China Tian Lun Gas Holdings Limited
中國天倫燃氣控股有限公司

天伦燃气
TIANLUN GAS

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 01600

Interim Report **2011**


To improve the living Environment
To develop clean Energy

Contents

MANAGEMENT DISCUSSION AND ANALYSIS

The increase in the operating revenue amounted to 62.4% and its contribution to the results of the Group was further enhanced

BUSINESS REVIEW

The major businesses of the Group are gas connection, transportation and sale of gas, construction and operation of vehicle gas filling station, and production and sale of LNG. During the Reporting Period, the Group devoted to development of its operation and business domain, and expansion of its urban gas operation regions, which had yielded remarkable results.

Development of New Projects

During the Reporting Period, the Group acquired 10 urban gas concession operation regions including Heqi Industry Assemble Zone of Hebi, Puyang Gaoxin District of Puyang, Minquan County and Yucheng County of Shangqiu in Henan Province and counties of Tongyu, Dunhua, Panshi, Da'an, Jiutai and Zhenlai in Jilin Province. As at 30 June 2011, the Group owned a total of 13 urban gas concession operation regions, 10 gas filling stations in operation and 1 up-stream gas source base in Sichuan Province. Subsequent to the Reporting Period, in July this year, the Group acquired 2 urban gas projects in Song County of Luoyang in Henan Province and Baiyin City in Gansu Province. As at the date of this report, the Group owned 1 up-stream gas source base, 15 urban gas concession operation regions and 11 gas filling stations in operation and another 9 gas filling stations under construction. The Group's operation has been expanded significantly when compared to 3 urban gas concession operation regions and 3 gas filling stations in operation owned by the Group at the end of 2010.

Events during the Period

Obtaining of gas concession operation right in Heqi Industry Assemble Zone

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

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

Capital Injection to Henan Luyuan Gas Limited

On 31 March 2011, Henan Tian Lun Gas Group Limited (河南天倫燃氣集團有限公司) ("Henan Tian Lun"), a wholly-owned subsidiary of the Company, entered into a cooperation agreement with the existing shareholders of Henan Luyuan Gas Limited (河南綠源燃氣有限公司, "Henan Luyuan"), pursuant to which Henan Tian Lun agreed to inject RMB25,000,000 into Henan Luyuan. Upon completion of the capital injection, Henan Tian Lun holds 70% of the equity interests in Henan Luyuan, and thus obtained the urban gas concession right and the exclusive vehicle-use gas operation right in Minquan County and Yucheng County of Shangqiu City for a term of 30 years.

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

Acquisition of LNG production and processing base

On 2 April 2011, Henan Tian Lun entered into a capital injection and cooperation agreement with the existing shareholders of Cangxi County Datong Natural Gas and Investment Limited (蒼溪縣大通天然氣投資有限公司) ("Cangxi Datong"), pursuant to which Henan Tian Lun agreed to inject RMB25,500,000 into Cangxi Datong. Upon completion of the capital injection, Henan Tian Lun holds 51% of equity interests in Cangxi Datong, adding one more gas production and processing base for the Group.

The project is located in Sichuan Province, one of the major sources of natural gas in China. The annual production capacity of the project is 390 million cubic metres of LNG or combined welding-cutting gas (comprise of 99.2% natural gas and a small amount of addictives) and the daily production capacity being approximately 1.2 million cubic metres of LNG, which ranked highly in China in terms of production scale. The project is at the stage of equipment installation and trial production, it is expected to commence production at the end of 2011. In addition to the promising outlook, the Group considers the project will bring massive competitive advantages for expansion of urban gas business into the surrounding provinces. This will be significant to the long-term development of the Group as its business entered the upstream of urban natural gas industry through the project.

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

On 21 April 2011, Henan Tian Lun entered into a cooperation agreement with the existing shareholders of Jilin Zhongji Dadi Gas Group Limited (吉林省中吉大地燃氣集團有限公司) ("Zhongji Dadi"), pursuant to which Henan Tian Lun agreed to acquire 51% of equity interests in Zhongji Dadi, and inject RMB51,000,000 into Zhongji Dadi after completion of the acquisition; as a result the Group obtained 6 urban gas concession rights and 7 exclusive vehicle-use gas operation rights in Jilin Province. The number of residential users and taxi users under this project has reached 46,000 and over 5,000, whilst 6 gas filling stations have been put into operation and 6 gas filling stations are under construction. Meanwhile, the Company also owns 2 main stations supplying CNG in major gas sources in Northeastern China.

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

Acquisition of Entire Equity Interests in Puyang Tian Lun Gas Limited

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

In 2011, Puyang Tian Lun obtained the urban pipelined gas concession right in Puyang Hi-tech Industry Development Zone in Puyang for a term of 30 years. This zone is a province-level Hi-tech Industry Development Zone in Henan Province and has been listed as "The first national Huoju Bio-chemical industry development base (全國首家國家火炬計畫生物化工產業發展基地)". Five leading industries including the petroleum and chemical industry, new material industry, bio-pharmaceutical industry, equipment manufacturing industry and forest and paper industry have been preliminarily formed in the Puyang Hi-tech Industry Development Zone.

Puyang Hi-tech Industry Development Zone in Puyang, Henan is close to Zhongyuan Oilfield, a major natural gas production base in Central China, which directly supplies natural gas to Puyang Tian Lun.

Events subsequent to the Period

Acquisition of gas concession right in Song County, Henan

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

Song County is praised as one of the 8 top gold-producing counties in China where leading industries such as precious metal smelting industry, mining industry and machinery manufacturing industry have been formed.

The expansion in new urban area of Song County is under planning, whilst the area will be doubled after the expansion. Meanwhile, as Song County is an important city close to Luoyang City, a major industrial city in China, the emigration of considerable industrial enterprises from Luoyang City will provide a broader market for the development of natural gas business in Song County.

Acquisition of 98.97% equity interests in Gansu Baiyin Gas Company

On 28 July 2011, Henan Tian Lun entered into an acquisition agreement with Shenzhen Desheng Investment Company Limited (深圳市德盛投資有限公司) ("Shenzhen Desheng"), pursuant to which Henan Tian Lun agreed to acquire 98.97% equity interests in Baiyin Gas Company at the consideration of RMB120,000,000, through acquisition of which, the Group acquired 1 gas filling station in use and 2 gas filling stations under construction and obtained the urban gas concession right in Baiyin City and the gas supply by Baiyin Nonferrous Metals (Group) Co.,Ltd. (白銀有色金屬集團) for the long run.

