CHANGFENG ENERGY INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2008

(Unaudited)

(Expressed in Canadian currency)

CHANGFENG ENERGY INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

(Unaudited)

(Expressed in Canadian currency)

INDEX	**PAGE**

INTERIM UNAUDITED CONSOLIDATED BALANCE SHEET

AS AT SEPTEMBER 30, 2008

(Expressed in Canadian currency)	September 30, 2008 (Unaudited) $	December 31, 2007 (Audited) $
ASSETS		
CURRENT		
Cash and cash equivalents (Note 4)	5,414,982	2,597,876
Accounts and sundry receivables	1,147,162	691,372
Prepaid expenses, advances and deposits	110,725	85,947
Inventories (Note 5)	786,477	416,301
	7,459,346	3,791,496
PLANT AND EQUIPMENT (Note 6)	26,689,802	21,547,918
FUTURE INCOME TAX (Note 9)	609,000	585,500
	34,758,148	25,924,914
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	1,314,580	1,320,861
Short term loans	-	200,000
Deferred revenue	2,603,993	1,853,253
Interest payable (Note 7)	2,310,445	1,920,159
Current portion of long term debt (Note 7)	8,483,040	7,549,740
	14,712,058	12,844,013
LONG TERM DEBT (Note 7)	5,371,560	5,980,260
DUE TO RELATED PARTIES (Note 10(b))	6,192,000	5,412,000
NON CONTROLLING INTEREST	20,398	20,398
	26,296,016	24,256,671
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 8(b))	12,121,808	7,430,001
CONTRIBUTED SURPLUS (Note 8(d))	1,071,231	-
WARRANTS (Note 8(e))	321,724	-
	13,514,763	7,430,001
ACCUMULATED OTHER COMPREHENSIVE LOSS (Note 13)	(78,972)	(460,613)
DEFICIT	(4,973,659)	(5,301,145)
	(5,052,631)	(5,761,758)
	8,462,132	1,668,243
	34,758,148	25,924,914

GOING CONCERN (Note 1)
ECONOMIC DEPENDENCE (Note 14)
COMMITMENTS (Note 17)

APPROVED ON BEHALF OF THE BOARD:

Signed "Christopher J.F. Harrop", Director

Signed "Jack Duffy", Director

INTERIM UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2008

	Three month period ended September 30		Nine month period ended September 30,	
	2008 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2007 (Unaudited)
(Expressed in Canadian currency)	$	$	$	$
REVENUE	2,896,031	2,235,020	8,829,680	6,290,668
COST OF SALES	1,188,381	979,730	3,751,261	2,573,463
GROSS MARGIN	1,707,650	1,255,290	5,078,419	3,717,205
EXPENSES				
General and administrative (Note 10(a))	844,702	527,613	2,493,383	1,777,166
Interest on long term debt (Note 7)	256,819	366,224	758,476	970,987
Travel and promotion	300,357	295,778	832,593	727,768
Amortization	225,492	300,364	657,827	926,071
Stock based compensation	13,628	-	13,628	-
	1,640,998	1,489,979	4,755,907	4,401,992
Income (loss) before the undernoted	66,652	(234,689)	322,512	(684,787)
Interest income	6,382	-	62,374	-
	73,034	(234,689)	384,886	(684,787)
Income tax recovery (expense)	10,200	-	(57,400)	-
NET INCOME (LOSS) FOR THE PERIOD	83,234	(234,689)	327,486	(684,787)
DEFICIT, BEGINNING OF PERIOD	(5,056,893)	(6,669,271)	(5,301,145)	(5,309,173)
Equity distribution	-	-	-	(910,000)
DEFICIT, END OF PERIOD	(4,973,659)	(6,903,960)	(4,973,659)	(6,903,960)
NET INCOME (LOSS) PER SHARE – basic and diluted	0.001	(0.007)	0.005	(0.024)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – basic and diluted	66,025,000	32,301,231	62,624,635	28,044,527

INTERIM UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2008

	Three month period ended September 30		Nine month period ended September 30,	
	2008 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2007 (Unaudited)
(Expressed in Canadian currency)	$	$	$	$
NET INCOME (LOSS) FOR THE PERIOD	83,234	(234,689)	327,486	(684,787)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD				
Currency translation adjustment	140,521	(16,856)	381,641	(67,784)
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	223,755	(251,545)	709,127	(752,571)

