A	N/A	Intermediary holding company
Tian Lun New Energy	Hong Kong/ 10 May 2010	Limited liability company	—*	—	100%	N/A	N/A	Intermediary holding company
Hebi New Energy (鶴壁市天倫新能源有限公司)	PRC/ 13 May 2010	Limited liability company	15,000	—	100%	N/A	N/A	Sale of pipelined natural gas, construction and connection of gas pipelines
Hebi Tian Lun (鶴壁市天倫燃氣有限公司)	PRC/ 1 November 2002	Limited liability company	90,000	—	100%	河南中信達會計師事務所有限公司 Henan Zhong Xinda CPAs Limited Company***	2007, 2008 and 2009	Sale of pipelined natural gas, construction and connection of gas pipelines
Hebi Tian Lun Vehicle (鶴壁市天倫車用氣有限公司)	PRC/ 29 October 2007	Limited liability company	10,000	—	100%	河南中信達會計師事務所有限公司 Henan Zhong Xinda CPAs Limited Company***	2007, 2008 and 2009	Sale of compressed natural gas (the "CNG")
Xuchang Tian Lun** (許昌市天倫燃氣有限公司)	PRC/ 29 September 2003	Limited liability company	25,000	—	100%	許昌鼎力聯合會計師事務所 Xuchang Ding Li United CPAs Limited Company***	2007, 2008 and 2009	Sale of pipelined natural gas, construction and connection of gas pipelines
Xuchang Tian Lun Vehicle (許昌市天倫車用氣有限公司)	PRC/ 12 September 2008	Limited liability company	10,000	—	100%	許昌鼎力聯合會計師事務所 Xuchang Ding Li United CPAs Limited Company***	2008 and 2009	Sale of CNG
Shangjie Tian Lun (鄭州市上街區天倫燃氣有限公司)	PRC/ 18 July 2007	Limited liability company	15,000	—	90%	河南世紀聯合會計師事務所 Henan Century United CPAs Limited Company***	2007, 2008 and 2009	Sale of pipelined coal gas, construction and connection of gas pipelines

* The issued capital of Upsky Holdings is USD1,000.

The issued capital of Tian Lun New Energy is HKD2.

** During the years ended 31 December 2007 and 2008 and the eleven months ended 30 November 2009, the equity interest held by the Controlling Shareholders in Xuchang Tian Lun was 90%. In December 2009, the minority shareholder of Xuchang Tian Lun transferred its 10% equity interest to Henan Tian Lun Engineering Investment. Thereafter, the Controlling Shareholders held 100% equity interest in Xuchang Tian Lun.

*** The English names referred to in this report represents management's best effort at translating the Chinese names of these firms as no English names have been registered.

2. Basis of presentation and summary of significant accounting polices

2.1 Basis of presentation

The Controlling Shareholders owned and controlled the companies now comprising the Group before the Reorganization and continue to control these companies after the Reorganization. For the purpose of this report, the Reorganization is considered as a business combination under common control in a manner similar to the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by HKICPA. The Financial Information includes the combined financial position, results and cash flows of the companies now comprising the Group as if the existing group structure had been in existence throughout the Relevant Periods or since the respective dates of incorporation/establishment or acquisition, whichever is the shorter period.

All significant intra-group transactions and balances have been eliminated on combination.

2.2 Summary of significant accounting polices

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied during the Relevant Periods.

Basis of preparation

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA under the historical convention.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4 below.

Accounting Policies

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has adopted HKFRSs, which are effective for the accounting periods beginning on or before 1 January 2010 consistently throughout the Relevant Periods.

The following new standards, amendments to standards and interpretations have been issued that are mandatory for accounting periods beginning after 1 January 2010 or later periods and which the Group has not early adopted:

- HKFRS 9 "Financial Instruments" (effective from 1 January 2013). Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The expected impact of this new standard is still being assessed in details by management, but management does not anticipate that the application will result in a material impact on the Group's financial information.

- HKAS 24 (Revised) "Related party disclosures" supersedes HKAS 24 'Related party disclosures' issued in 2003. The revised HKAS 24 is required to be applied from 1 January 2011. The amendment introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. It also clarifies and simplifies the definition of a related party. This amendment is not currently applicable to the Group.

- Under "Classification of rights issues" (Amendment to HKAS 32), for rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted. This amendment is not currently applicable to the Group.

- Amendments to HK(IFRIC) Int-14 "Prepayments of a minimum funding requirement" corrects an unintended consequence of HK(IFRIC) Int-14, "HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction". Without the amendments, entities are not permitted to recognize as an asset for any surplus arising from the voluntary prepayment of minimum funding contributions in respect of future service. This was not intended when HK(IFRIC) Int-14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. This amendment is not currently applicable to the Group.

- HK(IFRIC) -Int 19, "Extinguishing financial liabilities with equity instruments" clarifies the requirements of HKFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted. This interpretation is not currently applicable to the Group.

- "Limited exemption from comparative HKFRS 7 disclosures for first-time adopters" (Amendment to HKFRS 1) provide first-time adopters with the same transition provisions as included in the amendment to HKFRS 7 in relation to relief from presenting comparative information that ended before 31 December 2009 for new fair value disclosures requirements. This is required to be applied for annual periods beginning on or after 1 July 2010. Early adoption is permitted. This is not relevant to the Group, as it is an existing HKFRS preparer.

- In May 2010, the HKICPA published certain improvements to HKFRSs which will be effective for accounting periods beginning on or after 1 January 2011 or later periods. These improvements have not been early adopted by the Group. Amendments have been made to the following standards according to the improvements:

  HKFRS 1 (Amendment) First-time Adoption of HKFRSs,
  HKFRS 3 (Revised) (Amendment) Business Combinations,
  HKFRS 7 (Amendment) Financial Instruments: Disclosures,
  HKAS 1 (Amendment) Presentation of financial statements,

HKAS 27 (Revised) (Amendment) Consolidated Financial Statements and Accounting for Investments in Subsidiaries,
HKAS 34 (Amendment) Interim Financial Reporting, and
HK(IFRIC) 13 (Amendment) Customer Loyalty Programs

The Group is in the process of making an assessment of the impact of these new/revised standards, amendments and interpretations to existing standards and does not anticipate that the adoption will result in any material impact on the Group's results of operations and financial position.

2.2.1 Consolidation and combination

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group, which qualifies as business combination, except for those acquisitions which qualify as a common control combination and are therefore accounted for using the merger accounting.

Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange and, all acquisition-related costs are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in profit or loss.

For the acquisition of subsidiaries which do not qualify as business combination, the fair value of the consideration transferred, including transaction cost is allocated to assets acquired and liabilities assumed based on their relative fair value. The assets acquired include intangible assets that are recognized separately. No goodwill arises on such transactions.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Business combination under common control

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

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognized with respect to goodwill or any excess of an acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party's interest.

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

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

Intra-group transactions, balances and unrealized gains on transactions between the combining entities or businesses are eliminated. Unrealized losses are eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of combining entities or businesses have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Transactions and minority interest

The Group treats transactions with minority interest as transactions with equity holders of the Company. For purchases from minority interest, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to minority interest are also recorded in equity.

2.2.2 Segment reporting

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

2.2.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the combined statements of comprehensive income within "finance income or cost". All other foreign exchange gains and losses are presented in the combined statements of comprehensive income within "other gains — net".

2.2.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged in profit or loss during the Relevant Periods in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values which is 0% — 5% of the cost over their estimated useful lives, as follows:

— Buildings	25 years
— Equipment and machinery	10 years
— Gas pipelines	
— natural gas pipelines	25 years
— coal gas pipelines	16 years
— Office equipment and motor vehicles	5 years

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are recognized within "other gains — net" in the combined statements of comprehensive income.

2.2.5 Investment properties

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

Depreciation is calculated using the straight-line method to write-off the cost of the assets to their residual values over their estimated useful life of 25 years.