Baiyin City of Gansu Province is an emerging industrial city in Northwest China. It is one of the largest nonferrous metal industrial bases in China and an important energy and chemical base in Gansu Province. The vehicle-use gas market of Baiyin Nonferrous Metals (Group) Co.,Ltd. is mature, considering the quality industrial and enterprise users with a sales volume of natural gas of approximately 100,000 m^3 per day. Upon completion of the acquisition, the quality industrial users from company such as Baiyin Nonferrous Metals (Group) Co.,Ltd. will be of significance to the sustainable growth of the Group's sales of gas.

Gas Connection

The Group is engaged in the gas connections operation and the provision of gas pipeline laying and installation services to property developers and commercial and industrial users. As at 30 June 2011, the Group had 258,629 household users, representing an increase of 58.4% as compared with 163,300 users at the end of 2010. During the first half year of 2011, the rapid increase of the Group's operation regions and the growing number of connectable users had driven the Group's connection volume to grow significantly. During the Reporting Period and the corresponding period last year, the revenue generated from gas connection business were approximately RMB94,565,000 and RMB58,719,000 respectively, representing an increase of 61.0%.

Sales of Gas

The Group has been transporting, distributing and selling natural gas and coal gas in the operating cities. During the Reporting Period, the Group sold a total of 43,740,000 m^3 of gas, representing an increase of 14,970,000 m^3 or approximately 52.0% as compared with the corresponding period of last year, of which 31,450,000 m^3 was natural gas, representing an increase of 12,770,000 m^3 or approximately 68.4% as compared with the corresponding period of last year. During the Period, sales volume of gas sold to residential users, industrial and commercial users and vehicle users represented an increase of 53.9%, 34.2% and 136.2% respectively as compared with the corresponding period of last year. Among them, the proportion of gas sales from vehicle users, which provide higher gross profit margin, to the total sales is on an increasing trend, and were 1.72%, 7.4% and 14.0% for the three years ended 31 December 2010 respectively and further increased to 17.5% for the Reporting Period.

It is anticipated that after the completion of gas reversion of Zhengzhou Shangjie Tian Lun Gas Limited ("Shangjie Tian Lun "), a non-wholly owned subsidiary of the Company, in the second half year of 2011, the Group will only supply natural gas to its end users. By that time, Shangjie Company will achieve better results in gas sale scale in future. Meanwhile, along with the increase in new projects, the expansion of concession operation regions and the increased number of newly constructed gas stations putting into operation. It is anticipated that the Group will continue to achieve even higher growth in sale of gas in the second half of 2011.

Gross Profit Margin and Net Profit Margin

For the six months ended 30 June 2011, the Group achieved gross profit and net profit (before non-controlling interests) of approximately RMB79,682,000 and RMB56,193,000 respectively during the Period, representing an increase of approximately RMB27,559,000 and RMB23,422,000 respectively as compared with the corresponding period in 2010. Net profit attributable to owners of the Company amounted to approximately RMB50,138,000, representing an increase of approximately RMB17,774,000 as compared with the corresponding period in 2010. Overall gross profit margin and net profit margin (before non-controlling interests) of the Group were 42.3% and 29.8% respectively. The gross profit margin dropped by 2.7% and the net profit margin rose slightly by 1.5% as compared with the same period last year.

The decrease in the gross profit margin was mainly attributable to the difference of the regions where the newly acquired enterprises located, which led to a drop of 5.2% in the overall gross profit margin of connection business of the Group for the first half year of 2011 as compared with the same period last year, and as a result thereof, the overall gross profit margin of the Group decreased. However, there is still space for improvement in cost control of the newly acquired enterprises. In the second half of 2011, the Group will continue to reinforce the management on the newly acquired enterprises and to improve their cost control. On the other hand, with the gradual enhancement of the Group's gas sales volume structure, the gross profit margin of the gas sale business rose to 17.9%, representing an increase of 5.5% as compared with the corresponding period last year.

FINANCIAL REVIEW

For the six months ended 30 June 2011, the Group's revenue amounted to approximately RMB188,272,000, representing an increase of approximately RMB72,333,000 or a significant rise of 62.4% as compared with the corresponding period of last year; gross profit amounted to approximately RMB79,682,000, representing an increase of approximately RMB27,559,000 or a significant rise of 52.9% as compared with the corresponding period of last year; profit attributable to owners of the Company amounted to approximately RMB50,138,000, representing an increase of approximately RMB17,774,000 or a significant rise of 54.9% as compared with the corresponding period of last year.

Revenue

For the six months ended 30 June 2011, the Group's revenue was primarily derived from the gas connections business and transportation and sale of the gas business, accounting for 50.2% and 47.6% of the total revenue respectively. The increase in revenue was mainly attributable to the significant increase in the number of customers brought by the development of new projects, the increased connections of residential, commercial and industrial users driven by market demand as well as the increase in the number of compressed natural gas filling stations.

Liquidity and Financial Resources

The capital policy of the Group aims at securing funds for development and acquisition of the Group with the use of cash generated from operating activities, an appropriate level of bank borrowings and proceeds of capital contributions from the shareholders and proceeds from the global offering. As at 30 June 2011, the Group's cash and cash equivalent amounted to approximately RMB403,436,000 (31 December 2010: RMB411,926,000). 98.66% of the Group's cash and cash equivalent was denominated in Renminbi and the remaining 1.34% was denominated in Hong Kong dollars.

Borrowing Structure

As at 30 June 2011, the Group's total borrowing amounted to approximately RMB221,473,000 (31 December 2010: RMB 31,429,000), of which approximately 97.1% was accounted for as current liabilities and was subject to repayment within a year. Amongst them, bank borrowings of RMB35,000,000 were pledged by the Group's property assets as security. The prevailing market rate of financial instruments with similar terms and characteristics which the Group obtained is 6.941%. The Group's gearing ratio, measured as the percentage of total liabilities to total asset as of 30 June 2011 was 39.0% (31 December 2010: 18.3%). The Group's current ratio, calculated by dividing current assets by current liabilities as of 30 June 2011, was 128.4% (31 December 2010: 409.0%). The increase in gearing ratio and a decrease in current ratio were mainly attributable to the increase in short-term borrowing, which demonstrated the Group's ample cash flow, thus strongly securing the capital needed for future development of the Group.