INTERIM UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2008

	Three month period ended September 30		Nine month period ended September 30,	
	2008 (Unaudited)	2007 (Unaudited)	2008 (Unaudited)	2007 (Unaudited)
(Expressed in Canadian currency)	$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income (loss) for the period	83,234	(234,689)	327,486	(684,787)
Adjustments for:				
Income taxes (recovery) expense	(10,200)	-	57,400	-
Amortization	225,492	300,364	657,827	926,071
Stock based compensation	13,628	-	13,628	-
	312,154	65,675	1,056,341	241,284
Changes in non cash working capital balances				
Accounts and sundry receivables	1,767	(50,283)	(276,940)	(116,971)
Prepaid expenses, advances and deposits	(103,983)	(27,264)	(13,743)	(241,520)
Inventories	(179,002)	60,060	(292,344)	(132,307)
Accounts payable and accrued liabilities	(133,029)	(105,875)	(566,034)	(111,258)
Deferred revenue	571,128	269,713	455,835	526,380
Interest payable	32,447	155,386	107,026	772,106
Cash flows from operating activities	501,482	367,412	470,141	937,714
CASH FLOWS FROM INVESTING ACTIVITIES				
Plant and equipment	(798,881)	(1,030,253)	(2,428,843)	(1,773,778)
Equity distribution	-	-	-	(5,800,000)
Cash flows from investing activities	(798,881)	(1,030,253)	(2,428,843)	(7,573,778)
CASH FLOWS FROM FINANCING ACTIVITIES				
Short term loans	-	5,104	-	(253,616)
Payment of interest on convertible debenture (Note 8(b)(iii))	-	-	(549,797)	-
Long term debt	(461,700)	(121,880)	(1,531,950)	(2,709,780)
Cash acquired on RTO (Note 2)	-	-	6,718,427	
Due to related parties	-	2,530,000	-	5,764,000
Shares to be issued	-	-	-	5,800,000
Cash flows from financing activities	(461,700)	2,413,224	4,636,680	(8,601,304)
Effects of foreign exchange on cash balances	(33,106)	(156,165)	139,128	(182,350)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(725,993)	1,594,218	2,817,106	1,782,890
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,140,975	477,620	2,597,876	288,948
CASH AND CASH EQUIVALENTS, END OF PERIOD	5,414,982	2,071,838	5,414,982	2,071,838
SUPPLEMENTAL INFORMATION				
Interest paid	249,761	117,634	691,342	198,800
Taxes paid	-	-	-	-

1. BASIS OF PRESENTATION AND GOING CONCERN

Changfeng Energy Inc. (the "Company") was incorporated under the Canada Business Corporation Act on May 4, 2006. The reorganization described in Note 2 was completed on January 29, 2008 and the Company's core business is the distribution of natural gas in Southern China, through its wholly owned subsidiary, Hainan Energy Limited. ("HEL")

The Company is a rate regulated natural gas distribution utility, serving residential and commercial customers in Hainan Province, the People's Republic of China ("PRC"). The rights of operation of a gas pipeline infrastructure and provision of piped gas business in PRC are established by permits obtained from the city and provincial governments. The plant and equipment of the Company consist primarily of pipeline, storage and compression facilities used in the transportation, storage and distribution of natural gas.

Substantially all of the assets of the Company, most of which are located in PRC, are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts and permits, currency exchange fluctuations and political uncertainty. The Company's operations are subject to government legislation, policies and controls relating to transportation, storage, distribution, pricing, environmental protection, taxes and labour standards. In order for the Company to carry out its distribution activities, the Company is required to hold certain permits. There is no assurance that the Company's existing permits will be renewed or that new permits that have been applied for will be granted.

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and follow the same accounting policies and methods of application as the audited consolidated financial statements of HEL for the year ended December 31, 2007, except as disclosed in Note 3. They do not include all of the information and disclosures required by Canadian GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. Operating results for the period ended September 30, 2008 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2008. For further information, see HEL's consolidated financial statements including the notes thereto for the year ended December 31, 2007.

As at September 30, 2008, the Company had a working capital deficiency of $7,252,712. These consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. There is no guarantee that the Company's current level of operations will yield positive results or that the Company will be able to obtain the necessary financing to support ongoing natural gas distribution operations. If the "going concern" assumption was not appropriate for these interim consolidated financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. Such adjustments could be material.

Continued…

(Expressed in Canadian currency)

2. REVERSE TAKEOVER TRANSACTIONS

Pursuant to an acquisition agreement dated November 28, 2007, the Company issued 32,750,000 common shares to CF Energy (BVI) Limited on January 29, 2008 in consideration for all of the issued and outstanding shares of HEL not otherwise held by the Company. HEL holds a 100% interest in Sanya Changfeng Offshore Natural Gas Supply Co. Ltd. ("CF China"), a rate regulated natural gas distribution utility, serving residential and commercial customers in Hainan Province, the People's Republic of China.

Following the transaction, the former shareholder of HEL held more than 50% of the issued and outstanding common shares of the Company. The substance of the transaction was a capital transaction and was accounted for as a reverse takeover in accordance with EIC-10 "Reverse Takeover Accounting" of the CICA Handbook. HEL, the legal subsidiary is considered to have acquired the assets and liabilities of the Company, the legal parent. Prior to the transaction, the legal parent had outstanding 7,000,000 common shares, 3,750,000 options to purchase common shares at an exercise price of $0.60 per share valued at $1,057,603, and 1,000,000 warrants to purchase common shares at an exercise price of $0.60 valued at $321,724. The 3,750,000 options and 1,000,000 warrants granted by the legal parent were exchanged for an equivalent number of options and warrants of the legal subsidiary. The options and warrants granted by the legal subsidiary were valued at fair value, and form part of the cost of the acquisition.

Based on the unaudited January 29, 2008 balance sheet of the legal parent, the net assets that were acquired by HEL were as follows:

Cash	$ 6,718,427
Non cash working capital (deficiency)	(309,482)
Advances and deferred costs	766,537
Liability component of convertible debentures	(549,797)
Net assets acquired	$ 6,625,685

Immediately following the HEL reverse take over ("RTO"), the Company and McBroom Resources Inc. ("McBroom") completed their previously announced combination to form Amalco. McBroom filed Articles of Continuance effective January 14, 2008 to continue from the Province of Ontario to the federal jurisdiction of Canada, and McBroom and the Company filed Articles of Amalgamation effective January 29, 2008 to complete the combination, with Amalco issuing one common share for each share of the Company and McBroom outstanding on January 29, 2008. In accordance with EIC-10, the substance of the transaction was a capital transaction and was accounted for as a RTO. The Company, the legal subsidiary, was considered to have acquired the assets and liabilities of McBroom, the legal parent.