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

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

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

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

2.2.6 Lease prepayments

Lease prepayments represent upfront prepayments made for the land use rights. Lease prepayments are stated at costs and are amortized on a straight-line basis over the remaining period of the land use rights, net of any impairment losses. The amortization is charged within "administration expenses" in the combined statements of comprehensive income.

2.2.7 Intangible assets

(a) Exclusive operating rights for city pipeline network

Exclusive operating rights for city pipeline network represent the exclusive rights for distribution of gas in certain cities or districts in the PRC, and are stated at cost less accumulated amortization and impairment loss, if any. The cost incurred for the acquisition of exclusive operating rights for city pipeline network is capitalized and amortized on a straight-line basis over their estimated useful lives (30 – 50 years).

(b) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (3 years).

2.2.8 Impairment of non-financial assets

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

2.2.9 Financial assets

(a) Classification

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

The Group only has financial assets classified as "loans and receivables" during the Relevant Periods.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" and "restricted cash" in the combined balance sheets (Notes 2.2.12 and 2.2.13).

(b) Recognition and measurement

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

2.2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the combined balance sheets when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.2.11 Inventories

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

2.2.12 Trade and other receivables

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

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

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

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider; and
- It becomes probable that the debtor will enter bankruptcy or other financial reorganization.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the combined statements of comprehensive income within "administrative expenses". When a trade receivable is uncollectible, it is written off against the allowance account for receivables.

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

2.2.13 Cash and cash equivalents

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

2.2.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.2.15 Borrowings

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

Borrowings are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.2.16 Current and deferred income tax

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

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

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

2.2.17 Employee benefits — Pension obligations and other benefits

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

2.2.18 Government grants

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

Government grants relating to costs are recognized in profit or loss during the period necessary to match them with the costs that they are intended to compensate.

2.2.19 Revenue recognition

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

(a) Connection of gas pipelines

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

(b) Sale of gases

Revenue from the sale of gases, including pipelined gases and CNG, is recognized on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the gas is delivered to customers and title has passed, and is based on the gas consumption derived from meter readings.

(c) Interest income

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

(d) Rental income

Rental income from investments properties is recognized in profit or loss on a straight-line basis over the terms of leases.

2.2.20 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.2.21 Dividend distribution

Dividend distribution to the equity holders of the companies comprising the Group is recognized in Group's financial statements in the period in which the dividends are approved by the equity holders of such companies.

3. Financial risk management

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities as at 31 December 2007, 2008 and 2009 and 30 June 2010 are as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Assets (Note 13)				
HKD	55	52	50	4,230
Liabilities (Notes 15 and 17)				
USD	8,606	6,712	6,242	6,397
HKD	3,801	3,580	3,574	9,648

The following table shows the sensitivity analysis of an increase/decrease of 5% in RMB against USD and HKD, with all other variables held constant, as at 31 December 2007, 2008 and 2009 and 30 June 2010 respectively. This sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of each reporting period. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next end of reporting period. If there is a 5% increase/decrease in RMB against USD and HKD, the effect on the profit before income tax is as follows:

	Year ended 31 December			For the six months ended 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Increase of 5% RMB against USD and HKD				
— Increase of profit before income tax	617	512	488	591
Decrease of 5% RMB against USD and HKD				
— Decrease of profit before income tax	(617)	(512)	(488)	(591)

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets other than cash and cash equivalents and certain receivable due from Henan Tian Lun Real Estate Limited ("Henan Tian Lun Real Estate"), the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from loans. Loans borrowed at variable rates expose the Group to cash flow interest-rate risk. Loans borrowed at fixed rates expose the Group to fair value interest-rate risk. As at 31 December 2007, 2008 and 2009 and 30 June 2010, the Group's bank loans bore interest at variable rates and the other borrowings at fixed rate. The Group currently does not use any interest rate swaps to hedge its exposure to interest rate risk.

As at 31 December 2007, 2008 and 2009 and 30 June 2010, if interest rates on borrowings had been ten basis-points higher/lower with all other variables held constant, profit before income tax for the year/period would have been approximately RMB1,139,000, RMB954,000, RMB697,000 and RMB274,000, lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents, restricted cash, and trade and other receivables.

As at 31 December 2007, 2008 and 2009 and 30 June 2010, all of the Group's bank deposits are deposited in major financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality without significant credit risk. The Group's bank deposits as at 31 December 2007, 2008 and 2009 and 30 June 2010 were as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Big four commercial banks[(i)]	7,055	7,065	13,061	19,981
Other listed banks	55	52	50	4,230
Other state-owned banks	560	4,203	1,692	58,575
	7,670	11,320	14,803	82,786

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

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

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

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

(c) Liquidity risk

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

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	RMB'000	RMB'000	RMB'000
At 30 June 2010				
Bank borrowings	56,667	19,833	10,849	—
Other borrowings	116	574	1,695	10,702
Trade and other payables[(i)]	36,425	—	—	—
At 31 December 2009				
Bank borrowings	44,970	20,843	11,377	—
Other borrowings	—	289	1,711	11,042
Trade and other payables[(i)]	38,223	—	—	—
At 31 December 2008				
Bank borrowings	33,345	29,566	32,853	—
Other borrowings	854	—	1,436	11,618
Trade and other payables[(i)]	47,697	—	—	—
At 31 December 2007				
Bank borrowings	45,268	29,021	62,799	—
Other borrowings	1,934	913	924	13,027
Trade and other payables[(i)]	45,564	—	—	—

(i) Trade and other payables include trade payables, amounts due to related parties and other payables as stated in Note 15.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's strategy remains consistent throughout the Relevant Periods.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital risk on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the combined balance sheets) less cash and cash equivalents. Total capital is calculated as total "equity" as shown in the combined balance sheets plus net debt. The Group aims to maintain the gearing ratio at a reasonable level.

The gearing ratios as at 31 December 2007, 2008 and 2009 and 30 June 2010 were as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Total borrowings	123,806	88,512	75,642	87,897
Less: cash and cash equivalents	(7,716)	(11,371)	(14,860)	(82,862)
Net debt	116,090	77,141	60,782	5,035
Total equity	27,519	63,070	110,623	117,927
Total capital	143,609	140,211	171,405	122,962
Gearing ratio	0.81	0.55	0.35	0.04

The decrease of gearing ratio during the Relevant Periods was mainly due to the repayment of borrowings and settlement of balances with related parties.

3.3 Fair value estimation

The Group adopts the amendment to HKFRS 7 "Financial instruments - Disclosure" for financial instruments that are measured in the combined balance sheets at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2007, 2008 and 2009 and 30 June 2010, the Group has no financial instruments that are measured in the combined balance sheets at fair value, so no such disclosure was made.

The carrying amounts of the Group's financial assets including cash and cash equivalents, deposits in approved financial institutions and current portion of trade and other receivables; and financial liabilities including trade and other payables, and current borrowings, approximate their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair value. The fair value of the non-current portion of the trade and other receivables and financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair values of the non-current portion of the trade and other receivables and non-current borrowings are disclosed in Notes 11 and 17, respectively.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Current income taxes and deferred tax

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

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

As at 31 December 2007, 2008 and 2009 and 30 June 2010, the Group has deferred tax assets of approximately RMB4,471,000, RMB1,530,000, RMB1,225,000 and RMB1,393,000 respectively (Note 18). To the extent that it is probable that the taxable profit will be available against which the deductible temporary differences will be utilized, deferred tax assets are recognized for temporary differences arising from impairment provisions taken on inventory and receivables, accrued expenses, tax losses and depreciation. Should the Group be required to increase the tax rate, every 1% increment in tax rate would render a further write up of deferred tax assets in the amount of approximately RMB217,000, RMB100,000, RMB53,000 and RMB62,000 respectively.

(b) Depreciation and amortization

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

(c) Impairment of trade and other receivables

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

5. Segment information

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

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

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

The revenue from rental income of investment properties and other miscellaneous income, is not reviewed by the senior executive management team, and its results are included in the "all other segment" column.