In general, as all of the Group's businesses were situated in the PRC, and substantially all of its income and expenses were denominated in RMB, there were no significant risk relating to exchange fluctuation. The Group will closely monitor the interest rate and exchange rate of the market and make appropriate responses in due course. During the Reporting Period, the Group adopted a measure that allocated HKD100 million from the net proceed of the Global Offering into a 1-month forward settlement/RMB swap, with a view to minimizing the risk of foreign exchange. As at 30 June 2011, the Group had no longer adopted such kind or similar measures.

Employees and Remuneration Policy

As at 30 June 2011, the total number of employees of the Group was 1,135, with a total remuneration of RMB11,037,000 during the Reporting Period. With the continuous increase in the number of new projects, the number of employees rose correspondingly. The Group remunerates its staff according to their individual performance, work experience and prevailing market standard.

Contingent Liabilities

As at 30 June 2011, the Group had no material contingent liabilities.

Prospects

During the Reporting Period, by virtue of the opportunity associated with the successful listing and the Company's rising recognition and reputation, the Group's management had actively unfolded the development of new projects and yielded remarkable results in the three aspects of up-stream gas source base construction project, urban gas project and terminal gas station project. These initiations had also outlined the strategic deployment layout of the Group's business nationwide. As at the date of this report, the Group's business scale had higher growth in terms of quality.

From a global perspective, the natural gas industry, being economic, stable, safe and highly efficient, is accelerating its pace in replacing the traditional energy sources. From a local perspective, the accelerated development of the natural gas industry is irresistible in view of significant improvement in gas supply, the expedition of urbanization progress and the branch pipeline network construction and rapid expansion of the gas market for automobile and vessel use, such that the use of natural gas begins to dominate the overall solutions of clean energy for some independent new-type industrial park zones and large integrated facilities at provincial and municipal levels.

In the second half of 2011, the Group will well grasp new opportunities emerging from the natural gas industry of China to expand actively urban gas projects as well as developing with efforts up-stream gas sources base construction projects, with an aim to provide the Group with more gas source resources. In the meantime, it will expand the market coverage to wider automobile market and industrial park zones through construction of terminal network facilities such as gas stations and gas storage stations. Besides, the Group will expedite the management introduction on new projects to prompt clone of the Group's governance model for swift improvement of project profitability. It is believed that the Group will pose encouraging rapid growth in 2011.

OTHER INFORMATION

USE OF PROCEEDS FROM GLOBAL OFFERING

The proceeds received by the Company from the Global Offering on 10 November 2010, after deducting the relevant costs of Global Offering, together with the proceeds from the exercise of over allotment option on 29 November 2010, amounted to approximately HK$425.1 million in total. The Company has used and will use the proceeds as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 27 October 2010 (the "Prospectus"). As at 30 June 2011, the use of the proceeds is as follows:

Usage	**Proposed use of proceeds as set out in the Prospectus** in HK$ million	**Accumulated use of proceeds as at 30 June 2011** in HK$ million
Construction of gas processing stations, gas pipeline networks and other gas distribution facilities in the operating cities of the Group	74.8	44.9
Acquisition or development of new urban gas projects	214.7	128.8
Investment in construction of a new gas station	25.5	5.0
Investment in LNG and biofuel business opportunities	67.6	40.1
Working capital and other general corporate purposes	42.5	25.5
Total	425.1	244.3

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

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

As at 30 June 2011, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the"SFO"), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

1. Long Positions in the Shares of the Company ("Shares"):

Name of Director	Capacity/Nature of interest	Numbers of Shares held	Approximate percentage of issued share capital of the Company
Mr. Zhang Yingcen (Note 1)	Interest of controlled corporation	558,400,500	67.45
Mr. Xian Zhenyuan (Note 2)	Interest of controlled corporation	40,099,500	4.84

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

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

Notes:

(1) The entire issued share capital of Tian Lun Group Limited is held by Gold Shine Development Limited, which is in turn owned by Mr. Zhang Yingcen as to 60.0%. Tian Lun Group Limited owns 508,725,000 Shares. Therefore, Mr. Zhang is deemed or taken to be interested in all the Shares held by Tian Lun Group Limited for the purposes of the SFO. Mr. Zhang beneficially owns all shares in issue of Chequers Development Limited, which in turn owns 49,675,500 Shares. Therefore, Mr. Zhang is also deemed or taken to be interested in all the Shares held by Chequers Development Limited for the purposes of the SFO. Mr. Zhang is the director of Tian Lun Group Limited, Gold Shine Development Limited and Chequers Development Limited.

(2) Mr. Xian Zhenyuan beneficially owns 80.0% of the issued share capital of Pleasant New Limited, which in turn owns 40,099,500 Shares. Therefore, Mr. Xian is deemed or taken to be interested in all the Shares held by Pleasant New Limited for the purposes of the SFO. Mr. Xian is the sole director of Pleasant New Limited.

Save as disclosed above, as at 30 June 2011, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

To the knowledge of the Directors, as at 30 June 2011, as recorded in the register required to be kept by the Company under Section 336 of the SFO, the following persons (except the Directors and chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long Positions in Shares and Underlying Shares

Name	Capacity/Nature of interest	Numbers of Shares held	Approximate percentage of issued share capital of the Company
Tian Lun Group Limited	Beneficial owner	508,725,000	61.45
Gold Shine Development Limited (note 1)	Interest of controlled corporation	508,725,000	61.45
Chequers Development Limited	Beneficial owner	49,675,500	6.00
Ms. Sun Yanxi ("Ms. Sun") (note 2)	Interest of spouse	558,400,500	67.45

Notes:

(1) The entire issued share capital of Tian Lun Group Limited is held by Gold Shine Development Limited. Tian Lun Group Limited owns 508,725,000 shares. Therefore, Gold Shine Development Limited is also deemed or taken to be interested in all the Shares held by Tian Lun Group Limited for the purposes of the SFO.