Based on the unaudited January 29, 2008 balance sheet of McBroom, the net liabilities that were assumed by the Company were as follows:

Non cash working capital (deficiency)	$ (28,831)
Net liabilities assumed	$ (28,831)

As a result of the transactions described above and in accordance with RTO accounting, the interim consolidated financial statements are a continuation of HEL and the comparative figures presented in the interim consolidated financial statements are those of HEL.

Costs related to these transactions approximating $525,720, were charged to equity during the nine month period ended September 30, 2008.

Continued…

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with the prior period, except as disclosed below. Outlined below are those policies considered particularly significant.

Basis of Consolidation
The interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries HEL, CF China, Sanya Changfeng Offshore Natural Gas Engineering Construction Co. Ltd., and Sanya Changfeng Offshore Natural Gas Design Co. Ltd. These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. All material intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents
Cash and cash equivalents include cash on hand and balances with banks, cashable guaranteed investment certificates, and short term investments with original maturities of three months or less.

Inventories
Inventories, including construction materials, gas appliances and meters, consumables and spare parts are stated at the lower of cost and net realizable value, with cost being determined using the weighted average cost basis.

Plant and Equipment, Construction in Progress and Amortization
Construction in progress represents machinery and pipelines under construction and is stated at cost. Cost comprises directly attributable costs of acquisition or construction, which include capitalized borrowing costs. Assets under construction are not depreciated. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use. Plant and equipment are recorded at cost.

Amortization of plant and equipment is provided at the following annual rates:

Pipelines	30 - 35 years straight line
Motor vehicles	3 - 10 years straight line
Furniture and equipment	3 - 20 years straight line
Computer equipment	3 - 5 years straight line

Asset Retirement Obligations
The accounting standard for asset retirement obligations, under normal circumstances, requires companies to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be determined. The associated asset retirement cost is capitalized as part of the carrying amount of the long lived asset. The liability is accreted over the estimated useful life of the asset.

The Company's natural gas distribution network is comprised of mains, service lines, measuring and regulating equipment and storage facilities. The Company estimates that it does not have a material legal retirement obligation with respect to its distribution and supply network.

Continued…

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Revenues include revenue from the delivery of natural gas and revenue from the installation and connection of natural gas pipelines for end users. The Company recognizes revenues when gas has been delivered. Gas distribution revenues are recorded on the basis of regular meter readings and estimates of usage since the last meter reading to the end of the reporting period. Revenues of gas are recorded using relatively fixed prices approved by the provincial government.

Gas connection revenue is deferred and only recognized when the outcome of a contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognized on the percentage of completion method, measured by reference to the value of work carried out during the period. When the outcome of a gas connection contract cannot be estimated reliably, revenue is deferred and only recognized to the extent of contract cost incurred that is probable to be recoverable and contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed contract revenue, the expected loss is recognized as an expense immediately. Sales of gas appliances are recognized when goods are delivered and title has passed.

As at September 30, 2008, the Company had deferred revenue of $2,603,993 (December 31, 2007 – $1,853,253), with respect to deposits received from customers in excess of the value of work carried out during the period.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income taxes are determined based on the differences between the financial reporting and tax bases of assets and liabilities. These income tax assets and liabilities are measured using the substantially enacted tax rates in which the income tax assets or liabilities are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

Entities Subject to Rate Regulation

In May 2005, the Canadian Institute of Chartered Accountants (“CICA”) issued Accounting Guidelines 19 (“AcG-19”) of the CICA Handbook to establish disclosure guidelines for entities subject to rate regulation. AcG-19 provides guidance for the disclosure of general information regarding the nature and economic effects of rate regulation, as well as additional information on how rate regulation has affected the financial statements. The guideline does not address recognition and measurement issues associated with the accounting for rate regulated operations.

The Company is a rate regulated natural gas distribution utility and operates within Hainan Province, PRC. The utility operation of the Company is subject to regulation. Rate schedules are approved periodically by the provincial government and are designed to permit a fair and reasonable return on the utility investment.

The Company follows Canadian GAAP, which may differ for regulated operations from those otherwise expected in non regulated businesses. As a result, the Company may record assets and liabilities that result from the regulated rate making process that would not have been recorded under GAAP for non regulated entities. Regulatory assets generally represent incurred costs that have been deferred because they are probable of future recovery in customer rates. Regulatory liabilities generally represent obligations to make refunds to customers for previous collections for costs that are not likely to be incurred. The Company did not have any rate regulated assets or liabilities as at December 31, 2007 and September 30, 2008.

Continued…

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest Income
Interest income is recorded on an accrual basis.

Foreign Currency Translation
The Canadian dollar is the functional currency of the parent Company's operations, and the Chinese Renminbi or ("RMB") is the functional currency of the Company's subsidiaries. The Canadian dollar has been chosen as the reporting currency of the Company. Since the RMB is not a fully convertible currency, all foreign exchange translations involving RMB must take place either through the People's Bank of China or other institutions authorized to buy and sell foreign exchange.

Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect at the balance sheet date. Non monetary assets and liabilities are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rates in effect on the balance sheet date. The Company's foreign subsidiaries are defined as self-sustaining. Assets and liabilities denominated in RMB are translated into Canadian dollars using the exchange rate in effect on the balance sheet date. Operating revenues and expenses are translated at the average exchange rates during the period. Foreign exchange gains and losses arising from translation of the balances are disclosed separately as comprehensive income or loss. The accumulated foreign exchange gains or losses are reported as a separate component of shareholders' equity as accumulated other comprehensive income or loss.