The senior executive management team assesses the performance of the operating segments based on the measure of gross profit, which is determined by using the accounting policies which are the same as disclosed in Note 2.2 above. Meanwhile, the Group does not allocate operating costs, assets or liabilities to its segments, as the senior executive management team does not use this information to allocate resources to or evaluate the performance of the operating segments. Therefore, the Group does not report a measure of segment assets and segment liabilities for each reportable segment.

The segment information provided to the senior executive management team for the reportable segments for the year ended 31 December 2007 is as follows:

	Transportation and sales of pipelined gas	Gas pipeline connections	All other segments	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total external revenue	26,230	37,775	1,883	—	65,888
Gross profit	506	27,096	1,101	—	28,703
Other gains — net				824	824
Distribution cost				(1,978)	(1,978)
Administrative expenses				(5,489)	(5,489)
Operating profit					22,060
Finance cost — net				(9,572)	(9,572)
Profit before income tax					12,488
Income tax expense				(4,198)	(4,198)
Profit for the year					8,290

The segment information provided to the senior executive management team for the reportable segments for the year ended 31 December 2008 is as follows:

	Transportation and sales of pipelined gas	Gas pipeline connections	All other segments	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total external revenue	57,714	67,594	2,349	—	127,657
Gross profit	5,090	44,601	343	—	50,034
Other gains — net				5	5
Distribution cost				(1,553)	(1,553)
Administrative expenses				(8,318)	(8,318)
Operating profit					40,168
Finance cost — net				(7,751)	(7,751)
Profit before income tax					32,417
Income tax expense				(6,866)	(6,866)
Profit for the year					25,551

The segment information provided to the senior executive management team for the reportable segments for the year ended 31 December 2009 is as follows:

	Transportation and sales of pipelined gas	Gas pipeline connections	All other segments	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total external revenue	84,886	90,624	3,713	—	179,223
Gross profit	11,987	64,596	2,247	—	78,830
Other gains — net				671	671
Distribution cost				(2,236)	(2,236)
Administrative expenses				(9,723)	(9,723)
Operating profit					67,542
Finance cost — net				(5,997)	(5,997)
Profit before income tax					61,545
Income tax expense				(13,992)	(13,992)
Profit for the year					47,553

The segment information provided to the senior executive management team for the reportable segments for the six months ended 30 June 2009 is as follows (unaudited):

	Transportation and sales of pipelined gas	Gas pipeline connections	All other segments	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total external revenue	39,480	41,266	1,123	—	81,869
Gross profit	3,961	31,270	272	—	35,503
Other gains — net				195	195
Distribution cost				(715)	(715)
Administrative expenses				(4,580)	(4,580)
Operating profit					30,403
Finance cost — net				(3,386)	(3,386)
Profit before income tax					27,017
Income tax expense				(6,235)	(6,235)
Profit for the period					20,782

The segment information provided to the senior executive management team for the reportable segments for the six months ended 30 June 2010 is as follows:

	Transportation and sales of pipelined gas	Gas pipeline connections	All other segments	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total external revenue	50,626	58,719	5,605	—	114,950
Gross profit	6,286	41,920	3,768	—	51,974
Other gains — net				32	32
Distribution cost				(1,402)	(1,402)
Administrative expenses				(5,490)	(5,490)
Operating profit					45,114
Finance cost — net				(2,216)	(2,216)
Profit before income tax					42,898
Income tax expense				(10,048)	(10,048)
Profit for the period					32,850

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

During each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, no revenue derived from sales made to a single external customers amounted to 10% or more of the Group's total revenue.

6. Property, plant and equipment

	Buildings	Equipment and machinery	Gas pipelines	Office equipment and motor vehicles	Construction -in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007						
Cost	12,096	1,501	66,088	2,084	6,276	88,045
Accumulated depreciation	(876)	(1,067)	(5,881)	(1,018)	—	(8,842)
Net book amount	11,220	434	60,207	1,066	6,276	79,203
Year ended 31 December 2007						
Opening net book amount	11,220	434	60,207	1,066	6,276	79,203
Additions	244	—	—	380	13,480	14,104
Transfer in from CIP	985	—	3,510	—	(4,495)	—
Transfer from investment properties	484	—	—	—	—	484
Acquisition of a business (Note 29)	1,950	829	20,244	572	—	23,595
Disposals	—	(17)	—	(85)	—	(102)
Depreciation charge	(533)	(138)	(3,504)	(470)	—	(4,645)
Closing net book amount	14,350	1,108	80,457	1,463	15,261	112,639
At 31 December 2007						
Cost	15,808	2,157	90,162	2,908	15,261	126,296
Accumulated depreciation	(1,458)	(1,049)	(9,705)	(1,445)	—	(13,657)
Net book amount	14,350	1,108	80,457	1,463	15,261	112,639
Year ended 31 December 2008						
Opening net book amount	14,350	1,108	80,457	1,463	15,261	112,639
Additions	—	1,404	—	181	12,432	14,017
Transfer in from CIP	3,373	1,863	8,842	—	(14,078)	—
Transfer to investment properties	(1,834)	—	—	—	—	(1,834)
Disposals	(80)	(1)	—	(1)	—	(82)
Depreciation charge	(640)	(299)	(4,509)	(575)	—	(6,023)
Closing net book amount	15,169	4,075	84,790	1,068	13,615	118,717
At 31 December 2008						
Cost	16,994	5,420	99,002	3,081	13,615	138,112
Accumulated depreciation	(1,825)	(1,345)	(14,212)	(2,013)	—	(19,395)
Net book amount	15,169	4,075	84,790	1,068	13,615	118,717
Year ended 31 December 2009						
Opening net book amount	15,169	4,075	84,790	1,068	13,615	118,717
Additions	171	58	—	327	12,464	13,020
Transfer in from CIP	1,828	3,732	14,789	21	(20,370)	—
Transfer from investment properties	266	—	—	—	—	266
Disposals	(10)	(3)	—	(39)	—	(52)
Depreciation charge	(672)	(527)	(4,968)	(407)	—	(6,574)
Closing net book amount	16,752	7,335	94,611	970	5,709	125,377
At 31 December 2009						
Cost	19,228	9,198	113,790	2,970	5,709	150,895
Accumulated depreciation	(2,476)	(1,863)	(19,179)	(2,000)	—	(25,518)
Net book amount	16,752	7,335	94,611	970	5,709	125,377
Six months ended 30 June 2010						
Opening net book amount	16,752	7,335	94,611	970	5,709	125,377
Additions	23	—	—	130	8,662	8,815
Transfer in from CIP	8	2	3,305	—	(3,315)	—
Transfer to investment properties	(18)	—	—	—	—	(18)
Disposals	—	—	—	(44)	—	(44)
Depreciation charge	(376)	(479)	(2,775)	(168)	—	(3,798)
Closing net book amount	16,389	6,858	95,141	888	11,056	130,332
At 30 June 2010						
Cost	19,229	9,205	117,095	2,658	11,056	159,243
Accumulated depreciation	(2,840)	(2,347)	(21,954)	(1,770)	—	(28,911)
Net book amount	16,389	6,858	95,141	888	11,056	130,332

(a) Depreciation of the property, plant and equipment has been charged to profit or loss as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of sales	3,620	4,890	5,650	2,723	3,394
Distribution cost	32	73	83	35	39
Administrative expenses	993	1,060	841	415	365
	4,645	6,023	6,574	3,173	3,798

(b) Bank borrowings were secured by certain properties of the Group with a net book value of approximately RMB7,209,000, RMB6,339,000, RMB6,080,000 and RMB5,956,000 as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively (Note 17).

(c) As at the date of this report, the Group has not obtained the legal titles of certain buildings recorded in the Group's property, plant and equipment amounting to approximately RMB1,370,000.