(2) The entire issued share capital of Tian Lun Group Limited is held by Gold Shine Development Limited, which is in turn owned by Mr. Zhang as to 60.0%. Tian Lun Group Limited owns 508,725,000 Shares. Therefore, Mr. Zhang is deemed or taken to be interested in all the Shares held by Tian Lun Group Limited for the purposes of the SFO. Mr. Zhang beneficially owns all shares in issue of Chequers Development Limited, which in turn owns 49,675,500 Shares. Therefore, Mr. Zhang is also deemed or taken to be interested in all the Shares held by Chequers Development Limited for the purposes of the SFO. Ms. Sun is the spouse of Mr. Zhang; therefore Ms. Sun is deemed or taken to be interested in all the Shares in which Mr. Zhang is interested for the purpose of the SFO.

Save as disclosed above, as at 30 June 2011, the Directors were not aware of any interests or short positions in the Shares and underlying shares, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register required to be kept by the Company under Section 336 of the SFO, except those held by Directors or chief executives of the Company.

SHARE OPTION SCHEME

During the six months ended 30 June 2011, the Company had not granted any share options.

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

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2011 (for the six months ended 30 June 2010: Nil).

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Upon specific enquiries of all Directors, each of them confirmed that they had strictly complied with the required standards set out in the Model Code during the Reporting Period.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules. The Company has complied with the Code during the period from 1 January 2011 to 30 June 2011, save and except as follows:

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

AUDIT COMMITTEE

The audit committee (the "Audit Committee") of the Company was established on 23 October 2010. The Audit Committee consists of three independent non-executive Directors, namely, Mr. Li Liuqing (chairman of the committee), Mr. Chang Zongxian and Ms. Zhao Jun. The Audit Committee had held meetings with the management to review accounting principles and practices adopted by the Group and discuss the audit, internal control and financial reporting issues. The Audit Committee had reviewed and discussed the results and financial statements of the Group for the six months ended 30 June 2011.

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited 30 June 2011 RMB'000	Restated 31 December 2010 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	**305,743**	149,930
Investment properties	7	**9,332**	9,556
Lease prepayments	7	**21,331**	8,273
Intangible assets	7	**38,914**	32,216
Goodwill		**239,073**	—
Deferred income tax assets		**1,618**	1,581
Total non-current assets		**616,011**	201,556
Current assets			
Inventories		**32,648**	8,114
Trade and other receivables	8	**96,441**	63,444
Cash and cash equivalents		**403,436**	411,926
Total current assets		**532,525**	483,484
Total assets		**1,148,536**	685,040
EQUITY			
Equity attributable to owners of the Company			
Share capital	9	**7,077**	7,077
Share premium	9	**454,188**	454,188
Reserves		**(1,369)**	21,631
Retained earnings		**124,861**	74,728
		584,757	557,624
Non-controlling interests		**115,677**	2,845
Total equity		**700,434**	560,469

	Note	**Unaudited 30 June 2011 RMB'000**	Restated 31 December 2010 RMB'000
LIABILITIES			
Non-current liabilities			
Trade and other payables		**27,000**	—
Borrowings	10	**6,395**	6,350
Total non-current liabilities		**33,395**	6,350
Current liabilities			
Trade and other payables	11	**135,313**	47,222
Advance from customers		**60,967**	44,414
Current income tax liabilities		**3,349**	1,506
Borrowings	10	**215,078**	25,079
Total current liabilities		**414,707**	118,221
Total liabilities		**448,102**	124,571
Total equity and liabilities		**1,148,536**	685,040
Net current assets		**117,818**	365,263
Total assets less current liabilities		**733,829**	566,819

The notes on pages 19 to 40 form an integral part of these unaudited interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six months ended 30 June 2011 RMB'000	Restated 2010 RMB'000
Revenue	6	**188,272**	115,939
Cost of sales	12	**(108,590)**	(63,816)
Gross profit		**79,682**	52,123
Distribution costs	12	**(3,029)**	(1,467)
Administrative expenses	12	**(11,841)**	(5,901)
Other gains — net		**7,344**	238
Operating profit		**72,156**	44,993
Finance income		**1,117**	633
Finance costs		**(3,358)**	(2,807)
Finance costs — net		**(2,241)**	(2,174)
Profit before income tax		**69,915**	42,819
Income tax expense	13	**(13,722)**	(10,048)
Profit for the period		**56,193**	32,771
Other comprehensive income for the period, net of tax		**—**	—
Total comprehensive income for the period		**56,193**	32,771
Profit and total comprehensive income attributable to:			
Owners of the Company		**50,138**	32,364
Non-controlling interests		**6,055**	407
		56,193	32,771
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
— Basic and diluted	14	**0.06**	0.04

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company						
	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2011 (As previously reported)	**7,077**	**454,188**	**(1,369)**	**73,910**	**533,806**	**2,845**	**536,651**
Business combination under common control (Note 16)	**—**	**—**	**23,000**	**818**	**23,818**	**—**	**23,818**
Balance at 1 January 2011 (As restated)	**7,077**	**454,188**	**21,631**	**74,728**	**557,624**	**2,845**	**560,469**
Comprehensive Income							
Profit for the period	**—**	**—**	**—**	**50,138**	**50,138**	**6,055**	**56,193**
Transactions with owners							
Business combination under common control (Note 16)	**—**	**—**	**(23,000)**	**—**	**(23,000)**	**—**	**(23,000)**
Acquisition of subsidiaries (Note 16)	**—**	**—**	**—**	**—**	**—**	**48,372**	**48,372**
Capital injection from non-controlling interests (Note 16)	**—**	**—**	**—**	**—**	**—**	**58,400**	**58,400**
Others	**—**	**—**	**—**	**(5)**	**(5)**	**5**	**—**
Balance at 30 June 2011	**7,077**	**454,188**	**(1,369)**	**124,861**	**584,757**	**115,677**	**700,434**

	Attributable to owners of the Company						
	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2010 (As previously reported)	—	—	65,399	42,395	107,794	2,829	110,623
Business combination under common control (Note 16)	—	—	23,000	(14)	22,986	—	22,986
Balance at 1 January 2010 (As restated)	—	—	88,399	42,381	130,780	2,829	133,609
Comprehensive Income							
Profit for the period	—	—	—	32,364	32,364	407	32,771
Transactions with owners							
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 Controlling Shareholders	—	—	(4,153)	—	(4,153)	—	(4,153)
Balance at 30 June 2010	—	—	95,940	41,658	137,598	3,236	140,834