Stock Based Compensation
The Company records compensation cost based on the fair value method of accounting for stock based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to share capital. The Company's stock option plan is described in Note 8(c).

Income (Loss) Per Share
Basic income (loss) per share is calculated using the weighted average number of shares outstanding. Diluted income (loss) per share is calculated using the treasury stock method. In order to determine diluted income (loss) per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted income (loss) per share calculation. The diluted income (loss) per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

Measurement Uncertainty
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the related reported amounts of revenue and expense during the report period. Such estimates and assumptions affect the carrying value and useful lives of assets and affect the valuation of investments, stock based compensation, and accrued interest with respect to the term loan facility described in Note 7(b), and income tax accounts. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

Continued…

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government Assistance
Government assistance related to current expenses is recorded as a reduction of these expenses in the period incurred.

Financial Instruments - Recognition and Measurement
This standard prescribes when a financial asset, financial liability, or non financial derivative is to be recognized on the balance sheet and whether fair value or cost based methods are used to measure the recorded amounts. It also specifies how financial instrument gains and losses are to be presented. All derivatives are recorded on the balance sheet at fair value. Mark to market adjustments on these instruments are included in net income, unless the instruments are designated as part of a cash flow hedge relationship.

All other financial instruments will be recorded at cost or amortized cost, subject to impairment reviews. The criteria for assessing other than temporary impairment remain unchanged. Transaction costs incurred to acquire financial instruments are included in the underlying balance.

Comprehensive Income
This standard requires the presentation of a statement of comprehensive income and its components. Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income includes holding gains and losses on available for sale investments, gains and losses on certain derivative instruments and foreign currency gains and losses relating to self sustaining foreign operations, all of which are not included in the calculation of net earnings until the period that the related asset or liability affects income.

Hedges
This standard is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the previous AcG-13 "Hedging Relationships" and Section 1650 "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company currently does not have any instruments that are covered in this standard.

Transaction Costs
On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166 “Accounting Policy Choice for Transaction Costs” (“EIC-166”). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held for trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held for trading, but that a different accounting policy choice might be made for financial instruments that are not similar. The Company has evaluated the impact of EIC-166 on adoption and determined that no adjustments were required.

Accounting Changes
This standard requires that: a) a voluntary change in accounting policies can be made if, and only if, the changes result in more reliable and relevant information; b) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change; and c) for changes in estimates, the nature and amount of the change should be disclosed. The Company has not made any voluntary change in accounting policies since the adoption of the revised standard.

New Accounting Policies
On December 1, 2006, the CICA issued the following new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments - Disclosures (Handbook Section 3862), Financial Instruments - Presentation (Handbook Section 3863), and Inventories (Handbook Section 3031). These new standards became effective for the Company on January 1, 2008.

Continued…

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Disclosures
CICA Handbook Section 1535 "Capital Disclosures", issued in December 2006, establishes standards for disclosures about capital that are effective for fiscal periods beginning on or after October 1, 2007. It requires an entity to disclose its objectives, policies and processes for managing capital and to disclose quantitative data about what it considers to be capital. It also requires an entity to disclose whether it has complied with any externally imposed capital requirements and, if not, the consequences of such non compliance. The Company has included disclosures recommended by the new Handbook section in Note 16 to these interim consolidated financial statements.

Financial Instruments
In December 2006, the Canadian Accounting Standards Board (AcSB) issued two new Sections in relation to financial instruments: Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation. The Company adopted both sections, effective January 1, 2008. The Company has included disclosures recommended by the new Handbook section in Note 11 to these interim consolidated financial statements.

Inventories
In June 2007, the CICA issued section 3031, Inventories to establish standards for the measurement and disclosure of inventories. The standard provides guidance on the determination of cost and requires the allocation of overhead expenses and other costs to inventory. Inventories must be measured at the lower of cost and net realizable value. Consistent use must be made of the method of determining inventory. Reversal of previous write downs is required when there is a subsequent increase in the value of inventories. The amount of inventories recognized as an expense during the period is disclosed. Except for the new guidance on reversal of write downs the Company's practice for valuing inventory in prior periods was substantially in accordance with this new standard. The Company has adopted this change in accounting policy and the adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Future Accounting Changes

International Financial Reporting Standards ("IFRS")
In January 2006, the CICA Accounting Standards Board ("ACSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with IFRS by the end of 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

Rate Regulated Operations
Effective January 1, 2009, the temporary exemption from CICA Handbook Section 1100, "Generally Accepted Accounting Principles", which permits the recognition and measurement of assets and liabilities arising from rate regulation, will be withdrawn. The change is not expected to have an impact on the Company's consolidated financial statements.

Goodwill and Intangible Assets
In November 2007, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which replaces the existing Handbook Section 3062, Goodwill and Other Intangible Assets and Handbook Section 3450, Research and Development Costs. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008, with earlier application encouraged. The standard provides guidance on the recognition, measurement and disclosure requirements for goodwill and intangible assets. The Company is currently assessing the impact of this new accounting standard on its financial statements.

Continued…

(Expressed in Canadian currency)

4. CASH AND CASH EQUIVALENTS

	September 30, 2008 (Unaudited) $	December 31, 2007 (Audited) $
Cash	5,398,678	2,597,876
Cashable guaranteed investment certificate, bearing interest of 2%	16,304	-
	5,414,982	2,597,876

5. INVENTORIES

	September 30, 2008 (Unaudited) $	December 31, 2007 (Audited) $
Construction materials	654,647	225,887
Gas appliances, meters, and spare parts	131,830	190,414
	786,477	416,301

The amount of inventory recognized as an expense during the nine months period ended September 30, 2008 was $1,532,366 (September 30, 2007 - $1,147,814). The amount of inventory recognized as an expense during the three months period ended September 30, 2008 was $452,600 (September 30, 2007 - $545,576).