7. Investment properties

	Year ended 31 December			Six months ended 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year / period				
Cost	9,868	9,361	11,397	11,131
Accumulated depreciation	(333)	(658)	(1,232)	(1,620)
Net book amount	9,535	8,703	10,165	9,511
For the year/period				
Opening net book amount	9,535	8,703	10,165	9,511
Transfer (to)/from property, plant and equipment	(484)	1,834	(266)	18
Depreciation charge	(348)	(372)	(388)	(211)
Closing net book amount	8,703	10,165	9,511	9,318
At end of the year/period				
Cost	9,361	11,397	11,131	11,156
Accumulated depreciation	(658)	(1,232)	(1,620)	(1,838)
Net book amount	8,703	10,165	9,511	9,318
Fair value at end of the year/period (a)	13,750	14,890	17,700	19,375

(a) The fair value of the investment properties were valued by an independent and professionally qualified valuer. Valuations were based on current prices in an active market for all properties.

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

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Rental income	1,306	1,367	1,337	700	818
Direct operating expenses from properties that generate rental income	(348)	(372)	(388)	(217)	(211)
	958	995	949	483	607

(c) Depreciation of the Group's investment properties has been charged to the combined statements of comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of sales	348	372	388	217	211

(d) Leasing arrangement

Certain investment properties are leased to tenants under long-term operating leases with payable at regular intervals during the year based on the payment terms. Minimum lease payments under non-cancellable operating leases of investment properties not recognized in the financial information are receivable as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	591	1,061	700	955
Later than 1 year but no later than 3 years	370	624	113	1,517
	961	1,685	813	2,472

(e) Bank borrowings were secured by certain of the Group's investment properties with a net book value of approximately RMB8,522,000, RMB8,762,000, RMB8,390,000 and RMB8,205,000 as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively (Note 17).

8. Lease prepayments

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

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Outside of Hong Kong				
— Lease between 20 and 50 years	1,025	1,006	2,071	2,036

	Year ended 31 December			Six months ended 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Opening net book value	222	1,025	1,006	2,071
Additions	—	—	1,089	—
Acquisition of a business (Note 29)	810	—	—	—
Amortization charge	(7)	(19)	(24)	(35)
Close net book value	1,025	1,006	2,071	2,036

9. Intangible assets

	Exclusive operating rights for city pipeline network	Computer Software	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2007			
Cost	31,865	145	32,010
Accumulated amortization	(2,124)	(22)	(2,146)
Net book amount	29,741	123	29,864
Year ended 31 December 2007			
Opening net book amount	29,741	123	29,864
Additions	—	7	7
Acquisition of a business (Note 29)	1,750	—	1,750
Amortization charge	(661)	(68)	(729)
Closing net book amount	30,830	62	30,892
At 31 December 2007			
Cost	33,615	152	33,767
Accumulated amortization	(2,785)	(90)	(2,875)
Net book amount	30,830	62	30,892
Year ended 31 December 2008			
Opening net book amount	30,830	62	30,892
Additions	—	10	10
Amortization charge	(695)	(51)	(746)
Closing net book amount	30,135	21	30,156
At 31 December 2008			
Cost	33,615	162	33,777
Accumulated amortization	(3,480)	(141)	(3,621)
Net book amount	30,135	21	30,156
Year ended 31 December 2009			
Opening net book amount	30,135	21	30,156
Additions	—	68	68
Amortization charge	(695)	(22)	(717)
Closing net book amount	29,440	67	29,507
At 31 December 2009			
Cost	33,615	230	33,845
Accumulated amortization	(4,175)	(163)	(4,338)
Net book amount	29,440	67	29,507
Six months ended 30 June 2010			
Opening net book amount	29,440	67	29,507
Amortization charge	(347)	(13)	(360)
Closing net book amount	29,093	54	29,147
At 30 June 2010			
Cost	33,615	230	33,845
Accumulated amortization	(4,522)	(176)	(4,698)
Net book amount	29,093	54	29,147

(a) Amortization of the Group's intangible assets has been charged to profit or loss as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Administrative expenses	729	746	717	360	360

(b) The exclusive operating rights for city pipeline network represent the exclusive rights of sales and distribution of gases in Xuchang City and Shangjie District of Zhengzhou City in Henan Province, respectively. The terms of such exclusive rights are 50 and 30 years, starting from 2003 and 2007, respectively. In addition, the exclusive operating rights for city pipeline network of Xuchang City was acquired through assumption of a loan (Note 17), and the exclusive right of Shangjie District of Zhengzhou City was acquired through an acquisition of a business (Note 29).

10. Inventories

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Materials for gas pipelines	6,240	6,984	5,956	6,336
Consumables	139	20	29	17
Work in progress	8,944	6,453	6,589	5,424
Finished pipelined network	7,163	6,091	5,126	—
	22,486	19,548	17,700	11,777

The cost of inventories recognized as the Group's expense and included in cost of sales amounted to approximately RMB26,736,000, RMB61,502,000, RMB81,937,000 and RMB37,927,000 (unaudited) and RMB50,458,000 for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 respectively.

Write-down of inventories recognized in cost of sales in the combined statements of comprehensive income amounted to approximately RMB113,000 for the year ended 31 December 2007.

11. Trade and other receivables

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables (a)	9,050	10,031	9,943	10,599
Bills receivable (b)	—	—	400	150
Prepayments	1,200	2,354	2,246	1,499
Receivables due from related parties (c & Note 31)	43,773	41,689	55,440	433
Other receivables	2,396	4,191	3,994	4,079
Less: provision for impairment of other receivables	(1,271)	(1,271)	(1,271)	(1,271)
	55,148	56,994	70,752	15,489
Less: non-current portion of receivables due from a related party (c)	(11,662)	(11,662)	—	—
Current portion	43,486	45,332	70,752	15,489

As at 31 December 2007, 2008 and 2009 and 30 June 2010, the fair value of the current portion of trade and other receivables, except the prepayments which are not financial assets, of the Group approximated their carrying amounts.

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

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Less than 30 days	4,147	4,818	7,427	5,576
31 days to 90 days	301	1,387	1,443	2,879
91 days to 1 year	4,404	2,466	194	1,155
Over 1 year	198	1,360	879	989
	9,050	10,031	9,943	10,599

As at 31 December 2007, 2008 and 2009 and 30 June 2010, trade receivables of RMB110,000, RMB1,217,000, RMB195,000 and RMB566,000 were past due but not impaired. These relate to a number of independent customers that have good trading records with the Group. Based on the past experiences, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in their credit quality and the balances are considered fully recoverable. The aging analysis of these trade receivables is as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Over 1 year	110	1,217	195	566

As at 31 December 2007, 2008 and 2009 and 30 June 2010, trade receivables of approximately RMB8,940,000, RMB8,814,000, RMB9,748,000 and RMB10,033,000 were fully performing.

(b) The aging of bills receivable was within 180 days as at 31 December 2009 and 30 June 2010.

(c) The receivables due from related parties were unsecured, non-interest bearing and have no fixed repayment term except an amount of approximately RMB11,662,000 as at 31 December 2007, 2008 and 2009 which bore interest at annual rates ranging approximately from 7.52% to 8.61% and was repaid in June 2010.

As at 31 December 2007 and 2008, the fair value of the non-current portion of receivables due from a related party were approximately RMB10,737,000 and RMB10,858,000, respectively, and were calculated based on cash flows discounted using a discount rate of 8.62% and 7.40%, respectively.

(d) As at 31 December 2007, 2008 and 2009 and 30 June 2010, other receivables of RMB1,271,000 were impaired and fully provided for impairment losses.

(e) As at 31 December 2007, 2008 and 2009 and 30 June 2010, all the carrying amounts of the Group's trade and other receivables were denominated in RMB.

(f) As at 31 December 2007, 2008 and 2009 and 30 June 2010, the Group's maximum exposure to credit risk was the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

12. Restricted cash

The restricted cash held in dedicated bank accounts of RMB500,000 as at 31 December 2007 was pledged for the Group's letter of guarantee due to a gas supplier of a subsidiary.