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Unaudited	Restated
		Six months ended 30 June	
		2011	2010
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations		**54,737**	50,308
Interest paid		**(4,938)**	(2,756)
Income tax paid		**(13,658)**	(12,230)
Net cash generated from operating activities		**36,141**	35,322
Cash flows from investing activities			
Purchases of property, plant and equipment		**(69,342)**	(9,161)
Increase in lease prepayments		**(3,286)**	—
Net payments from related parties		**—**	50,779
Net cash outflow from business acquisition		**(179,274)**	—
Purchase of intangible assets		**(33)**	—
Proceeds from disposal of property, plant and equipment		**—**	26
Interest received		**—**	19
Net cash generated (used in)/from investing activities		**(251,935)**	41,663
Cash flows from financing activities			
Proceeds from borrowings		**215,000**	35,000
Repayments of borrowings		**(65,000)**	(22,677)
Dividends		**—**	(30,455)
Capital injection from the Controlling Shareholders		**—**	15,000
Capital injection from non-controlling interests		**58,400**	—
Deemed distribution to Controlling Shareholders		**—**	(4,153)
Payments of share issuance costs		**—**	(1,897)
Net cash generated from/(used in) financing activities		**208,400**	(9,182)
Net increase in cash and cash equivalents		**(7,394)**	67,803
Cash and cash equivalents at beginning of the period		**411,926**	19,992
exchange losses		**(1,096)**	—
Cash and cash equivalents at end of the period		**403,436**	87,795

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION OF THE GROUP

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

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

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

The Group was collectively controlled by Mr. Zhang Yingcen ("Mr. Zhang") and his family members comprising his wife and eldest son (collectively the "Controlling Shareholders").

This unaudited condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated. This unaudited condensed consolidated interim financial information was approved by the Board for issue on 29 August 2011.

This condensed consolidated interim financial information has not been audited.

Key events

The operational highlight of the period was the acquisition of subsidiaries which engaged in the Listing Business. Further details are given in Note 16.

2. BASIS OF PREPARATION

In June 2011, Henan Tian Lun Gas Group Limited ("Henan Tian Lun"), the wholly-owned subsidiary of the Company, acquired the entire equity interests in Puyang Tian Lun Gas Limited ("Puyang Tian Lun") for a consideration of RMB23 million.

Puyang Tian Lun was owned by Mr. Zhang and Henan Tian Lun Engineering Investment Limited ("Henan Tian Lun Engineering Investment") as to 10% and 90%, respectively. As Henan Tian Lun Engeering Investment was a company incorporated in the PRC and beneficially owned by the Controlling Shareholders, the aforesaid transaction is regarded as business combination under common control. These condensed consolidated financial information incorporated the acquired entity's results as if both the acquired entity and Company had always been combined. Details of the adjustments for the common control combination on the Group's financial position as at 30 June 2011 and 31 December 2010 and the Group's results for the six months ended 30 June 2011 and 2010 are set out in Note 16.

2. BASIS OF PREPARATION *(Continued)*

In preparation of the listing of the Company's shares on the Stock Exchange, the Company has undergone a group reorganisation (the "Reorganisation") in October 2010 pursuant to which the Company became the holding company of the Group. The Group resulting from the Reorganisation was regarded as a continuing entity. Accordingly, the condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared using principle of merger accounting. Details of the Reorganisation are set out in the annual financial statements for the year ended 31 December 2010.

This condensed consolidated interim financial information for the six months ended 30 June 2011 has been prepared in accordance with HKAS 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with HKFRSs.

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those annual financial statements.

(a) New and amended standards adopted by the Group

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

- HKFRS 3 (Amendments), "Business combination: measurement of non-controlling interests" clarifies that only entities with present ownership instruments that entitle their holders to a pro rata share of the entity's net assets in the event of liquidation can choose to measure the non-controlling interest at fair value or the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The Group adopted the latter to measure the non-controlling interests.

- Amendment to HKAS 34 "Interim financial reporting" is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in HKAS34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

3. ACCOUNTING POLICIES *(Continued)*

(b) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:

- HKFRS 1 (Amendment) "Disclosure — transfers of financial assets", and HKFRS 7 (Amendment) "Severe hyperinflation and removal of fixed dates for first-time adopters", both effective for annual periods beginning on or after 1 July 2011.

- HKAS 12 (Amendment) "Deferred tax: recovery of underlying assets", effective for annual periods beginning on or after 1 January 2012.

- HKAS 19 (Amendment) "Employee benefits", HKFRS 9 "Financial instruments", HKFRS 10 "Consolidated financial statements", HKFRS 11 "Joint arrangements", HKFRS 12 "Disclosure of interests in other entities", and HKFRS 13 "Fair value measurements", all effective for annual periods beginning on or after 1 January 2013.

The Group is in the process of making an assessment of the impact of these new/revised standards.

4. ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010.

5. FINANCIAL RISK MANAGEMENT

5.1 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, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010.

There have been no changes in the risk management department since year end or in any risk management policies.

5. FINANCIAL RISK MANAGEMENT *(Continued)*

5.2 Liquidity risk

Compared to the year end of 2010, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

The contractual maturities of the Group's non-derivative financial liabilities were as follows:

Contractual maturities of financial liabilities	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total contractual cash flows RMB'000	Carrying amount liabilities RMB'000
At 30 June 2011						
Non-derivatives						
Trade and other payables(i)	**97,831**	**36,214**	**337**	**—**	**134,382**	**134,382**
Bank borrowings	**229,921**	**—**	**—**	**—**	**229,921**	**215,000**
Other borrowings	**547**	**543**	**1,602**	**9,669**	**12,361**	**6,473**
Total non-derivatives	**328,299**	**36,757**	**1,939**	**9,669**	**376,664**	**355,855**
At 31 December 2010						
Non-derivatives						
Trade and other payables(i)	43,738	—	—	—	43,738	43,738
Bank borrowings	25,568	—	—	—	25,568	25,000
Other borrowings	280	558	1,646	10,165	12,649	6,429
Total non-derivatives	69,586	558	1,646	10,165	81,955	75,167

(i) Trade and other payables include trade payables, bills payable, payables due to related parties and other payables (Note 11).