6. PLANT AND EQUIPMENT

	September 30, 2008 Cost (Unaudited) $	Accumulated Amortization (Unaudited) $	September 30, 2008 Net (Unaudited) $
Pipelines	27,205,060	4,880,536	22,324,524
Motor vehicles	666,298	105,218	561,080
Furniture and equipment	288,041	42,240	245,801
Computer equipment	67,720	25,568	42,152
	28,227,119	5,053,562	23,173,557
Construction in progress	3,516,245		3,516,245
	31,743,364	5,053,562	26,689,802

	December 31, 2007 Cost (Audited) $	Accumulated Amortization (Audited) $	December 31, 2007 Net (Audited) $
Pipelines	22,907,876	3,720,088	19,187,788
Motor vehicles	279,948	47,925	232,023
Furniture and equipment	223,300	24,149	199,151
Computer equipment	39,358	18,994	20,364
	23,450,482	3,811,156	19,639,326
Construction in progress	1,908,592	-	1,908,592
	25,359,074	3,811,156	21,547,918

Continued…

(Expressed in Canadian currency)

6. PLANT AND EQUIPMENT (Continued)

Included in construction in progress is capitalized interest of $88,656 (December 31, 2007 - $7,590) relating to the term loan facility described in Note 7(c).

During the quarter ended December 31, 2007, management of the Company changed its estimate with respect to the useful lives of the pipeline assets from 20 years to 30 – 35 years. This change in estimate was reflected in the December 31, 2007 consolidated financial statements. Had this change in estimate been applied to the September 30, 2007 interim consolidated financial statements, the amortization expense for the nine month period ended September 30, 2007 would have decreased by approximately $380,000 (RMB 2,638,000) and amortization expense for the three month period ended September 30, 2007 would have decreased by approximately $121,000 (RMB 875,000).

7. LONG TERM DEBT

	September 30, 2008 (Unaudited) $	December 31, 2007 (Audited) $
a) Term Loan Facility – China Development Bank RMB 37,300,000 (December 31, 2007 – RMB 47,800,000), advanced from the China Development Bank to Sanya State Assets Management Corporation (an intermediary company controlled by the municipality of Sanya City, see Note 7(b), and loaned to the Company, bearing interest at the prescribed rate of the People's Bank of China (7.74% as at September 30, 2008) due quarterly, principal repayments commencing February 2008, due November 2012, secured by all pipelines of the Company with an estimated net book value as at September 30, 2008 of $22,324,524 (December 31, 2007 of $19,187,788) and gas distribution rights.	5,774,040	6,467,340
b) Term Loan Facility – Sanya State Assets Management Corporation RMB 42,200,000 (December 31, 2007 – RMB 42,200,000), representing principal repayments of the term loan facility described in Note 7(a) made by Sanya State Assets Management Corporation on behalf of the Company, unsecured, with no fixed terms of repayment. Interest has been accrued at a rate of 7.83% per annum up to September 19, 2008 and 7.74% per annum from September 20, 2008 to the end of the period.	6,532,560	5,709,660
c) Term Loan Facility – Bank of China RMB 10,000,000 (December 31, 2007 - RMB 10,000,000), bears interest (8.514% at September 30, 2008) at a rate of 110% of the prescribed rate of the People's Bank of China prime lending rate due monthly, repayable in 20 monthly principal payments of RMB 500,000 ($77,400) commencing April 30, 2011. The interest is adjusted semi annually based on prescribed rate at that time. This loan is secured by gas connection fees.	1,548,000	1,353,000
	13,854,600	13,530,000
Less: current portion	(8,483,040)	(7,549,740)
	5,371,560	5,980,260

Continued…

(Expressed in Canadian currency)

7. LONG TERM DEBT (Continued)

Principal payments over successive twelve month periods ended September 30 are as follows:

	RMB	$
2009	54,800,000	8,483,040
2010	12,600,000	1,950,480
2011	9,600,000	1,486,080
2012	11,000,000	1,702,800
2013	1,500,000	232,200
	89,500,000	13,854,600

As at September 30, 2008, the Company had accrued interest of $2,310,445 (RMB 14,925,421) (December 31, 2007 - $1,894,592; RMB 14,002,900) with respect to the loan facilities described in Notes 7(a) and (b).

The entire balance of the loan described in Note 7(b) has been classified as current due to the fact that no fixed terms of repayment have been established.

8. CAPITAL STOCK

a) Authorized
Unlimited number of common shares

b) Issued
66,025,000 common shares

Transactions during the period are as follows:

	Number of Shares	Amount $
Balance, December 31, 2006	50,000	1,630,001
Issue of shares (i)	50,000	5,800,000
Balance, December 31, 2007	100,000	7,430,001
Adjustments to give effect to RTO transactions (Note 2)		
Adjust number of common shares outstanding to that of the legal parent immediately prior to the RTO	6,900,000	-
Share exchange to effect RTO and conversion of subscription receipts (ii) and convertible debentures (iii)	59,025,000	5,217,527
RTO transaction costs	-	(525,720)
Balance, September 30, 2008	66,025,000	12,121,808

(i) On July 6, 2007, HEL issued 50,000 shares for cash consideration of $5,800,000.