13. Cash and cash equivalents

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash in hand	46	51	57	76
Cash at banks	7,670	11,320	14,803	82,786
	7,716	11,371	14,860	82,862

All cash at banks are deposits with original maturity within 3 months.

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

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	7,661	11,319	14,810	78,632
HKD	55	52	50	4,230
Cash and cash equivalents	7,716	11,371	14,860	82,862

The conversion of the RMB denominated balances into foreign currencies and the remittance of these funds out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

14. Reserves

	Capital reserves	Statutory reserves	Total
	RMB'000	RMB'000	RMB'000
Balance at 1 January 2007 (a)	28,255	—	28,255
Capital injection (b)	16,500	—	16,500
Appropriation (d)	—	30	30
Balance at 31 December 2007	44,755	30	44,785
Capital injection (b)	10,000	—	10,000
Appropriation (d)	—	1,001	1,001
Balance at 31 December 2008	54,755	1,031	55,786
Acquisition of minority interest (c)	5,432	—	5,432
Appropriation (d)	—	4,181	4,181
Balance at 31 December 2009	60,187	5,212	65,399
Capital injection (b)	15,000	—	15,000
Share issuance costs	(3,306)	—	(3,306)
Deemed distribution to Owners (e)	(4,153)	—	(4,153)
Balance at 30 June 2010	67,728	5,212	72,940

There is no movement of reserves for the six months ended 30 June 2009.

(a) The brought forward reserve balance as at 1 January 2007 represented the combined paid-in capital of the subsidiaries now comprising the Group as at 1 January 2007, after eliminating intra-group investments.

(b) In 2007, the Owners injected capital of RMB13,500,000 and RMB3,000,000, respectively to establish Shangjie Tian Lun and Hebi Tian Lun Vehicle. In 2008, the Owners injected capital of RMB4,000,000 and RMB6,000,000 into Xuchang Tian Lun Vehicle and Hebi Tian Lun Vehicle, respectively. During the six months ended 30 June 2010, the Owners injected capital of RMB15,000,000 into Hebi New Energy.

(c) In December 2009, the Owners acquired 10% equity interests of a subsidiary held by a minority shareholder as settlement of the liability of approximately RMB2,500,000 owed by the minority shareholder to the Owners.

(d) Statutory reserves

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the companies incorporated in the PRC now comprising the Group (the "PRC Subsidiaries"), it is required to appropriate 10% of the annual statutory net profits of the PRC Subsidiaries, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the share capital of the PRC Subsidiaries, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding or by increasing the par value of the shares currently held by them, provided that the remaining balance of the statutory surplus reserve fund after such issue is not less than 25% of share capital.

For the years ended 31 December 2007, 2008 and 2009, RMB30,000, RMB1,001,000, RMB4,181,000 were appropriated to the statutory surplus reserve funds from net profits of certain PRC Subsidiaries.

(e) During the six months ended 30 June 2010, as part of the Reorganization, the Group paid a consideration of RMB4,153,000 to the Owners for transfer of equity interests in certain operating entities as disclosed in Note 1. Such payment of such consideration in cash was accounted for as the Group's deemed distribution to the Owners.

15. Trade and other payables

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables (a) (b)	11,080	12,814	12,488	14,108
Amount due to related parties (a, b & Note 31)	29,500	25,033	17,015	15,738
Accrued payroll and welfare	429	212	181	177
Other taxes payables	288	831	1,069	1,198
Other payables (a) (d)	4,984	9,850	8,720	6,579
	46,281	48,740	39,473	37,800

(a) As at 31 December 2007, 2008 and 2009 and 30 June 2010, all such trade and other payables of the Group were non-interest bearing, and their fair value approximated their carrying amounts due to their short maturities.

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

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Less than 30 days	3,375	6,885	6,345	5,394
31 days to 90 days	2,786	1,929	2,918	4,807
91 days to 1 year	1,302	2,501	2,245	2,954
1 year to 2 years	1,660	621	1,138	621
2 years to 3 years	1,648	634	274	153
Over 3 years	310	1,373	716	600
	11,081	13,943	13,636	14,529

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

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

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	42,480	45,160	35,899	28,152
HKD	3,801	3,580	3,574	9,648
	46,281	48,740	39,473	37,800

(d) Other payables mainly included payables arising from purchase of equipment, customers' deposits and miscellaneous accrued expenses.

16. Advance from customers

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Advance from customers	45,661	48,690	43,046	35,893

Advance from customers mainly represents payments received from customers for connection of gas pipelines.

17. Borrowings

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Bank borrowings				
— pledged (a)	3,000	—	—	—
— guaranteed (b)	75,800	54,400	29,000	29,000
Other borrowings (e)	6,672	5,858	6,242	6,397
Total non-current borrowings	85,472	60,258	35,242	35,397
Current				
Bank borrowings				
— pledged (a)	4,000	6,000	15,000	25,000
— guaranteed (b)	32,400	21,400	25,400	27,500
Other borrowings (e(i))	1,934	854	—	—
Total current borrowings	38,334	28,254	40,400	52,500
Total borrowings	123,806	88,512	75,642	87,897

(a) All these bank borrowings were secured by certain of the Group's property, plant and equipment, investment properties and the exclusive operating rights for city pipeline network in Hebi City of Henan Province (Note 6, 7 and 19).

(b) As at 31 December 2007 and 2008, such bank borrowings were guaranteed by Henan Tian Lun Engineering Investment and Henan Tian Lun Real Estate, related companies of the Group, and an independent third party.

As at 31 December 2009, such bank borrowings were guaranteed by Henan Tian Lun Engineering Investment and Henan Tian Lun Real Estate, related companies of the Group.

As at 30 June 2010, such bank borrowings were guaranteed by Henan Tian Lun Engineering Investment and Henan Tian Lun Real Estate, related companies of the Group, and Mr. Zhang Yingcen, one of the Owners of the Group.

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

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount	85,472	60,258	35,242	35,397
Fair value	85,468	60,216	35,232	35,458

The carrying amount of current borrowings approximated their fair value, as the impact of discounting was not significant.

The fair value of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at each end of reporting period, which are 7.66%, 8.62%, 7.40% and 6.64% as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively.

(d) The maturities of the Group's borrowings at respective balance sheet dates are set out as follows:

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Total borrowings				
— Within 1 year	38,334	28,254	40,400	52,500
— Between 1 and 2 years	25,095	25,400	18,581	18,663
— Between 2 and 5 years	54,665	29,419	11,016	11,021
— Over 5 years	5,712	5,439	5,645	5,713
	123,806	88,512	75,642	87,897

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

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	115,200	81,800	69,400	81,500
USD (i)	8,606	6,712	6,242	6,397
	123,806	88,512	75,642	87,897

(i) The borrowings denominated in USD represented other borrowings from local government assumed by the Group to acquire the exclusive operating rights for city pipeline network in Xuchang City of Henan Province in 2003.