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

5. FINANCIAL RISK MANAGEMENT *(Continued)*

5.3 Fair value estimation *(Continued)*

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

6. SEGMENT INFORMATION

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

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

The reportable operating segments derive their revenue primarily from transportation and sales of 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 3 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.

6. SEGMENT INFORMATION *(Continued)*

The segment information provided to the senior executive management team for the reportable segments for the six months ended 30 June 2011 is as follows:

	Transportation and sales of gas RMB'000	Gas pipeline connections RMB'000	All other segments RMB'000	Unallocated RMB'000	Total RMB'000
Total external revenue	**89,654**	**94,565**	**4,053**	—	**188,272**
Gross profit	**16,088**	**62,556**	**1,038**	—	**79,682**
Distribution costs				**(3,029)**	**(3,029)**
Administrative expenses				**(11,841)**	**(11,841)**
Other gains — net				**7,344**	**7,344**
Operating profit					**72,156**
Finance costs — net				**(2,241)**	**(2,241)**
Profit before income tax					**69,915**
Income tax expense				**(13,722)**	**(13,722)**
Profit for the period					**56,193**

6. SEGMENT INFORMATION *(Continued)*

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 gas RMB'000	Gas pipeline connections RMB'000	All other segments RMB'000	Unallocated RMB'000	Total RMB'000
Total external revenue	51,545	58,719	5,675	—	115,939
Gross profit	6,367	41,920	3,836	—	52,123
Distribution costs				(1,467)	(1,467)
Administrative expenses				(5,901)	(5,901)
Other gains — net				238	238
Operating profit					44,993
Finance costs — net				(2,174)	(2,174)
Profit before income tax					42,819
Income tax expense				(10,048)	(10,048)
Profit for the period					32,771

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

For the year ended 30 June 2011, no revenue derived from sales made to a single external customers amounted to 10% or more of the Group's total revenue (2010: nil).

7. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, LEASE PREPAYMENTS AND INTANGIBLE ASSETS

During the period, the movement of property, plant and equipment, investment properties, lease prepayments and intangible assets are as follows:

	Property, plant and equipment RMB'000	Investment properties RMB'000	Lease prepayments RMB'000	Intangible assets RMB'000	Total RMB'000
Six months ended 30 June 2011					
Opening net book amount as at 1 January 2011	**149,930**	**9,556**	**8,273**	**32,216**	**199,975**
Additions	**161,504**	**—**	**13,240**	**7,196**	**181,940**
Disposals	**(207)**	**—**	**—**	**—**	**(207)**
Depreciation charge	**(5,484)**	**(224)**	**(182)**	**(498)**	**(6,388)**
Closing net book amount as at 30 June 2011	**305,743**	**9,332**	**21,331**	**38,914**	**375,320**
Six months ended 30 June 2010					
Opening net book amount as at 1 January 2010	125,404	9,511	2,071	29,507	166,493
Additions	9,681	—	—	2,997	12,678
Transfer (to)/from investment properties	(18)	18	—	—	—
Disposals	(44)	—	—	—	(44)
Depreciation charge	(3,902)	(211)	(35)	(365)	(4,513)
Closing net book amount as at 30 June 2010	131,121	9,318	2,036	32,139	174,614

8. TRADE AND OTHER RECEIVABLES

	30 June 2011 RMB'000 Unaudited	31 December 2010 RMB'000 Restated
Trade receivables	**28,482**	20,397
Prepayments	**44,535**	7,888
Other receivables	**23,424**	35,159
	96,441	63,444

The credit period generally granted to customers in relation to sales of 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:

	30 June 2011 RMB'000 Unaudited	31 December 2010 RMB'000 Restated
Less than 30 days	**12,822**	11,663
31 days to 90 days	**3,725**	2,599
91 days to 1 year	**9,807**	5,003
Over 1 year	**2,128**	1,132
	28,482	20,397

9. SHARE CAPITAL AND PREMIUM

	Number of ordinary shares	Ordinary shares RMB'000 Unaudited	Share premium RMB'000 Unaudited	Total RMB'000 Unaudited
Issued and fully paid:				
At 30 June 2010 and 20 May 2010, date of incorporation (nominal value of HK$1.00 each)	1	—	—	—
At 30 June 2011 and 1 January 2011 (nominal value of HK$0.01 each)	**827,925,000**	**7,077**	**454,188**	**461,265**

10. BORROWINGS

	30 June 2011 RMB'000 Unaudited	31 December 2010 RMB'000 Restated
Non-current		
Other borrowings	**6,395**	6,350
Current		
Bank borrowings	**215,000**	25,000
Other borrowings	**78**	79
Total current borrowings	**215,078**	25,079
Total borrowings	**221,473**	31,429

10. BORROWINGS *(Continued)*

Movements in borrowings is analysed as follows:

	RMB'000
Six months ended 30 June 2011	
Opening amount as at 1 January 2011	**31,429**
New borrowings	**255,044**
Repayments of borrowings	**(65,000)**
Closing amount as at 30 June 2011	**221,473**
Six months ended 30 June 2010	
Opening amount as at 1 January 2010	75,642
New borrowings	35,000
Repayments of borrowings	(22,745)
Closing amount as at 30 June 2010	87,897

Interest expense on borrowings for the six months ended 30 June 2011 is RMB 2,861,000 (30 June 2010: RMB 2,756,000).

11. CURRENT TRADE AND OTHER PAYABLES

	30 June 2011 RMB'000 Unaudited	31 December 2010 RMB'000 Restated
Trade payables	**55,312**	15,155
Bills payable	**2,000**	—
Amount due to related parties	**217**	2,104
Accrued payroll and welfare	**235**	123
Other taxes payables	**696**	3,361
Other payables	**76,853**	26,479
Total trade and other payables	**135,313**	47,222

11. CURRENT TRADE AND OTHER PAYABLES *(Continued)*

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

	30 June 2011 RMB'000 Unaudited	31 December 2010 RMB'000 Restated
Less than 30 days	**19,382**	8,143
31 days to 90 days	**4,340**	3,609
91 days to 1 year	**23,081**	3,843
1 year to 2 years	**9,215**	847
2 years to 3 years	**1,174**	36
Over 3 years	**337**	521
	57,529	16,999

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

12. EXPENSE BY NATURE

	Six months ended 30 June	
	2011 RMB'000 Unaudited	2010 RMB'000 Restated
Raw materials and consumables used	**76,530**	44,782
Changes in inventories of finished goods and work in progress	**7,821**	6,291
Depreciation on property, plant and equipment (Note 7)	**5,484**	3,902
Depreciation on investment properties (Note 7)	**224**	211
Amortisation of lease prepayments (Note 7)	**182**	35
Amortisation of intangible assets (Note 7)	**498**	365
Employee benefit expense	**11,037**	3,663
Licensing fee for the exclusive operating rights for city pipeline network	**550**	550
Taxes	**3,649**	2,562
Entertainment expenses	**743**	407
Transportation	**291**	229
Office expenses	**256**	170

Non-financial assets that have an indefinite life are not subject to amortisation, but are tested for impairment annually at year-end (31 December) or whenever there is any indication of impairment. There was no indication of impairment for non-financial assets with indefinite lives during the period.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. There was no impairment charge provided during the period.