(ii) Prior to the RTO transactions described in Note 2, the legal parent completed a private placement and issued 12,500,000 subscription receipts for gross proceeds of $7,500,000. These subscription receipts were subsequently converted into 12,500,000 common shares for no additional consideration. The legal parent paid cash commission of $600,000 and issued 1,000,000 agent's warrants valued at $321,724 (see Note 8(e)). The legal parent also incurred additional costs of $585,000 relating to the private placement.

Continued…

(Expressed in Canadian currency)

8. CAPITAL STOCK (Continued)

b) Issued (Continued)

(iii) In 2007, the legal parent issued 12,000,000 common shares upon the conversion of convertible debentures (the "Debentures") at a conversion price of $0.50 per common share. The Debentures were issued by the legal parent during the year ended December 31, 2006 for gross proceeds of $6,000,000 less related costs of $314,530. The Debentures bore simple interest at an annual rate of 12% of the principal amount payable upon the earlier of:

i. the conversion of the Debentures; and
ii. May 19, 2012.

On January 29, 2008, the Company paid interest of $549,797 to the Debenture holders in full settlement of the interest payable, upon conversion of the Debentures.

c) Stock Options

The maximum number of shares reserved for issuance under the stock option plan was increased to 6,000,000. The options are non assignable and may be granted for a term not exceeding ten years. The exercise price is fixed by the board of directors of the Company at the time of grant, subject to all applicable regulatory requirements.

On January 22, 2008 prior to the RTO transactions described in Note 2, the Company granted options to directors, officers and consultants of the Company to acquire 3,750,000 common shares of the Company at an exercise price of $0.60 per share on or before January 22, 2013. The options vested immediately. The fair value of the options granted was estimated as $1,057,603 at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Expected dividend yield	0%
Expected volatility	50%
Risk free interest rate	3%
Expected life	60 months

On August 25, 2008 the Company granted options to a consultant of the Company to acquire 50,000 common shares of the Company at an exercise price of $0.60 per share on or before August 28, 2013. The options vested immediately. The fair value of the options granted was estimated as $13,628 at the date of grant using the Black-Scholes option pricing model with the same assumptions above.

A continuity of stock options is as follows:

	Number of Stock Options #	Weighted Average Exercise Price $	Expiry Date
Balance, December 31, 2007	-	-	
Options granted by legal parent prior to RTO	3,750,000	0.60	January 22, 2013
Options granted	50,000	0.60	August 25, 2013
Balance, September 30, 2008 (See Note 8(f))	3,800,000	0.60	

(Expressed in Canadian currency)

8. CAPITAL STOCK (Continued)

d) Contributed Surplus

	Balance $
Balance, December 31, 2006 and 2007	-
Options granted by legal parent prior to RTO (Note 8(c))	1,057,603
Options granted (Note 8(c))	13,628
Balance, September 30, 2008	1,071,231

e) Warrants

Pursuant to the private placement mentioned in Note 8(b)(ii) and prior to the RTO described in Note 2, the legal parent granted 1,000,000 warrants to the Agent to acquire 1,000,000 common shares of the Company at an exercise price of $0.60 per share on or before January 29, 2010. The fair value of warrants granted was estimated as $321,724 at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Expected dividend yield	0%
Expected volatility	50%
Risk free interest rate	3%
Expected life	24 months

f) Shares and Options Held in Escrow

Pursuant to Escrow Agreements entered into during the nine month period ended September 30, 2008, 36,350,000 common shares of the Company and 1,750,000 options issued to certain officers and directors of the Company will be held in escrow and released as follows: one quarter were released on February 4, 2008, the date on which the common shares were listed on a Canadian stock exchange; one third of the remaining securities were released six months following the listing date; one half of the remaining securities will be released twelve months following the listing date; and the remaining securities will be released 18 months following the listing date.

Continued…

(Expressed in Canadian currency)

9. INCOME TAXES

The Company utilizes the asset and liability method of accounting for incomes taxes.

Provision for Income Taxes

Major items causing the Company's income tax rate to differ from the federal statutory rate of 34% (2007 – 36%) were as follows:

	Nine month period ended September 30, 2008 (Unaudited) $	Nine month period ended September 30, 2007 (Unaudited) $
Income (loss) before taxes:	384,886	(684,787)
Expected income tax provision based on statutory rate	130,900	(246,500)
Change in expected tax rates	(66,000)	-
Tax assets acquired in RTO	(352,300)	-
Share issue and transaction costs	(367,000)	-
Change in foreign exchange rates	(84,400)	-
Other	63,800	-
Change in valuation allowance	732,400	246,500
	57,400	-

Future Tax Balances

The tax effects of temporary differences that give rise to future income tax assets are as follows:

	September 30 2008 (Unaudited) $	December 31, 2007 (Audited) $
Future income tax assets:		
Non capital losses	629,500	309,400
Plant and equipment	241,100	276,100
Share issue and transaction costs	470,800	-
Valuation allowance	(732,400)	-
	609,000	585,500

Continued…

(Expressed in Canadian currency)

9. INCOME TAXES (Continued)

Tax Loss Carry Forwards

As at September 30, 2008, the Company has approximately $898,000 of non capital losses, which can be used to reduce taxable income in Canada in future periods that expire on December 31 of the following years:

	$
2008	6,000
2009	8,000
2010	10,000
2011	11,000
2025	24,000
2026	383,000
2027	28,000
2028	428,000

The Company also has approximately $1,839,000 (RMB 11,883,000) of non capital losses in China, which can be used to reduce taxable income in China in future periods, of which $798,000 (RMB 5,157,600) expires in 2010, $919,000 (RMB 5,933,600) expires in 2011, and $123,000 (RMB 791,000) expires in 2013.

10. RELATED PARTY TRANSACTIONS

(a) During the nine months ended September 30, 2008, the Company incurred consulting fees charged by corporations controlled by the President and CFO totaling $117,500 (2007 - $Nil), of which $12,500 (2007 - $Nil) was incurred prior to the RTO transactions described in Note 2. The above transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(b) Due to related parties
A significant shareholder, who is also an officer and director of the Company advanced loans in the aggregate amount of RMB 40,000,000 ($6,192,000) (December 31, 2007 – RMB 40,000,000 $5,412,000) to the Company, through wholly owned corporations, in accordance with a Subordination and Forbearance Agreement dated April 27, 2007, Consignment Loan Agreements dated May 23, 2007 and June 26, 2007, and other ancillary documentation.

These loans are unsecured, non interest bearing, are subordinate to the claims of all other creditors, including unsecured creditors, of the Company, and are due on demand; however, the lender cannot demand the repayment of the loans at any time until April 27, 2010. These corporations and the Company have entered into Loan Renewal Agreements whereby the parties have agreed to enter into further loan renewal agreements upon the same terms and conditions as the Consignment Loan Agreements every three years, in perpetuity.

(c) Subscription receipts
Pursuant to the financing described in Note 8(b)(ii), four directors and officers of the Company subscribed for an aggregate of 1,559,000 subscription receipts for gross proceeds of $935,400. The related party subscriptions were on the same terms and conditions as the arm's length subscribers.

Continued…

11. FINANCIAL INSTRUMENTS

Fair Value

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for cash and cash equivalents, accounts and sundry receivables, advances, accounts payable and accrued liabilities, short term loans, and interest payable on the balance sheet approximate fair value because of the limited term of these instruments. It is not practicable to estimate the fair value of the amounts due to related parties.

Financial Risk Factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(a) Foreign Exchange Risk
Certain of the Company's expenses and notes receivable are incurred in United States currencies and are therefore subject to gains or losses due to fluctuations in these currencies.

Substantially all of the assets, liabilities and operations of the Company are denominated in Chinese RMB. RMB is not a freely convertible currency. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and supply and demand of RMB. The appreciation or devaluation of RMB against the Canadian dollar may have positive or negative impact on the results of operations of the Company.

As at September 30, 2008, the Company had cash and cash equivalents of RMB 7,618,482 ($1,179,341).

(b) Regulatory Risks and Uncertainties
The price of natural gas charged by CF China for the supply of natural gas to its customers is fixed by the local state price bureau. Any increase in gas usage charges exceeding the original approved charge requires the approval of the local state price bureau. There is no assurance that any increases, except for an increase to offset the rise in the Company’s purchase price of natural gas, will be approved.

Connection fees chargeable by CF China require the approval of the local state price bureau. There is no assurance that CF China will be able to obtain approvals from the relevant state price bureau for an increase in connection fees, which may in turn adversely affect the profits of CF China.

(c) Interest Rate Risk
The Company has cash balances and interest bearing debt. The Company's current policy is to invest excess cash in investment grade short term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company’s interest rate on its debt is based upon the prescribed rate of the Peoples Bank of China which is subject to fluctuations and may result in an increase in interest expense. The Company does not use derivative instruments to reduce its exposure to interest rate risk.

Continued…

11. FINANCIAL INSTRUMENTS (Continued)

Financial Risk Factors (Continued)

(d) Credit Risk

The Company's credit risk is primarily attributable to its long term debt. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to financial instruments included in other assets is remote.

(e) Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2008, the Company had a cash and cash equivalents balance of $5,414,982 (December 31, 2007 - $2,597,876), to settle current liabilities of $14,712,058 (December 31, 2007 - $12,844,013).

(f) Sensitivity Analysis

The Company has designated its cash and cash equivalents as held for trading, which are measured at fair value. Financial instruments included in other assets are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. As at September 30, 2008, the carrying and fair value amounts of the Company's financial instruments are approximately the same.

Continued…

(Expressed in Canadian currency)

12. SEGMENTED INFORMATION

For management purposes, the Company is currently organized into three operating divisions: gas connection, piped gas sales, and other. These principal operating activities are the basis on which the Company reports its primary segment information. The gas connection and piped gas sales operating divisions are based in the PRC.

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2008 (Unaudited)

	Gas Connection	Piped Gas Sales	Other	Consolidated
	$	$	$	$
REVENUE	3,740,129	5,089,55	-	8,829,680
COST OF SALES	2,510,508	1,240,75	-	3,751,261
	1,229,621	3,848,79	-	5,078,419
EXPENSES				
General and administrative	733,127	1,407,32	352,934	2,493,383
Interest on long term debt	-	758,47	-	758,476
Travel and promotion	296,316	498,56	37,711	832,593
Amortization	20,906	636,92	-	657,827
Stock based compensation	-		13,628	13,628
	1,050,349	3,301,28	404,273	4,755,907
Income (loss) before the under-noted	179,272	547,51	(404,273)	322,512
Interest income	-		62,374	62,374
	179,272	547,51	(341,899)	384,886
Income tax expense	(10,000)	(47,40	-	(57,400)
NET INCOME (LOSS) FOR THE PERIOD	169,272	500,11	(341,899)	327,486
ACQUISITION OF PLANT AND EQUIPMENT DURING THE PERIOD	20,550	2,408,293	-	2,428,843
AS AT SEPTEMBER 30, 2008				
ASSETS	1,901,654	31,474,289	1,382,205	34,758,148

Substantially all of the Company's assets are located in the PRC. As at September 30, 2008 there was cash of $1,294,091 held in Canada.

Continued…

(Expressed in Canadian currency)

12. SEGMENTED INFORMATION (Continued)

FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2008 (Unaudited)

	Gas Connection	Piped Gas Sales	Other	Consolidated
	$	$	$	$
REVENUE	1,146,395	1,749,636	-	2,896,031
COST OF SALES	757,642	430,739	-	1,188,381
	388,753	1,318,897	-	1,707,650
EXPENSES				
General and administrative	262,379	468,211	114,112	844,702
Interest on long term debt	-	256,819	-	256,819
Travel and promotion	97,555	199,798	3,004	300,357
Amortization	7,827	217,665	-	225,492
Stock based compensation	-		13,628	13,628
	367,761	1,142,493	130,774	1,640,998
Income (loss) before the under noted	20,992	176.404	(130,744)	66,652
Interest income	-	-	6,382	6,382
	20,992	176,404	(124,362)	73,034
Income tax expense	(200)	10,400	-	10,200
NET INCOME (LOSS) FOR THE PERIOD	20,792	186,804	(124,362)	83,234
ACQUISITION OF PLANT AND EQUIPMENT DURING THE PERIOD	-	798,881	-	798,881

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2007 (Unaudited)

	Gas Connection	Piped Gas Sales	Other	Consolidated
	$	$	$	$
REVENUE	2,466,342	3,824,326	-	6,290,668
COST OF SALES	1,746,700	826,763	-	2,573,463
	719,642	2,997,563	-	3,717,205
EXPENSES				
General and administrative	644,048	1,124,812	8,306	1,777,166
Interest on long term debt	-	970,987	-	970,987
Travel and promotion	469,728	258,040	-	727,768
Amortization	16,954	909,117	-	926,071
	1,130,730	3,262,956	8,306	4,401,992
NET (LOSS) FOR THE PERIOD	(411,088)	(265,393)	(8,306)	(684,787)
ACQUISITION OF PLANT AND EQUIPMENT DURING THE PERIOD	70,934	1,702,844	-	1,773,778
AS AT SEPTEMBER 30, 2007 ASSETS	954,258	22,167,619	49,874	23,171,751

Substantially all of the Company's assets were located in the PRC as at September 30, 2007.

Continued…

12. SEGMENTED INFORMATION (Continued)

FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 2007 (Unaudited)

	Gas Connection	Piped Gas Sales	Other	Consolidated
	$	$	$	$
REVENUE	960,381	1,274,649	-	2,235,020
COST OF SALES	690,228	289,502	-	979,730
	270,153	985,137	-	1,255,290
EXPENSES				
General and administrative	262,321	259,969	5,323	527,613
Interest on long term debt	-	366,224	-	366,224
Travel and promotion	197,190	98,588	-	295,778
Amortization	6,601	293,763	-	300,364
	466,112	1,018,544	5,323	1,489,979
NET (LOSS) FOR THE PERIOD	(195,959)	(33,407)	(5,323)	(234,689)
ACQUISITION OF PLANT AND EQUIPMENT DURING THE PERIOD	22,323	1,007,930	-	1,030,253

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
	$	$
Balance, at the beginning of the period	(460,613)	(331,563)
Currency translation adjustment during the period	381,641	(129,050)
Balance, at the end of the period	(78,972)	(460,613)

14. ECONOMIC DEPENDENCE

Currently, one gas field in the South China Sea supplies all of the Company's natural gas. There may be no alternative supply in the short term. Interruption of this gas field could affect the Company's ability to operate. Currently, the Company has a contract to purchase 24 million M^3 gas a year (which represents less than 1% of the field's total capacity) from this supplier until December 31, 2015. There is no certainty that the Company will be able to purchase gas in excess of this amount from this gas field.

The Company is currently exploring other possible sources of natural gas.

15. SEASONALITY OF OPERATIONS

Seasonality can impact the Company's piped gas sales. The Company's current operations are located mainly in Sanya City, a tourist city in the PRC's only tropical province that attracts more tourists in winter and spring than the rest of the year. As a large portion of the Company's gas sales are made to hotels, the Company's sales are affected by the tourism season. The city is also a popular tourist destination for short stays so that during the days when the country has long public holidays gas sales are usually higher.

Continued…

16. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the ongoing operations of the business. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the nine months ended September 30, 2008.

17. COMMITMENTS

Statutory Reserves

In accordance with PRC Company Law, CF China is required to provide for certain statutory reserves commencing from the year it reports retained earnings. Prior to June 6, 2007, as a domestic limited liability company, CF China was required to allocate at least 10% of its after tax profits to a statutory surplus reserve with the right to discontinue allocations to the statutory surplus reserve if such reserves reach 50% of its registered capital. CF China was also required to appropriate 5% of after tax profit to a statutory welfare reserve to be used only for the collective benefits of CF China's employees. All statutory reserves are required to be calculated based on amounts reported in CF China's PRC statutory financial statements under China GAAP. Effective from June 6, 2007, as CF China became a foreign invested enterprise ("FIE"), in accordance with PRC Company Law for FIEs, CF China is required to provide for surplus reserve fund, enterprise development fund, and employee welfare fund, each at a percentage of after tax profits, which is a discretionary percentage and is decided by the CF China's board of directors each calendar year. These reserves can only be used for specific purposes and are not transferred to the Company in the form of loans, advances, or cash dividends. These reserves can be distributed to the shareholder of CF China at the time when CF China is wound up.

As of September 30, 2008, CF China had appropriated RMB Nil in the above statutory reserve funds as CF China has not yet reported retained earnings.