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

	As at 31 December			As at 30 June
	2007	2008	2009	2010
RMB	6.14% - 10.85%	5.83% - 10.85%	6.53% - 10.62%	5.47% - 7.43%
USD	6.09%	6.09%	6.09%	6.09%

18. Deferred income tax

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

	As at 31 December			As at 30 June
	2007	2010	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets				
— Deferred tax assets to be recovered after more than 12 months	1,103	1,307	619	728
— Deferred tax assets to be recovered within 12 months	3,368	223	606	665
	4,471	1,530	1,225	1,393
Deferred tax liabilities				
— Deferred tax liabilities to be recovered within 12 months	—	—	(585)	—
Deferred tax assets (net)	4,471	1,530	640	1,393

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

	Year ended 31 December			Six months ended 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	8,347	4,471	1,530	640
(Charged)/credited to profit or loss	(3,876)	(2,941)	(890)	753
At end of year/period	4,471	1,530	640	1,393

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

Deferred tax assets

	Provision for impairment of assets	Accrued expenses	Tax losses	Depreciation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2007	261	15	8,071	—	8,347
(Charged)/credited to profit or loss	(12)	50	(3,999)	85	(3,876)
As at 31 December 2007	249	65	4,072	85	4,471
Credited/(charged) to profit or loss	—	34	(3,206)	231	(2,941)
As at 31 December 2008	249	99	866	316	1,530
(Charged)/credited to profit or loss	(28)	410	(866)	179	(305)
As at 31 December 2009	221	509	—	495	1,225
Credited to profit or loss	—	59	—	109	168
As at 30 June 2010	221	568	—	604	1,393

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

Deferred tax liabilities

	Withholding tax relating to unremitted retained earnings
	RMB'000
As at 1 January 2007	—
Charged to profit or loss	—
As at 31 December 2007	—
Charged to profit or loss	—
As at 31 December 2008	—
Charged to profit or loss	(585)
As at 31 December 2009	(585)
Credited to profit or loss	585
As at 30 June 2010	—

(c) There were no significant unrecognized deferred tax assets or liabilities as at 31 December 2007, 2008 and 2009 and 30 June 2010.

19. Expense by nature

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Raw materials and consumables used	30,169	57,939	81,108	37,986	44,167
Changes in inventories of finished goods and work in progress	(3,433)	3,563	829	(59)	6,291
Depreciation on property, plant and equipment (Note 6)	4,645	6,023	6,574	3,173	3,798
Depreciation on investment properties (Note 7)	348	372	388	217	211
Amortization of lease prepayments (Note 8)	7	19	24	13	35
Amortization of intangible assets (Note 9)	729	746	717	360	360
Write-down of inventories (Note 10)	113	—	—	—	—
Employee benefit expense (Note 20)	2,754	4,039	5,317	2,445	3,300
Licensing fee for the exclusive operating rights for city pipeline network (a) (Note 28)	—	1,100	1,100	550	550
Engagement of construction and design services	3,927	5,925	6,457	2,573	5,116
Transportation	320	329	419	96	229
Auditors' remuneration	43	42	54	20	34
Professional expenses	30	146	200	83	494
Advertising expenses	729	172	452	82	34
Entertainment expenses	190	357	484	158	356
Office expenses	505	610	719	246	170
Taxes	1,657	2,731	3,622	1,812	2,520
Other expenses (b)	1,919	3,381	3,888	1,906	2,203
Total cost of sales, distribution costs and administrative expenses	44,652	87,494	112,352	51,661	69,868

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

The local government agreed to waive the license fee in 2007 as an incentive to the Group to operate its gas business in Hebi City. Certain bank borrowings were secured by such exclusive operating rights for city pipeline network in Hebi City as at 31 December 2008 and 2009 respectively (Note 17).

(b) Other expenses mainly included promotion expenses, travelling expenses, utilities and other miscellaneous expenses.

20. Employee benefit expense

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Wages and salaries	1,976	2,990	3,930	1,886	2,427
Pension costs — defined contribution plans	320	449	570	246	348
Social security benefits costs	245	260	296	144	275
Others	213	340	521	169	250
	2,754	4,039	5,317	2,445	3,300

21. Other gains — net

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Gains/(losses) on disposal of property, plant and equipment	514	(72)	137	115	(18)
Gains on waiver of liabilities due to independent third parties (a)	—	—	444	—	—
Gain on acquisition of a business (Note 29)	293	—	—	—	—
Others	17	77	90	80	50
	824	5	671	195	32

(a) During the year ended 31 December 2009, certain independent third parties waived payment of trade payables amounting to approximately RMB444,000. Such extinguishment of liabilities was recorded as other gains in 2009.

22. Finance costs — net

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Finance income					
— Interest income derived from bank deposits	(83)	(93)	(62)	(19)	(19)
— Interest income derived from receivables due from a related party (Note 31(b))	(877)	(1,004)	(1,004)	(502)	(502)
— Exchange gain	(933)	(777)	—	(6)	(68)
Finance costs					
— Interest expense on borrowings	11,385	9,537	6,975	3,866	2,756
— Exchange loss	—	—	47	—	—
— Others	80	88	41	47	49
	9,572	7,751	5,997	3,386	2,216

23. Income tax expense

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

(b) Hong Kong profits tax

During the Relevant Periods, there was no Hong Kong profits tax applicable to the subsidiaries as the subsidiaries had no profit derived from Hong Kong.

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

All of the Company's subsidiaries incorporated in the PRC are subject to PRC CIT, which has been provided based on the statutory income tax rate of the assessable income of each of such companies during the Relevant Periods as determined in accordance with the relevant PRC income tax rules and regulations.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC. The applicable PRC CIT rates of Hebi Tian Lun Vehicle, Xuchang Tian Lun, Xuchang

Tian Lun Vehicle and Shangjie Tian Lun were changed from 33% in 2007 to 25% from 2008 onwards.

Hebi Tian Lun became a sino-foreign joint venture in 2004, which was entitled to exemption from the PRC CIT for the two years commencing from its first profit making year of operations, after offsetting all unexpired tax losses carried forward from previous years, and thereafter, entitled to a 50% relief from the enacted CIT rate for the next three years (the "5-Year Tax Concession"). As the 5-Year Tax Concession started from 2007, the enacted tax rate applicable to Hebi Tian Lun is nil for the years ended 31 December 2007 and 2008, and 12.5% (being 50% of the enacted CIT rate for 2009) for the year ended 31 December 2009 and the six months ended 30 June 2010, respectively.

Withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC, in respect of earnings generated after 31 December 2007. Before the Reorganization, 80% equity interest of Hebi Tian Lun is held by Upsky Holdings which was subject to 10% withholding tax. The Group is therefore liable to withholding taxes on dividends to be distributed by Hebi Tian Lun in respect of its earnings generated from 1 January 2008.

As at 31 December 2009, deferred income tax liability of RMB585,000 (31 December 2007 and 2008: nil) have been recognized as the withholding tax that would be payable on the unremitted earnings of Hebi Tian Lun. Unremitted earnings attributable to Upsky Holdings amounted to approximately RMB5,848,000, as at 31 December 2009 (31 December 2007 and 2008: accumulated loss of approximately RMB9,340,000 and RMB5,301,000, respectively).

As part of the Reorganization disclosed in Note 1(ii), Upsky Holdings transferred all of its equity interest in Hebi Tian Lun to Tian Lun New Energy in June 2010. The capital gains resulted from such transfer is subject to 10% withholding taxes, and the above mentioned deferred tax liability on the unremitted earnings has been reversed accordingly.

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

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Current income tax:					
— PRC corporate income tax	322	3,925	13,102	5,666	10,801
Deferred tax (Note 18)	3,876	2,941	890	569	(753)
	4,198	6,866	13,992	6,235	10,048

The difference between the actual income tax charge in profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before income tax	12,488	32,417	61,545	27,017	42,898
Tax calculated at statutory tax rates applicable to each group entity	4,121	8,104	15,386	6,754	10,725
Expenses not deductible for tax purposes	241	78	131	59	151
Re-measurement of deferred tax — change in tax rate	97	—	—	—	—
Effect of tax exemption granted to a subsidiary in the PRC	(172)	(1,262)	(2,109)	(703)	(2,049)
Effect of withholding income tax in relation to net income attributable to foreign investor of the PRC operation	—	—	585	137	467
Effect of withholding income tax in relation to capital gains derived from equity transfer	—	—	—	—	496
Others	(89)	(54)	(1)	(12)	258
	4,198	6,866	13,992	6,235	10,048

24. Directors' and senior management's emoluments

(a) Directors' emoluments

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
— Basic salaries and allowances	69	134	180	67	68
— Discretionary bonuses	12	25	52	18	20
— Retirement benefit contributions	—	7	11	5	6
	81	166	243	90	94