13. INCOME TAX EXPENSE

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

(b) Hong Kong profits tax

For the six months ended 30 June 2011 and 2010, there is no Hong Kong profits tax applicable to any group entity as no group entity had profit derived from Hong Kong.

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

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year ending 31 December 2011 is 25% (the estimated tax rate for the six months ended 30 June 2010 was 25%).

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

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	Unaudited	Restated
Current income tax:		
— PRC corporate income tax	**13,759**	10,801
Deferred income tax	**(37)**	(753)
	13,722	10,048

14. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2011	2010
	Unaudited	Restated
Group's profit attributable to owners of the Company (RMB'000)	**50,138**	32,364
Weighted average number of shares in issue (in thousand)	**827,925**	827,925
Basic earnings per share (RMB per share)	**0.06**	0.04

15. DIVIDENDS

No dividends had been paid or declared by the Company for the six months ended 30 June 2011.

16 BUSINESS COMBINATION

Business combination under common control

In June 2011, Henan Tian Lun acquired the entire equity interests in Puyang Tian Lun for a consideration of RMB23 million.

Puyang Tian Lun was owned by Mr. Zhang and Henan Tian Lun Engineering Investment as to 10% and 90%, respectively. As Henan Tian Lun Engeering Investment was a company incorporated in the PRC and beneficially owned by the Controlling Shareholders, the aforesaid transaction is regarded as business combination under common control. These consolidated financial statements incorporated the acquired entity's results as if both the acquired entity and Company had always been combined. Details of the adjustments for the common control combination on the Group's financial position as at 30 June 2011 and 31 December 2010 and the Group's results for the six months ended 30 June 2011 and 2010 are set out in note below.

16 BUSINESS COMBINATION *(Continued)*

Business combination under common control ***(Continued)***

	The Group before transferred subsidiary RMB'000 Unaudited	Transferred subsidiary RMB'000 Unaudited	Consolidation adjustments RMB'000 Unaudited	Total RMB'000 Unaudited
Six months ended 30 June 2011				
Revenue	181,197	7,075	—	188,272
Profit before income tax	67,311	2,604	—	69,915
Income tax expense	(13,722)	—	—	(13,722)
Profit for the period	53,589	2,604	—	56,193
As at 30 June 2011				
Assets				
Non-current assets	619,265	19,746	(23,000)	616,011
Current assets	523,535	8,990	—	532,525
Total assets	1,142,800	28,736	(23,000)	1,148,536
Equity				
Share capital	7,077	20,000	(20,000)	7,077
Share premium	454,188	—	—	454,188
Reserves	(1,369)	3,000	(3,000)	(1,369)
Retained earnings	121,439	3,422	—	124,861
Non-controlling interests	115,677	—	—	115,677
Total equity	697,012	26,422	(23,000)	700,434
Liabilities				
Non-current liabilities	33,395	—	—	33,395
Current liabilities	412,393	2,314	—	414,707
Total liabilities	445,788	2,314	—	448,102
Total equity and liabilities	1,142,800	28,736	(23,000)	1,148,536

16 BUSINESS COMBINATION *(Continued)*

Business combination under common control *(Continued)*

	The Group before transferred subsidiary RMB'000 Unaudited	Transferred subsidiary RMB'000 Unaudited	Consolidation adjustments RMB'000 Unaudited	Total RMB'000 Unaudited
Six months ended 30 June 2010				
Revenue	114,950	989	—	115,939
Profit before income tax	42,898	(79)	—	42,819
Income tax expense	(10,048)	—	—	(10,048)
Profit for the period	32,850	(79)	—	32,771
As at 31 December 2010				
Assets				
Non-current assets	181,863	19,693	—	201,556
Current assets	462,890	20,594	—	483,484
Total assets	644,753	40,287	—	685,040
Equity				
Share capital	7,077	20,000	(20,000)	7,077
Share premium	454,188	—	—	454,188
Reserves	(1,369)	3,000	20,000	21,631
Retained earnings	73,910	818	—	74,728
Non-controlling interests	2,845	—	—	2,845
Total equity	536,651	23,818	—	560,469
Liabilities				
Non-current liabilities	6,350	—	—	6,350
Current liabilities	101,752	16,469	—	118,221
Total liabilities	108,102	16,469	—	124,571
Total equity and liabilities	644,753	40,287	—	685,040

16 BUSINESS COMBINATION *(Continued)*

Business combinations other than common control combinations

(a) On 31 March 2011, Henan Tian Lun acquired 70% of the equity interest in the registered capital of Henan Luyuan Gas Limited (河南綠源燃氣有限公司) ("Henan Luyuan"), an independent third party established in the PRC with limited liability, which is principally engaged in gas business in Minquan County and Yucheng County and CNG business in Shangqiu City and Minquan County in Henan Province. The consideration for the acquisition is RMB37 million. The goodwill of RMB11.613 million arises from a number of factors. Most significant amongst these is the premium attributable to a pre-existing, well positioned business operating in a competitive market. Other important elements include the expected synergies acquired through combining a highly skilled workforce and ultimately obtain the economies of scale.

(b) On 2 April 2011, Henan Tian Lun acquired 51% of the equity interest in the registered capital of Cangxi County Datong Natural Gas and Investment Limited (蒼溪縣大通天然氣投資有限公司) ("Cangxi Datong"), an independent third party established in the PRC with limited liability, which is principally engaged in the investment in, development and construction of consolidated use projects for natural gas, for a consideration of RMB115.5 million. The goodwill of RMB83.38 million arises from a number of factors. Most significant amongst these is the premium attributable to the influence in the region, well positioned business operating in a gas upstream competitive market. Other important elements include the expected synergies acquired through combining a highly skilled workforce and ultimately obtain the economies of scale.

(c) On 21 April 2011, Henan Tian Lun acquired 51% of the equity interest in the registered capital of Jilin Zhongji Dadi Gas Group Limited (吉林省中吉大地燃氣集團有限公司) ("Zhongji Dadi"), an independent third party established in the PRC with limited liability, which is principally engaged in the urban gas and vehicle-use gas business in northeastern China and has been granted urban pipelined gas concessions in six cities and exclusive operating rights of vehicle-use gas business in 7 cities in Jilin Province, for a consideration of RMB153 million. The goodwill of RMB144.08 million arises from a number of factors. Most significant amongst these is the premium attributable to a pre-existing, well positioned business operating in a competitive market. Other important elements include the expected synergies acquired through combining a highly skilled workforce and ultimately obtain the economies of scale.

16 BUSINESS COMBINATION *(Continued)*

Business combinations other than common control combinations *(Continued)*

The following table summarises the consideration paid for the acquisition, and the net assets acquired and goodwill recognised:

	Henan Luyuan RMB'000	Cangxi Datong RMB'000	Zhongji Dadi RMB'000	Total RMB'000
Purchase consideration:				
— Cash paid	33,000	70,500	153,000	256,500
— Contingent consideration	4,000	45,000	—	49,000
Total purchase consideration:				
Provisional fair value of net assets aquired	25,387	32,120	8,920	66,427
Goodwill	11,613	83,380	144,080	239,073

Recognised amounts of identifiable assets acquired and liabilities assumed:

	Provisional fair value RMB'000
Cash and cash equivalents	6,726
Property, plant and equipment	137,725
Intangibles:	
— Lease prepayments	16,250
— Software and others	716
Inventories	20,455
Trade and other receivables	39,972
Trade and other payables	(28,443)
Advance from customers	(34,308)
Borrowings	(40,000)
Net deferred tax assets	37
Total identifiable net assets	119,130
Non-controlling interest	(52,703)
Goodwill	239,073
	305,500

16 BUSINESS COMBINATION *(Continued)*

Business combinations other than common control combinations *(Continued)*

	RMB'000
Outflow of cash to acquire business, net of cash acquired	
— cash consideration	256,500
— cash and cash equivalents in subsidiary acquired	(6,726)
Cash outflow on acquisition	249,774

(i) Cash consideration

The cash consideration includes the capital injection to Henan Luyuan and Cangxi Datong, by the Company (or the subsidiaries of the Company) which are amounted to RMB25,000,000 and RMB45,500,000, respectively.

(ii) Contingent consideration

(a) In March of 2011, Henan Tian Lun signed an acquisition agreement with the Luyuan shareholders. According to the agreement, the Company had a contingent consideration of RMB4 million. The Company would pay RMB2 million in 7 days after Yucheng County branch obtaining the construction formalities of pipelined gas network. The other RMB2 million would be paid in 7 days after Yucheng County branch getting the land use right.

(b) In April of 2011, Henan Tian Lun signed an acquisition agreement with the shareholders of Cangxi Datong. According to the agreement, the Company had contingent consideration of RMB45 million. During the perid of two months before production, the Company would pay RMB20 million in 7 days after Cangxi Datong signing the agreement with CNPC or CPCC, pursuant to which CNPC or CPCC would supply 90 million cubic metre gas yearly by agreement. During the second phase of 2 months before production, the other RMB25 million would be paid in 7 days after Cangxi Datong signing the agreement with CNPC or CPCC, pursuant to which CNPC or CPCC would supply 390 million cubic metre gas yearly by agreement.

(iii) Acquired trade and other receivables

The fair value of trade and other receivables is RMB39.972 million.

(iv) Provisional fair value of acquired identifiable intangible assets

The fair value of the acquired identifiable intangible assets of RMB16,966 is provisional pending receipt of the final valuations for those assets.

16 BUSINESS COMBINATION *(Continued)*

Business combinations other than common control combinations *(Continued)*

(v) Non-controlling interests

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

(vi) Revenue and profit contribution

The acquired business contributed revenues of RMB36.364 million and net profit of 12.907 million to the Group for the period from the acquisition date to 30 June 2011. If the acquisition had occurred on 1 January 2011, consolidated revenue and consolidated net profit for the six months ended 30 June 2011 would have been RMB207.543 million and RMB52.899 million respectively.

17. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2011.

18. COMMITMENTS

(a) Licensing fee commitments

	30 June 2011 RMB'000 Unaudited	31 December 2010 RMB'000 Restated
Not later than one year	**1,100**	1,100
Later than one year and no later than five years	**4,400**	4,400
Later than five years	**18,150**	18,700
	23,650	24,200

19. 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 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 six months ended 30 June 2011 and 2010, and balances arising from related party transactions as at 30 June 2011 and 31 December 2010.

(a) Significant related party transactions

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	Unaudited	Restated
Revenue		
— Interest income from receivables	**—**	502
Cost		
— Purchase of construction service	**4,817**	3,409

(b) Balances with related parties

	30 June	31 December
	2011	2010
	RMB'000	RMB'000
	Unaudited	Restated
Trade and other payables		
Trade payables due to		
— Hexiang Engineering	**217**	1,844
Other payables due to		
— Hexiang Engineering	**—**	260
	217	2,104

19. RELATED-PARTY TRANSACTIONS *(Continued)*

(c) Key management compensation

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	Unaudited	Restated
Basic salaries and allowances	**349**	68
Discretionary bonuses	**—**	20
Retirement benefit contributions	**9**	6
	358	94

20. EVENTS AFTER THE END OF REPORTING PERIOD

As at 28 July 2011, Henan Tian Lun entered into the acquisition agreement with Shenzhen Desheng Investment Company Limited, pursuant to which the group acquired 98.97% of the equity interest in the registered capital of 白銀市天然氣有限公司, ("Baiyin Natural Gas Limited"), for a consideration of RMB120 million. It is principally engaged in sales of natural gas, the gas pipeline connections, pipeline design and engineering, sales and repairs of gas meter, cooker, gas boiler, gas water heater.