The remuneration of each director of the Company for the year ended 31 December 2007 is set out below:

Name of directors	Basic salaries and allowances	Discretionary bonuses	Retirement benefit contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Zhang Yingcen	—	—	—	—
Mr. Xian Zhenyuan	—	—	—	—
Mr. Feng Yi	—	—	—	—
Mr. Sun Heng	69	12	—	81
Mr. Zhang Daoyuan	—	—	—	—
Mr. Chang Zongxian*	—	—	—	—
Mr. Li Liuqing*	—	—	—	—
Ms. Zhao Jun*	—	—	—	—
Mr. Zhang Jiaming*	—	—	—	—
	69	12	—	81

The remuneration of each director of the Company for the year ended 31 December 2008 is set out below:

Name of directors	Basic salaries and allowances	Discretionary bonuses	Retirement benefit contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Zhang Yingcen	—	—	—	—
Mr. Xian Zhenyuan	—	—	—	—
Mr. Feng Yi	45	9	7	61
Mr. Sun Heng	89	16	—	105
Mr. Zhang Daoyuan	—	—	—	—
Mr. Chang Zongxian*	—	—	—	—
Mr. Li Liuqing*	—	—	—	—
Ms. Zhao Jun*	—	—	—	—
Mr. Zhang Jiaming*	—	—	—	—
	134	25	7	166

The remuneration of each director of the Company for the year ended 31 December 2009 is set out below:

Name of directors	Basic salaries and allowances	Discretionary bonuses	Retirement benefit contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Zhang Yingcen	—	—	—	—
Mr. Xian Zhenyuan	—	—	—	—
Mr. Feng Yi	81	23	11	115
Mr. Sun Heng	99	29	—	128
Mr. Zhang Daoyuan	—	—	—	—
Mr. Chang Zongxian*	—	—	—	—
Mr. Li Liuqing*	—	—	—	—
Ms. Zhao Jun*	—	—	—	—
Mr. Zhang Jiaming*	—	—	—	—
	180	52	11	243

The remuneration of each director of the Company for the six months ended 30 June 2009 is set out below (unaudited):

Name of directors	Basic salaries and allowances	Discretionary bonuses	Retirement benefit contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Zhang Yingcen	—	—	—	—
Mr. Xian Zhenyuan	—	—	—	—
Mr. Feng Yi	30	9	5	44
Mr. Sun Heng	37	9	—	46
Mr. Zhang Daoyuan	—	—	—	—
Mr. Chang Zongxian*	—	—	—	—
Mr. Li Liuqing*	—	—	—	—
Ms. Zhao Jun*	—	—	—	—
Mr. Zhang Jiaming*	—	—	—	—
	67	18	5	90

The remuneration of each director of the Company for the six months ended 30 June 2010 is set out below:

Name of directors	Basic salaries and allowances	Discretionary bonuses	Retirement benefit contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Zhang Yingcen	—	—	—	—
Mr. Xian Zhenyuan	—	—	—	—
Mr. Feng Yi	31	9	6	46
Mr. Sun Heng	37	11	—	48
Mr. Zhang Daoyuan	—	—	—	—
Mr. Chang Zongxian*	—	—	—	—
Mr. Li Liuqing*	—	—	—	—
Ms. Zhao Jun*	—	—	—	—
Mr. Zhang Jiaming*	—	—	—	—
	68	20	6	94

* represent the non-executive directors

As at 13 October 2010, the Company appointed 4 independent non-executive directors, Mr. Chang Zongxian, Mr. Li Liuqing, Ms. Zhao Jun and Mr. Zhang Jiaming. They had not received and were not entitled to receive any emoluments for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010.

Those directors without payment from the Company received emoluments from the major shareholders, part of which are in relation to their services to the Company. No apportionment has been made as the directors consider that it is impractical to apportion the amount between their services to the Company and their services to the major shareholders.

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, no director received any emolument from the Group as an inducement to join or leave the Group or compensation for loss of office; no director waived or has agreed to waive any emoluments.

(b) Five highest paid individuals

The five individuals whose emoluments were highest in the Group for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 included 1, 2, 2, 2 and 2 directors respectively. Their emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 4, 3, 3, 3 and 3 individuals respectively for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Basic salaries and allowances	150	193	167	100	100
Discretionary bonuses	26	35	47	20	27
Retirement benefit contributions	14	20	20	13	7
	190	248	234	133	134

The emoluments of the five highest paid individuals paid by the Group fell within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
				(Unaudited)	
Nil to HKD1,000,000 (equivalent to RMB872,400)	4	3	3	3	3

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, no emoluments were paid by the Group to the five highest paid individuals as inducement to join or upon joining the Group or as compensation for loss of office.

25. Earnings per share

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganization and the preparation of the results for the Relevant Periods on a combined basis as disclosed in Note 2.1 above.

26. Cash generated from operations

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

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before income tax	12,488	32,417	61,545	27,017	42,898
Adjustments for:					
— Depreciation of property, plant and equipment and investment properties	4,993	6,395	6,962	3,390	4,009
— Amortization of intangible assets and lease prepayments	736	765	741	373	395
— Write-down of inventories	113	—	—	—	—
— Finance income	(1,893)	(1,874)	(1,066)	(527)	(589)
— Finance costs	11,385	9,537	7,022	3,866	2,756
— Gain on waiver of other liabilities due to independent third parties (Note 21)	—	—	(444)	—	—
— Gain on acquisition of a business	(293)	—	—	—	—
— Net (gains)/losses on disposal of property, plant and equipment	(514)	72	(137)	(115)	18
	27,015	47,312	74,623	34,004	49,487
Changes in working capital:					
— Inventories	(3,160)	2,938	1,848	561	5,923
— Trade and other receivables	(3,678)	(2,717)	(597)	(6,258)	2,707
— Restricted cash	—	500	—	—	—
— Trade and other payables	(1,266)	7,466	(293)	1,458	(519)
— Advance from customers	7,825	3,029	(5,644)	2,429	(7,153)
	(279)	11,216	(4,686)	(1,810)	958
Cash generated from operations	26,736	58,528	69,937	32,194	50,445

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

In the combined statements of cash flows, proceeds from sale of property, plant and equipment comprise:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Net book amount	102	82	52	96	44
Gains/(losses) on disposal of property, plant and equipment	514	(72)	137	115	(18)
Proceeds from disposal of property, plant and equipment	616	10	189	211	26

27. Contingencies

As at 31 December 2007, 2008 and 2009 and 30 June 2010, the Group did not have any significant contingent liabilities.

28. Commitments

(a) Capital commitments

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

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment	823	—	1,944	777

(b) Licensing fee commitments (Note 19)

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Not later than one year	1,100	1,100	1,100	1,100
Later than one year and no later than five years	4,400	4,400	4,400	4,400
Later than five years	22,000	20,900	19,800	19,250
	27,500	26,400	25,300	24,750

29. Business combinations

On 31 July 2007 (the "Acquisition Date"), the Group acquired the business (the "Acquired Business") of Zhengzhou Shangjie Gas Limited, an independent third party engaging in the sales of coal gas in Shangjie District of Zhengzhou City in Henan Province. As at the Acquisition Date, the fair value of the net assets and liabilities of the Acquired Business amounted to approximately RMB9,793,000, and the negative goodwill on the acquisition was approximately RMB293,000. The consideration for such acquisition was based on the valuation of the net assets of Zhengzhou Shangjie Gas Limited as at 31 March 2007 by an independent valuer.

The Acquired Business contributed revenues of approximately RMB7,759,000 and net profit of approximately RMB300,000 to the Group for the period from the Acquisition Date to 31 December 2007. If the acquisition had occurred on 1 January 2007, the Group's revenue would have been approximately RMB76,200,000, and combined profit for the year ended 31 December 2007 would have been RMB8,551,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the Acquired Business to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2007, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
Cash paid	9,500
Fair value of net assets acquired	(9,793)
Negative goodwill	(293)

The fair value of net assets acquired exceeded the cost of business combination by RMB293,000, which was recognized in 'Other gains' in the combined statements of comprehensive income.

The assets and liabilities arising from the acquisition are as follows:

	Fair value	Acquiree's carrying amount
	RMB'000	RMB'000
Property, plant and equipment and lease prepayments (Note 6 & 8)	24,405	22,554
Exclusive operating rights for city pipeline network (included in intangibles) (Note 9)	1,750	—
Inventories	1,698	1,698
Trade and other receivables	492	492
Trade and other payables	(2,292)	(2,292)
Borrowings (a)	(16,260)	(16,260)
Net assets acquired	9,793	6,192
Purchase consideration settled in cash	9,500	
Cash outflow on acquisition	9,500	

(a) Such borrowings were originally owed to the local government by Zhengzhou Shangjie Gas Limited, and upon the acquisition, they were assumed by Henan Tian Lun Engineering Investment as requested by the local government. During the years ended 31 December 2007 and 2008, the Group paid an aggregate of RMB16,260,000 to Henan Tian Lun Engineering Investment as settlement of such obligation.

30. Dividends

Chinese law requires dividends to be paid only out of the net profit calculated according to China accounting principles, which is different from HKFRSs. Chinese laws also require foreign invested enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends.

In addition, under the existing corporate income tax law of the PRC (the "CIT Law"), the Company is deemed to be a "non-tax resident enterprise" as defined under the CIT Law and its implementation regulations, and a withholding tax at the rate of 10% is applicable to any dividends for earnings accumulated since 1 January 2008, payable to the Company, unless it is entitled to reduction or elimination of such tax, including by tax treaties or agreements.

On 26 March 2010, in accordance with the resolutions of the owners of Xuchang Tian Lun, Xuchang Tian Lun Vehicle, and Hebi Tian Lun Vehicle, and the board of directors of Hebi Tian Lun, retained earnings of approximately RMB29,330,000, RMB158,000, RMB1,110,000 and RMB13,158,000 were appropriated to the then equity holders of the respective companies respectively. Among such dividends, approximately RMB33,087,000 in total were appropriated to Henan Tian Lun Engineering Investment, and the remaining were appropriated to certain subsidiaries within the Group. The dividends appropriated to Henan Tian Lun Engineering Investment were accounted for as an appropriation of retained earnings in the combined financial information for the six months ended 30 June 2010. As at 30 June 2010, the outstanding dividend payable due to Henan Tian Lun Engineering Investment was approximately RMB2,632,000 (Note 31).

No dividend has been paid or declared by the Company since its incorporation. Dividends disclosed for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 represent dividends declared or proposed by the relevant subsidiaries of the Group out of their retained earnings to the then equity holders of the respective companies, after eliminating intra-group dividends.

31. Related party transactions

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

The Group is ultimately controlled by the Controlling Shareholders.

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, and balances arising from related party transactions as at 31 December 2007, 2008 and 2009 and 30 June 2010.

(a) Name and relationship with related parties

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

(b) Significant related party transactions

Saved as disclosed elsewhere in this report, for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010, the Group had the following significant transactions with related parties.

Continuing transactions

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Purchase of construction service					
— Hexiang Engineering	344	4,493	5,237	1,685	3,409

Discontinued transactions

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Interest income from receivables					
— Henan Tian Lun Real Estate (Note 22)	877	1,004	1,004	502	502

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

(c) Balances with related parties

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other receivables				
Other receivables due from				
— Henan Tian Lun Engineering Investment	30,527	23,467	36,497	—
— Henan Tian Lun Real Estate	12,540	13,544	14,719	—
— Hexiang Engineering	84	4,179	4,224	—
	43,151	41,190	55,440	—
Prepayments due from				
— Hexiang Engineering	622	499	—	433
	43,773	41,689	55,440	433
Trade and other payables				
Trade payables due to				
— Hexiang Engineering	1	1,129	1,148	421
Other payables due to				
— Mr. Zhang Yingcen	3,801	3,580	3,574	9,648
— Henan Tian Lun Engineering Investment	25,667	20,293	12,293	5,669
— Hexiang Engineering	31	31	—	—
	29,499	23,904	15,867	15,317
	29,500	25,033	17,015	15,738
Dividend payable				
— Henan Tian Lun Engineering Investment	—	—	—	2,632

The amounts due from/to the related parties are unsecured, interest-free and have no fixed terms of repayment, except that the receivables due from Henan Tian Lun Real Estate, of approximately RMB11,662,000 as at 31 December 2007, 2008 and 2009, bore interest at annual rates ranging approximately from 7.52% to 8.61% and was repaid in June 2010.

Other receivables due from and other payables due to related parties are all non-trade in nature, mainly arising from funds transfers to/from related parties. All such balances have been settled in October 2010.

Dividend payable due to Henan Tian Lun Engineering Investment as at 30 June 2010 was paid in September 2010.

As disclosed in Note 17, the Group's bank borrowings of approximately RMB108,200,000, RMB75,800,000, RMB54,400,000 and RMB56,500,000 as at 31 December 2007, 2008 and 2009 and 30 June 2010 were guaranteed by Henan Tian Lun Engineering Investment, Henan Tian Lun Real Estate, Mr. Zhang Yingcen and a third party. All such guarantees from related parties have been released by the end of September 2010.

(d) Key management compensation

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Basic salaries and allowances	215	344	456	203	221
Discretionary bonuses	36	65	128	43	61
Retirement benefit contributions	15	7	39	24	18
	266	416	623	270	300

32. Subsequent events

Save as disclosed elsewhere in this report, the following significant events took place subsequent to 30 June 2010:

(a) In July 2010, in accordance with resolutions of shareholders of Shangjie Tian Lun, retained earnings of approximately RMB7,339,000 and RMB816,000 were appropriated to Hebi Tian Lun and the minority shareholder of the Group, respectively. Such dividend was paid in August 2010.

(b) In October 2010, the Group completed the Reorganization in preparing for the Listing.

(c) Non-competition deed with related parties

On 20 October 2010, the Company, Henan Tian Lun Engineering Investment, the Controlling Shareholders, Chequers Development Limited, Gold Shine Development Limited and Tian Lun Group entered into a non-competition deed (the "Deed"). Pursuant to the Deed, the Company is entitled to an option and right of first refusal to purchase the equity interest of the project company operating gas business of Puyang City of Henan Province (the "Puyang Business") which is owned by Mr. Zhang Yingcen and Henan Tian Lun Engineering Investment, subject to the approval of all the independent non-executive directors and the independent shareholders of the Company. If the Company exercises such option, the purchase price will be at or not more than the fair value of the equity interest of the project company operating Puyang Business with reference to the independent valuation to be determined by a valuer agreed by the Company and the Controlling Shareholders and Henan Tian Lun Engineering Investment.

(d) Waiver of amounts due to a related party

Pursuant to an agreement entered into between Upsky Holdings and Mr. Zhang Yingcen in October 2010, Mr. Zhang Yingcen waived the repayment by Upsky Holdings of payables amounting to approximately HKD11.1 million.

III FINANCIAL INFORMATION OF THE COMPANY

The Company was incorporated on 20 May 2010 with an initial authorized share capital of HKD380,000 divided into 38,000,000 ordinary shares with par value of HKD0.01 each. On the date of incorporation, 1 ordinary share was issued nil paid to the subscriber, which was subsequently transferred to Tian Lun Group on the same date. The Company had not been involved in any significant business transactions since its date of incorporation to 30 June 2010. As at 30 June 2010, the Company had an amount due from related party balance of HKD0.01 and a share capital of HKD0.01. Save as disclosed in this report, it had no other assets, liabilities or distributable reserve as at 30 June 2010.

IV SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 30 June 2010. Except as disclosed in this report, no dividends or distributions have been declared, made or paid by the Company or its subsidiaries in respect of any period subsequent to 30 June 2010.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong