



天津天聯公用事業股份有限公司
TIANJIN TIANLIAN PUBLIC UTILITIES COMPANY LIMITED
(a joint stock limited company incorporated in the People's Republic of China with limited liability)



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This report, for which the directors (the “Directors”) of Tianjin Tianlian Public Utilities Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Company Information

DIRECTORS

Executive Directors

Wang Zhong Sheng (*Chairman*)

Yang Rui

Tang Jie

Fu Shou Gang

Non-Executive Directors

Hu Mao Jie

Gong Jing

Independent Non-executive Directors

Ma Jun Lu

Luo Wei Kun

Independent Supervisors

Qi Yin Feng

Zhang Qi

SUPERVISORS

Wang Shi Ming

Chang Jian

Sha Jin Cheng

QUALIFIED ACCOUNTANT

Kwok Shun Tim ACCA AHKSA MHKSI ITA

COMPANY SECRETARY

Kwok Shun Tim ACCA AHKSA MHKSI ITA

AUTHORISED REPRESENTATIVES

Wang Zhong Sheng

Kwok Shun Tim

AUDIT COMMITTEE

Ma Jun Lu

Luo Wei Kun

LEGAL ADDRESS

55 Heiniucheng Road

Hexi District

Tianjin

PRINCIPAL PLACE OF BUSINESS IN THE PRC

Floor 9, Gangao Tower

18 Zhengzhou Road

He Ping District, Tianjin

AUDITORS

Deloitte Touche Tohmatsu

26th Floor, Wing On Centre

111 Connaught Road Central

Hong Kong

SPONSOR

Tai Fook Capital Limited

25th Floor, New World Tower

16-18 Queen's Road Central

Hong Kong

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

Shops 1901-1905

Hopewell Centre

183 Queen's Road East, HK

PRINCIPAL BANKER

Agricultural Bank of China

Tianjin He Xi Sub-branch

PRC

STOCK CODE

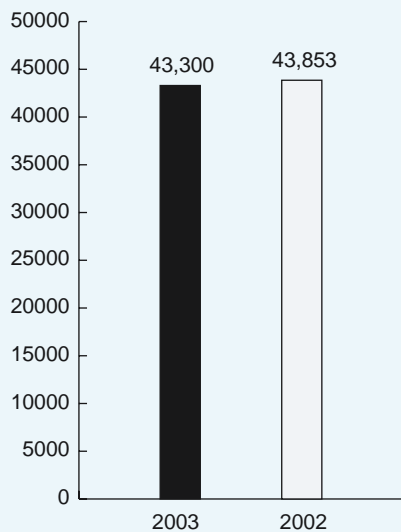
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Financial Summary

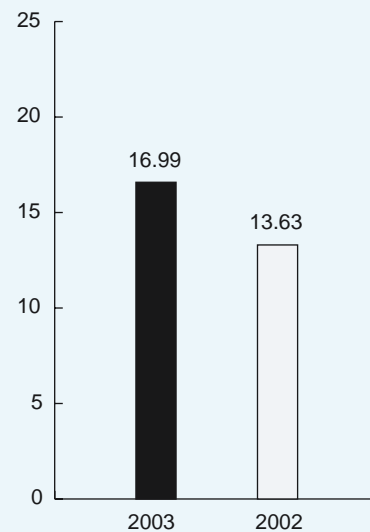
	2003	2002
	RMB' 000	RMB' 000
Turnover	43,300	43,853
Gross profit	32,503	34,419
Net profit	23,319	23,939
Shareholders' interest	118,078	94,759
Total assets	199,129	141,199

	2003	2002
	RMB (cents)	RMB (cents)
Earnings per share	3.36	3.44
Net asset per share	16.99	13.63

Turnover (RMB'000)



Net asset per share (RMB cents)



Chairman's Statement

To all the shareholders:

Tianjin Tianlian Public Utilities Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group") had an excellent year in 2003. While the outbreak of SARS had lowered the profits of our company for the first half year of 2003 (compared with year 2002), the Group attained a good business development and gained a higher market share especially in the second half year of 2003 (compared with first half year of 2003). We believe that the Group will achieve a satisfactory result for our shareholders in year 2004.

DEVELOPMENT OF THE PRC GAS SECTOR

Booming economic conditions, improving living standards and increasing environmental consciousness in the PRC helped spur the country's demand for natural gas. Production of natural gas in the PRC continued to grow strongly in 2003. Nonetheless, natural gas still plays a small role in the PRC's energy consumption structure. Presently, the PRC's annual per capita consumption remained low comparing to global standard. Historically, natural gas has not been a major fuel in China, but given the environmental benefits of using natural gas, China has embarked on a major expansion of its gas infrastructure. We believe that China's natural gas will record a strong growth.

The fight against environmental pollution has topped the PRC's agenda for securing a sustainable economic growth. There has been high enthusiasm across the country to accelerate natural gas development. Piped natural gas is particularly the case given the strong growing demand in the PRC for a more convenient supply of clean fuel. As such, the piped natural gas market has entered into a stage of rapid growth.

Coal has historically been the main source of energy in the PRC. The extensive use of coal has increased the concentration of carbon dioxide and sulphur dioxide in the air and has led to serious pollution problems such as greenhouse effect, global warming and erratic weather patterns and pollutions of the atmosphere. Driven by environmental and efficiency concerns, coal, as a traditional fuel, has gradually been replaced by natural gas and LPG.

As regards LPG, per capita consumption also remained much lower than the world average. This suggests a strong sustainable growth in coming years for the LPG market in the PRC. Domestic consumption is expected to record strong growth, where the increase in investment and the improvement in infrastructure are providing favourable conditions for LPG consumption. Environmental protection is also exerting pressure on towns and counties in the regions to direct more energy consumption to LPG.

All above factors provide the Group's core businesses with a strong impetus for further expansion, which in turn will enable the Group to enjoy a substantial share of the considerable gains to be made by the PRC's booming gas sector.

BUSINESS DEVELOPMENT

A huge development of the century, the "West to East Natural Gas Pipelines Project" is undoubtedly a strong propellant for the gas related industries to upgrade their facilities, expand their markets and improve their efficiencies. It is also an obvious propeller for the Group's business advancement. In the wake of an abundant supply of gas resources, local gas operators in the PRC are taking initiatives to find long-term partnerships with strong gas listing enterprises of well-established brand names in order to strengthen their own competitiveness and increase their market share. The Group is taking full advantage of its brand strength and management edge to uncover more acquisition and joint venture opportunities. These efforts will enable the Group to continuously expand its market share, further strengthen its brand name and maximize the returns for shareholder.

Chairman's Statement

PROSPECTS

At present, the businesses of the Group located in Tianjin and Jining, the PRC. The economic conditions of these cities have been providing the chance of development for the Group's business.

To complement the central government's policy to reduce coal consumption, Tianjin Municipal Government has enforced the Blue Sky Project as part of the Tenth Five-Year Plan (Source: Tianjin City's "Tenth Five-Year Plan" Domestic Economy and Social Development Guidelines). The Blue Sky Project relates to five pollution control issues and will be implemented in three stages until 2007. One of those issues is re-engineering to use clean fuel, including importment natural gas from Shaganling oil field and Russia to Tianjin, replacing currently used appliances with natural gas burning appliances and constructing natural gas supply infrastructure.

Pursuant to the "Tenth Five-Year Plan of Tianjin City" (in relation to the development of Tianjin City for the five-year period 2001 to 2005), the Directors are of the view that several residential estate projects will be completed in the operational locations In Tianjin City within the business plan period, with an aggregate gross floor area of over 7.0 million m² for over 97,000 household units in the five-year period ending 2005. Pursuant to the Rule of Urban Gas Enterprise Administration in Tianjin promulgated by the Committee of the People's Congress of Tianjin on 22 October 1997, all new residential estates must be connected with the natural gas supply pipeline networks and it provides a long-term development opportunity for the Tianjin City natural gas market.

Pursuant to the agreement entered into between Jining Branch and the Jining City Government dated 14 January 2003, the Jining Branch was granted the special operating permit to operate piped natural gas and LPG supply operations on an exclusive basis in Jining City. In April 2003, Jining Branch has obtained all relevant licenses to commence gas supply and gas pipeline connection operations in Jining City and has commenced construction of pipeline infrastructure and natural gas storage facilities. In September 2003, the Group has commenced customers' pipelines connection in Jining City and started to receive connection fees from customers.

According to the information as issued by the Jining City Construction Bureau dated 14 July 2003, by mid-2003, Jining City had a total population of approximately 300,000. According to the meeting notes of the planning meeting for the Jining City Plan, being a meeting held on 28 May 2003 at which representatives from the Jining City Government were present, it is stated that the estimated population of Jining City will reach 500,000 or approximately 133,000 households by 2005.

Jining City currently has no piped gas supply and its major source of energy is coal, which accounted for approximately 80% of the total residential energy consumption. Currently, there are four operators engaged in the provision of bottled LPG to residential customers and no piped gas operator is operating within Jining City. Given the air pollution problem caused by combustion of coal and pursuant to the environmental protection policy as adopted by the PRC Government, the government of Jining City has been exploring environment-friendly source of energy to gradually substitute the use of coal.

On 26 July 2002, the Group successfully obtained approval from the government of the Yulin City for the provision of LPG in Yulin City located in Guangxi Zhuang Autonomous Region, the PRC.

Chairman's Statement

As described in the Yulin Government City Development Plan, the city is regarded as a center for politics, economics, cultural and technology with machinery, pharmaceutical manufacturing and commerce as major industries. By 2002, the population in Yulin City was about 202,000, and it is expected to 380,000 and 500,000 by 2005 and 2015 respectively.

According to the Group's research on energy consumption in Yulin City, the average energy consumption is about 2,530 kjoules per person per year. By 2005, the average energy consumption is expected to increase to 2,717 kjoules per person per year. The annual demand for natural gas is estimated to be approximately 2,135m³ in 2005 and the consumption for residential, industrial and utility sectors will account for approximately 63%, 19% and 13% respectively. According to the urban development plan of Yulin City issued by the Yulin City government, it is expected that the city will have a population of approximately 380,000 with a LPG gas usage rate of 50% by 2005.

With its competitive advantages, the Group was able to achieve an excellent performance during the last year. The Group has greatly enhanced its asset quality and quantity, brand value and management resources, which together further strengthened the Group's competitive advantages.

It can be expected that the Group will continue to strengthen its LPG business, consolidate its existing resources and further develop the natural gas pipelines market through mergers and acquisitions. The Group will also keep enhancing its corporate image as a comprehensive and professional gas services provider and increasing its core competitiveness in the gas sector.

APPRECIATION

I would like to take this opportunity to thank our shareholder, customers and business associates for their continual supports and our staff for their diligence and contribution during the past year. We are a company with a qualified and professional working team and I look forward to a more rewarding 2004 for our shareholders.

Wang Zhong Sheng
Chairman

The PRC, 29 March, 2004

Management Discussion and Analysis

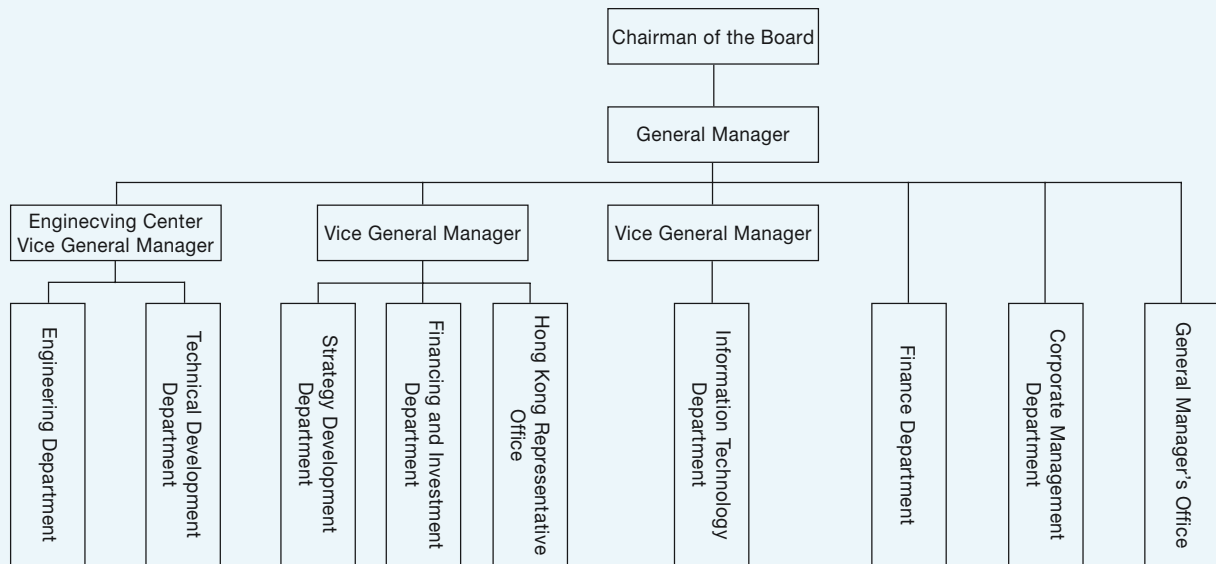
The year 2003 has been a fruitful year as the Group achieved all of its fundamental business objectives. The Group was successfully listed on GEM on 9 January 2004.

BUSINESS REVIEW

For the year ended 31 December 2003, the Group reported a turnover of approximately RMB43,300,000, representing a decrease of approximately 1.26% as compared with the previous year which was due to the outbreak of SARS in the first half of 2003. The Group's net profit for the year 2003 amounted to approximately RMB23,319,000, decreasing by 2.6% in comparison with the previous year.

MANAGEMENT STRUCTURE

In order to facilitate the Group's constant expansion and improvement, the Group has reorganized its management structure, as set out below:



Management Discussion and Analysis

DEVELOPMENTS OF PIPELINE NETWORK

During the year, the Group has implemented its formulated development strategies to provide piped gas connection to the users in the Group's operational locations in Tianjin City and Jining, Inner Mongolia with pipelines constructed up to 117 km. In addition to further expanding the operations in these two areas, the Group will also launch the LGP gas project in Yulin, Guangxi in 2004. The Group will also focus on gas supply to commercial and industrial users, which is expected to generate gas usage revenue for the Group. In addition, the Group will also seek opportunities in other potential gas markets in order to attain its strategic objectives for this year.

FINANCIAL RESOURCES

The Group is generally funded by equity financing and bank borrowings. In addition to the RMB56 million bank loans, which were fully utilized by the Group as at 31 December 2003, the Group has an unutilized banking facility of RMB80 million short-term unsecured loan from a bank in the PRC. Save for the RMB6 million bank loan from Commercial Bank of Tianjin City, the remaining banking facilities of RMB130 million is provided by Agricultural Bank of China. The Group intends to renew the short-term banking facilities on an annual basis.

FINANCIAL STATUS

The Group had aggregate borrowings of RMB56 million. As at the end of the year, the Group's liquidity ratio (current assets to current liabilities) was approximately 0.49, while its asset liability ratio (total liabilities to total assets rate) was approximately 0.41.

CONTINGENT LIABILITIES

As at the balance sheet date, the Group had no material contingent liabilities or guarantees.

STAFF AND EMOLUMENT POLICY

As at 31 December 2003, the Group had a workforce of 82 full-time employees, among which 99% were working in China.

Emoluments of employees were determined pursuant to the common practice of the industry as well as individual performance. In addition to regular salaries, the Group also paid discretionary bonus to eligible employees subject to the Group's operating results and individual performance. The Group also made contributions to medical welfare and retirement funds as well as provided other benefits to all employees.

PROSPECTS

With the fast growth of China's economy and the gradual increase of private investments, all the recent factors indicate that the growth of the energy industry in China remains strong. Combined with the special attention of the State on the West-to-East Pipeline Project and environmental protection measures, the gas industry in China is still growing rapidly. In view of environment protection and efficiency, the Chinese government plans to gradually reduce the use of coal and instead encourage the use of green fuels such as various natural gas.

Management Discussion and Analysis

Benefiting from the reformation of gas companies across China and the considerable demands, the Group expects to further increase the market shares and enhance the profitability. The directors and management of the Company believe that the steady business growth in the past year will help the Group to achieve good results and bring satisfactory returns to shareholders.

The Group plans to further explore the following areas in the future:

- Focus on the balanced development of various gas-related businesses and make efforts to develop the piped gas market, including participating in the urban natural gas pipeline network projects in local areas by way of mergers or acquisitions.
- Continue to advance the research, evaluation, negotiation and other work related to existing projects, and ensure the fulfillment of the business objectives.
- Continue to strengthen the financial management of the Group. In 2003, the Group significantly improved its financial control and adopted advanced systems to modernize its financial management. The enhanced financial management ensures the success of project development and management. The Group also aims to continuously lower the operating costs and maximize the revenue from the operating projects.
- Further its efforts in personnel training and recruitment, facilitate the smooth operations and developments of the Group, develop positive corporate culture, and upgrade the management of the Company.

Based on these achievements, the Group will further strengthen the operating management of existing businesses and input greater resources into the market development. The Group will continue to commit itself to attribute better returns to its shareholders. We look forward to a fulfilling year ahead.

ACKNOWLEDGEMENT

I, on behalf of the Board, would like to thank all the staff for their diligence and perseverance during the year.

By Order of the Board
Tianjin Tianlian Public Utilities Company Limited
Wang Zhong Sheng
Chairman

The PRC, 29 March, 2004

Business Objectives and Use of Proceeds

BUSINESS OBJECTIVES AND USE OF PROCEEDS

As this report covers activities up to 31 December 2003 only, save as disclosed above, all business objectives and the use of proceeds as disclosed under the section headed “Business objectives and future plans and prospects” of the prospectus of the Company dated 31 December 2003, are still the same and no further update is applicable.

Directors and Senior Management

The Company has four executive Directors, two non-executive Directors, and two independent non-executive Directors. Their details are set out below:

EXECUTIVE DIRECTORS

Mr. Wang Zhong Sheng (王忠勝先生), aged 41. He was appointed as the Chairman of the Company and executive director and is also the compliance officer of the Company. Since the incorporation of the Company in December 1998, Mr. Wang has been responsible for the Group's business strategies. He graduated from the University of Tianjin with a Bachelor degree in engineering in 1984. During the period from 1984 to 1989, he worked in Chief Project Administration Department in Tianjin city. From 1989 to 1996, he worked in Tianjin Economic Policy Research Institute (天津市經濟體制改革研究所) performing industrial and economic research. From 1996 to 1998, Mr. Wang worked in Tianjin City Wang On Property Development Company Limited (天津市宏安房地產有限公司), a PRC private company. He is also a director of Leason Investment (天津市聯盛投資集團有限公司) and is independent of Liangsheng Company.

Mr. Yang Rui (楊睿先生), aged 30. He was appointed as an executive Director in December 2001 and General Manager of the Company in October 2002 responsible for the Group's business strategies. He graduated with a Bachelor degree in Technical economics from the Tianjin University in 1996. He then obtained a Master of Business Administration degree from University of Ottawa before joining the Company in December 1999 as senior manager.

Ms. Tang Jie (唐潔女士), aged 37. She was appointed as an executive Director in December 2001 and is also the Vice General Manager of the Company responsible for financial planning of the Group. She graduated from Tianjin University of Finance and Economics (天津財經學院) with concentration on accounting studies in 1991. From 1989 to 1992, she worked for Kai Lian Company (關聯公司) as account staff. During the years from 1992 to 1996, she worked for Tianjin Ming Da Real Estate Development Company (天津明達房地產開發公司) and subsequently worked for Tianjin City Wang On Real Estate Development Company Limited (天津市宏安房地產開發有限公司), a PRC private company performing accounting work until 1998. Since the inception of the Company in December 1998, she has been working for the Company as an accountant and the Vice General Manager in the finance department.

Mr. Fu Shou Gang (符壽剛先生), aged 39. He was appointed as an executive Director and Technical Manager of the Company since the inception of the Company in December 1998 and is responsible for design and construction of pipeline networks. He graduated from University of Tianjin with a Bachelor degree in engineering majored in urban gas and heat engineering and natural gas studies in 1988. From 1988 to 1998, he worked at the design department of Tianjin Steel Group Limited (天津天鋼集團有限公司) as designer.

NON-EXECUTIVE DIRECTORS

Mr. Hu Mao Jie (胡茂傑先生), aged 51. He was appointed as non-executive Director in December 2001. He graduated from Hua Dong Chemical University (華東化工學院) in 1982 with concentration in coal industry and obtained his Master of Business Administration degree from Wisconsin International University in 1999. He taught in a secondary school from 1970 to 1976 in Hebei Province and worked at the accounting department of a bank from 1976 to 1978. From 1982 to 1998, he became the Secretary of Factory and Factory Manager in Tianjin First Coal Gas Company (天津市第一煤氣). Since 2000, he became a Vice General Manager and Chief Engineer of Tianjin Gas Group (天津市天然氣集團) and was responsible for technical operations and research and development. He is also currently a director of Tianjin Shanjin Gas Transportation Limited (天津陝津天然氣集輸公司) and Tianjin BinHai Gas Transportation Limited (天津濱海天然氣集輸公司).

Directors and Senior Management

NON-EXECUTIVE DIRECTORS *(continued)*

Mr. Gong Jing (宮靖先生), aged 40, appointed as a non-executive Director in December 2001. He graduated with a Master degree as a research student in Meticulous Electronic Device Studies from University of Tianjin. From 1989 to 1993, he joined Tianjin Guang Dian Communication Company (天津光電通信公司) as an officer and was then promoted as Assistant Branch Factory Manager and finally became the Director of External Affairs. From 1993 to 1994, he acted as the Vice General Manager of Tianjin Tian Ma Entertainment Limited (天津天馬娛樂有限公司) and was promoted as Assistant General Manager and Executive Manager of Tianjin Tian Ma Technology Trading Company Limited (天津天馬科貿總公司). During the period from 1994 to 1996, he became the Assistant Director of Foreign Affairs of the Tianjin New Technology Production Park Management Commission (天津新技術產業園區管理委員會) and from 1996 to 2001, he had taken up various positions as the Secretary of Assistant Governor of Tianjin State Government, Assistant Director of the State Ministry of Information Industry in the PRC and Assistant to chief officer of the Committee of Tianjin New Technology Management District respectively. Since 2001, he has been acting as the General Manager of the Investment Development Department of both Tsinlien Investment (天津津聯投資貿易有限公司) and Tsinlien Group Co.,Ltd. (津聯集團有限公司).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor Ma Jun Lu (馬君濤教授), aged 50, appointed as an independent non-executive Director in October 2002. He graduated from Nan Kai University (南開大學) with a bachelor's degree in economics in 1982 and a master's degree in finance in 1985. He then studied at McMaster University in Canada and obtained a master's degree in economics in 1987. In 1993, he obtained a doctor's degree in finance at Nan Kai University (南開大學). During 1999 to 2000, he acted as a visiting professor in performing teaching, research and academic exchange activities in University of Columbia in the US. Since then, he acted as a professor and the Vice Dean in the Department of Economics. He had also acted as an independent director of Tianjin Li Sheng Pharmaceutical Holding Company Limited (天津力生制藥股份有限公司), Shandong Huayang Technology Company Limited (山東華陽科技股份有限公司) and Sichun Tuo Pu Software Limited (四川拓普軟件有限公司).

Mr. Luo Wei Kun (羅維昆先生), aged 65, appointed as an independent non-executive Director in October 2002. He graduated in Tsinghua University (清華大學) with a bachelor's degree in civil engineering in 1964 and started postgraduate studies in the same year. He was awarded a postgraduate diploma in civil engineering in 1967. He acted as a technician in Chinese Medicine Industrial Limited Wuhan Branch (中國醫藥工業公司武漢分公司) during 1968 to 1969 and as technician, deputy section chief, section chief, engineer and vice chief engineer in the State Ministry of Medicine-Hubei Medical Medical Manufactory Branch (國家醫藥總局湖北制藥廠制劑分廠) during 1969 to 1985. Since then, he worked as senior engineer, section chief and assistant factory manager in Tianjin Second Coal Gas Factory (天津市第二煤氣廠) during 1986 to 1992. From 1992 to 2000, he acted as vice chief engineer in Tianjin City Gas Administrative Office (天津市燃氣管理處). After his retirement in March 2000, Mr. Luo acted as consultant of Tianjin City Gas Administrative Office and Tianjin City Gas Planning Office.

Currently, he is a general director of the China Urban Cola Gas Association, a committee member of the technical committee of the China Gas Association and a member of the technical consultant committee in the Planning Office of Tianjin City.

Directors and Senior Management

SUPERVISORS

The company has a committee of Supervisors whose primary duty is the supervision of the discharge of the duties of the senior management of the Company, including the board of Directors, managers and senior officers. The function of the committee of Supervisors is to ensure that the senior management of the Company acts in the interests of the Company, its shareholders and employees and does not perform acts which violate PRC law or the Articles of Association. The committee of Supervisors reports to the shareholders in general meetings. The Articles of Association provides the committee of Supervisors with the right to investigate the Company's financial affairs; to carry out supervision to ensure that the Directors, managers and other senior management personnel of the Company do not act in contravention of any laws, administrative regulations or the Articles of Association in the performance of their duties; to request that any activities harmful to the interests of the Company or the Directors, managers or other senior management of the Company be rectified; to propose the convening of extraordinary general meetings of shareholders; to exercise other powers of office stipulated in the Articles of Association; and in appropriate cases, to appoint on behalf of the Company solicitors, certified public accountants or certified practicing auditors to provide assistance when the committee of supervisors exercise its rights. The committee of Supervisors currently comprises five members, one of whom is a representative of the employees. The members of the committee of Supervisors currently are:

Mr. Wang Shi Ming (王仕明先生), aged 53, a Supervisor, had worked in Finance Department of the Public Transportation First Factory from 1970 to 1982 and was promoted as Financial Controller. From 1986 to 1988, he studied in School of Economy Management (經濟管理幹部學院). He then became the Financial Controller (財務科科長) in Public Transportation Main Company (公交總公司) in 1992. From 1992 to 2000, he acted as the Head of Audit Office in Finance Department of the Public Utility Department (公用局財務處). Since then, he has been acting as the Accountant in Tianjin Gas Group (天津市燃氣集團有限公司) and supervisor of Tianjin Bin Hai Petroleum Limited (天津濱海中油燃氣有限公司).

Mr. Chang Jian (常建先生), aged 39, a Supervisor, graduated from the Beijing Technical College of Economics (北京經濟學院) with concentration on Safe Engineering studies. He worked for Tianjin Paper Factory (天津造紙總廠) as assistant corporate management manager from 1986 to 1994. He then worked for Tianjin Ting Yik International Food Limited (天津頂益國際食品有限公司) as corporate management manager until 1999. Since then, he has been working in the Company's corporate management department.

Mr. Sha Jin Cheng (沙錦程先生), aged 60, a Supervisor, graduated from Hua Dong Technical College (華東化工學院) in Genetic Engineering studies in 1968. Since graduation, he had worked for Tianjin Oil Paint Main Factory (天津油漆總廠) in the areas of colouring technology until 1979. During the period from 1980 to 1981, he studied Management of International Economy in Beijing Technical College in International Economics (北京國際經濟管理學院). He then worked for Petrochemical Long-Term Planning Department of Tianjin City (天津市化工局長遠規劃處) from 1982 to 1991 and Department of Foreign Trade of Tianjin City (天津市外經貿委外資處) from 1992 to 1996. Since 1996, he has been working as the deputy general manager in the investment department of Tsinlien Group Company Limited (津聯集團有限公司).

Directors and Senior Management

INDEPENDENT SUPERVISORS

Professor Qi Yin Feng (齊寅峰教授), aged 66, appointed as an independent Supervisor in October 2002. He graduated from Nan Kai University (南開大學) with a Bachelor's degree in Management in 1962. Since graduation, he taught at the same university and had also acted in various positions as the assistant officer in the Faculty of Management, the officer in the Sino-French Enterprise Management Training Centre (中法企業管理幹部高級培訓中心). During the years from 1983 to 1985, he attended York University in Canada as visiting professor in the area of enterprise management and has taught in various universities in North America, Europe and Asia as visiting student. In 1990, he was awarded the Third Prize of the Technology Advance Award (科技進步三等獎) by State Technology Commission (國家科技委員會). Since 1962, he had acted an assistant director in the Tianjin Society of System Engineering (天津市系統工程學會) and the Executive Director in Tianjin Society of Management (天津市管理學會). In January 2002, he had completed the training for independent directors jointly organized the CSRC and Tsing Hua University (清華大學).

Mr. Zhang Qi (張旗先生), aged 41, appointed as an independent Supervisor in October 2002. During 1981 to 1985, he worked in the Tianjin Branch of the Bank of Commerce (中國工商銀行). During 1985 to 1988, he studied industrial enterprise management at the Tianjin University of Television Broadcast (天津廣播電視大學). From 1989 to 1994, he worked for the film department of the Tianjin Writers Association (天津作家協會) as supervisor. Since 1994, he acted as the General Manager in Tianjin New World Advertising Development Company Limited (天津新世界廣告發展有限公司).

QUALIFIED ACCOUNTANT

Mr. Kwok Shun Tim (郭純恬), aged 30, ACCA, AHKSA, MHKSI, ITA

Mr. Kwok is the Company Secretary and the Chief Financial Officer of the Company. Mr. Kwok graduated from the Hong Kong University of Science and Technology and he also completed all courses for a master degree from the Hong Kong Polytechnic University (China Business Studies). He has worked for the N.C.R. (ASIA) Ltd, China Aerospace International Holdings Ltd, Wong's Investment (Holding) Co. Ltd, Eagle Faith Management Co. Ltd., Goldenking investment company, Sino-America resources limited, a audit firm and a security company. Mr. Kwok has experience in the field of audit, corporate finance and financial management. Prior to joining the Group, he was Financial Controller of Dong Kiu Properties Development Ltd and China Marina Club Developments Ltd. He joined the Company in May 2003.

SENIOR MANAGEMENT

Mr. Shi Liang (施亮先生), aged 36, joined the Company in July 2002 and is a vice general manager and the Secretary of the Board. He graduated with a Bachelor degree in Material Science in the Shanghai University of Science and Technology (上海科學技術大學) and a Master degree in Management from the Business School of the People's University in PRC (中國人民大學). He had worked for Jiangsu Nan Tong Electric Melter Company (江蘇南通電容器公司) and Electronic Industrial Division Basic Products Department (電子工業部基礎產品司). He had also worked for Jiangsu Hua Yong Electronic Group Company (江蘇華容電子集團公司) as deputy manager of International cooperation department and secretary to the board of directors. He had also held various positions as a project manager, senior manager and an assistant to Executive Director in the Investment Banding Department of United Securities Limited (聯合證券有限責任公司).

Directors and Senior Management

SENIOR MANAGEMENT *(continued)*

Mr. Zhao Tong (趙彤先生), aged 32, graduated with a Bachelor's degree in Economics and Commerce from the Tianjin University of Finance and Economics (天津財經學院). From 1995 to 1998, he acted as a manager in the futures department of Chung Ji Hua Bei Mechanical Company Limited (中機華北機械有限公司). In 1998, he became a senior project manager in the investment department of Tsinlien Group (Tianjin) Assets Management Co.,Ltd. (津聯集團(天津)資產管理有限公司). He joined the Company in March 2002.

Mr. Zhang Qing Lin (張慶林先生), aged 53, joined the company in December 1998 and is the manager of the purchase department. He graduated from the Tianjin Textile College in 1980. Before he joined the Company, he had worked for various textile manufactory companies and had accumulated over 18 years of experience as factory manager and project manager.

Mr. Liu Liang (劉亮先生), aged 44, joined the Company in December 1998 and is the manager of the service department. Before he joined the Company, he had worked for Tianjin Second State Cotton Factory (天津市國棉二廠) as sales manager during 1980 to 1985. Since then, he had worked for Tianjin Hexi Hua Tung Electronics Company (天津市河西華通電器公司) as sales manager.

Mr. Liang Jing Qi (梁靖崎小姐), aged 40, graduated with a Bachelor's degree in Law from Tianjin Normal University (天津師範大學) in 1985. Since graduation, she became a teacher in a high school in Tianjin until 1998. During 1998 to 2001, she became a vice manager in project management department of Tianlian Company. Since then, she was promoted as manager of the project management department. Ms. Liang acquired her experience in project management through her active participation in the Company's project management department.

Mr. Lan Rong Fa (蘭榮發先生), aged 49, graduated from the Dalian Marine College in 1978. Before he joined the Company, he had worked for the Second Branch of Tianjin Pipeline Engineering Group Company Limited (天津市管道工程集團有限公司第二分公司) from 1979 to January 2003. Since February 2003, he has worked for the engineering department of the Company.

Directors' Report

The Board of Directors is pleased to present the first report and the audited financial statements of the Group for the year ended 31 December 2003.

TRANSFORMATION AND LISTING

Tianjin Tianlian Gas Company Limited 天津市天聯天然氣有限公司 (the "Predecessor"), the predecessor of Tianjin Tianlian Public Utilities Company Limited 天津天聯公用事業股份有限公司 (the "Company"), was established on 16 December 1998. The Company was established in the People's Republic of China (the "PRC") on 29 December 2001 as a joint stock limited company by way of transformation of the Predecessor.

On 23 May 2003, the China Securities Regulatory Commission (the "CSRC") gave its consent to the Company issuing overseas listed foreign invested shares ("H Shares") and applying for the listing of the H Shares on the Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Subsequently, the Company's H Shares are listed on the GEM of the Stock Exchange from 9 January 2004.

PRINCIPAL ACTIVITIES

The principal activities of the Company are the operation and management of gas pipeline infrastructure and the sale and distribution of piped gas. The principal activity of its subsidiary is the sale of gas and gas appliances.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 23 of the annual report.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past three financial years is set out on page 46 of the annual report.

SHARE CAPITAL

Details of the Company's share capital are set out in note 22 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group and the Company are set out in note 12 to the financial statements.

Directors' Report

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Wang Zhong Sheng (*Chairman*)
Mr. Yang Rui
Ms. Tang Jie
Mr. Fu Shou Gang

Non-executive directors:

Mr. Hu Mao Jie
Mr. Gong Jing

Independent non-executive directors:

Professor Ma Jun Lu
Mr. Luo Wei Kun

Independent supervisors:

Professor Qi Yin Feng
Mr. Zhang Qi

Supervisors:

Mr. Wang Shi Ming
Mr. Chang Jian
Mr. Sha Jin Cheng

In accordance with the provisions of the Company's Articles of Association, the directors and supervisors are appointed for a term of three years and, being eligible, offer themselves for re-election in the annual general meeting upon expiry of the terms of office.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service agreement with the Company for an initial term of three years, thereafter terminable upon either party giving three-month notice.

Each of the supervisors except the independent supervisors has entered into a service agreement with the Company for a term of three years, terminable at the request of the relevant supervisor subject to shareholders' approval.

Directors' Report

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS *(continued)*

Save as disclosed above, none of the directors nor supervisors has a service contract with the Company or its subsidiary which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES

The H Shares of the Company are listed on the GEM of the Stock Exchange from 9 January 2004. Immediately following the listing, the interests and short positions of the Directors and the Supervisors of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long position

Domestic Shares of RMB0.1 each in the capital of the Company

Name of Director/Supervisor	Capacity	Number of Domestic Shares held	Approximate percentage of beneficial interests in the Company
Mr. Wang Zhong Sheng	Held by controlled corporation <i>(Note)</i>	396,150,000	39.81%
Ms. Tang Jie	Beneficial owner	41,700,000	4.19%

Note:

Mr. Wang Zhong Sheng and his wife together own the entire issued share capital of Tianjin Leason Investment Group Company Limited 天津市聯盛投資集團有限公司 which holds 396,150,000 Domestic Shares of the Company immediately after the listing of the Company.

Save as disclosed above, as at 9 January 2004, none of the Directors nor the Supervisors of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

The H Shares of the Company are listed on the GEM of the Stock Exchange from 9 January 2004. Immediately following the listing, so far as is known to the Directors and the Supervisors, the following person (not being Director or Supervisor of the Company) had, or was deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings:

Directors' Report

SUBSTANTIAL SHAREHOLDERS *(continued)*

Domestic Shares of RMB0.1 each in the Capital of the Company

Name of shareholder	Capacity	Number of Domestic Shares held	Approximate percentage of beneficial interests in the Company
Tianjin Tsinlien Investment & Trade Company Limited 天津津聯投資貿易有限公司	Beneficial owner	123,014,790	12.36%
Tianjin Gas Group Company Limited 天津市燃氣集團有限公司	Beneficial owner	90,235,210	9.07%
Tianjin Leason Investment Group Company Limited	Beneficial owner	396,150,000	39.81%
Ms. Zhao Xin <i>(Note)</i>	Family	396,150,000	39.81%

Note:

These Shares are held by Tianjin Leason Investment Group Company Limited which is owned as to 90% by Mr. Wang, the chairman of the Company and 10% by Ms. Zhao Xin, the wife of Mr. Wang. Under the SFO, Ms. Zhao Xin is taken to be interested in all the Shares held by Mr. Wang.

Save as disclosed above, as at 9 January 2004, the Directors and the Supervisors were not aware of any other person (other than the Directors and the Supervisors of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or its subsidiary was a party and in which a director or supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SPONSOR'S INTEREST

None of the Company's sponsor, Tai Fook Capital Limited (the "Sponsor"), nor its directors, employees or associates had any interest in the share capital of the Company as at 31 December 2003 pursuant to Rule 6.36 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules").

Pursuant to an agreement dated 30 December 2003 entered into between the Company and the Sponsor, the Sponsor will receive usual sponsorship fees for acting as the Company's retained sponsor for the period from 9 January 2004 to 31 December 2006.

Directors' Report

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or its subsidiary a party to any arrangements to enable the directors and supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONNECTED TRANSACTIONS

The connected transactions as specified in the GEM Listing Rules undertaken by the Group are set out in note 28 to the financial statements.

In accordance with the conditions agreed with the Stock Exchange with respect to the connected transactions, the independent non-executive directors have reviewed the connected transactions. In their opinion, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than terms available to or from independent third parties;
- (iii) in accordance with relevant agreements governing such transactions;
- (iv) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (v) within the relevant cap amounts as agreed with the Stock Exchange.

Other than those transactions described above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 48% of the Group's total turnover for the year, with the largest customer accounted for approximately 12%. The five largest suppliers of the Group together accounted for approximately 52% of the Group's total purchases for the year, with the largest supplier accounted for 16%.

For the year ended 31 December 2003, Tianjin Gas Group Company Limited 天津市燃氣集團有限公司, a shareholder holding more than 5% of the Company's share capital at 31 December 2003, was one of the Group's top five suppliers.

Save as disclosed above, at no time during the year did a director, an associate of a director or a shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) has an interest in any of the Group's five largest customers or suppliers.

Directors' Report

AUDIT COMMITTEE

The Company established an audit committee on 3 December 2003 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises the two independent non-executive directors, Professor Ma Jun Lu and Mr. Luo Wei Kun. No audit committee meeting has been held in 2003 as the Company was listed on 9 January 2004.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

POST BALANCE SHEET EVENTS

Details of significant events occurred after the balance sheet date are set out in note 29 to the financial statements.

AUDITORS

Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company during the year. A resolution will be submitted to the annual general meeting of the Company to re-appoint them as auditors.

On behalf of the Board

Tianjin Tianlian Public Utilities Company Limited
Wang Zhong Sheng
Chairman

29 March, 2004

Auditors' Report

德勤 • 關黃陳方會計師行

Certified Public Accountants 香港中環干諾道中111號
26/F, Wing On Centre 永安中心26樓
111 Connaught Road Central
Hong Kong

**Deloitte
Touche
Tohmatsu**

TO THE SHAREHOLDERS OF TIANJIN TIANLIAN PUBLIC UTILITIES COMPANY LIMITED

天津天聯公用事業股份有限公司

(A joint stock company with limited liability established in the People's Republic of China)

We have audited the financial statements on pages 23 to 45 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

29 March 2004

Consolidated Income Statement

For the year ended 31 December 2003

	<i>Notes</i>	2003 RMB'000	2002 RMB'000
Turnover	4 & 5	43,300	43,853
Cost of sales		(10,797)	(9,434)
Gross profit		32,503	34,419
Other operating income	6	86	95
Selling expenses		(63)	(57)
Administrative expenses		(5,186)	(4,893)
Profit from operations	7	27,340	29,564
Finance costs	8	(1,153)	(711)
Profit before taxation		26,187	28,853
Taxation	9	(2,868)	(4,914)
Profit before minority interest		23,319	23,939
Minority interest		—	—
Profit for the year		<u>23,319</u>	<u>23,939</u>
Earnings per share			
— basic (RMB cents)	10	<u>3.36</u>	<u>3.44</u>

Consolidated Balance Sheet

At 31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
Non-current assets			
Property, plant and equipment	12	156,670	101,354
Trade debtors - due after one year	13	3,275	2,780
Deposits	15	—	600
		<u>159,945</u>	<u>104,734</u>
Current assets			
Inventories	17	256	146
Trade debtors - due within one year	13	6,120	6,665
Amounts due from customers for contract work	14	13,033	—
Amount due from a related party	28	124	—
Deposits, prepayments and other receivables		16,679	5,929
Bank balances and cash		2,972	23,725
		<u>39,184</u>	<u>36,465</u>
Current liabilities			
Creditors and accrued charges	18	22,457	10,112
Amount due to a shareholder	19	123	107
Income tax payable		1,605	8
Bank loans - due within one year	20	56,055	6,000
		<u>80,240</u>	<u>16,227</u>
Net current (liabilities) assets		<u>(41,056)</u>	<u>20,238</u>
Total assets less current liabilities		<u>118,889</u>	<u>124,972</u>
Non-current liabilities			
Bank loans - due after one year	20	—	30,000
Deferred taxation	21	411	213
		<u>411</u>	<u>30,213</u>
Minority interest		<u>400</u>	<u>—</u>
		<u>118,078</u>	<u>94,759</u>
Capital and reserves			
Share capital	22	69,500	69,500
Reserves		48,578	25,259
		<u>118,078</u>	<u>94,759</u>

The financial statements on pages 23 to 45 were approved and authorised for issue by the Board of Directors on 29 March 2004 and are signed on its behalf by:

Wang Zhong Sheng
DIRECTOR

Fu Shou Gung
DIRECTOR

Balance Sheet

At 31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
Non-current assets			
Property, plant and equipment	12	156,670	101,354
Trade debtors - due after one year	13	3,275	2,780
Deposits	15	—	600
Investment in a subsidiary	16	600	—
		<u>160,545</u>	<u>104,734</u>
Current assets			
Inventories	17	256	146
Trade debtors - due within one year	13	6,120	6,665
Amounts due from customers for contract work	14	13,033	—
Amount due from a related party	28	124	—
Deposits, prepayments and other receivables		15,679	5,929
Bank balances and cash		2,972	23,725
		<u>38,184</u>	<u>36,465</u>
Current liabilities			
Creditors and accrued charges	18	22,457	10,112
Amount due to a shareholder	19	123	107
Income tax payable		1,605	8
Bank loans - due within one year	20	56,055	6,000
		<u>80,240</u>	<u>16,227</u>
Net current (liabilities) assets		<u>(42,056)</u>	<u>20,238</u>
Total assets less current liabilities		<u>118,489</u>	<u>124,972</u>
Non-current liabilities			
Bank loans - due after one year	20	—	30,000
Deferred taxation	21	411	213
		<u>411</u>	<u>30,213</u>
		<u>118,078</u>	<u>94,759</u>
Capital and reserves			
Share capital	22	69,500	69,500
Reserves	23	48,578	25,259
		<u>118,078</u>	<u>94,759</u>

Wang Zhong Sheng
DIRECTOR

Fu Shou Gung
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2003

	Share capital <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2002	69,500	—	—	1,320	70,820
Profit for the year	—	—	—	23,939	23,939
Transfer (Note 23)	—	2,483	1,241	(3,724)	—
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	69,500	2,483	1,241	21,535	94,759
Profit for the year	—	—	—	23,319	23,319
Transfer (Note 23)	—	2,292	1,146	(3,438)	—
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	<u>69,500</u>	<u>4,775</u>	<u>2,387</u>	<u>41,416</u>	<u>118,078</u>

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Operating activities		
Profit before taxation	26,187	28,853
Adjustments for:		
Depreciation and amortisation	3,319	1,804
Interest income	(86)	(73)
Interest expenses	1,153	710
Loss on settlement of trade creditors (Note 24)	—	5
	30,573	31,299
Operating cash flows before movements in working capital	30,573	31,299
Increase in inventories	(110)	(50)
Decrease (Increase) in trade debtors	50	(8,254)
Increase in amount due from a related party	(124)	—
Increase in amounts due from customers for contract work	(13,033)	—
(Increase) decrease in deposits and prepayments and other receivables	(1,251)	1,851
Increase in creditors and accrued charges	2,444	7,542
Decrease in amount due to fellow subsidiary	—	(98)
Increase (decrease) in amount due to a shareholder	16	(62)
	18,565	32,228
Net cash generated from operations	18,565	32,228
Interest paid	(2,935)	(710)
Tax paid	(1,073)	(4,693)
	14,557	26,825
Net cash generated from operating activities	14,557	26,825
Investing activities		
Purchases of property, plant and equipment	(53,764)	(53,355)
Proceeds on disposal of property, plant and equipment	708	—
Deposit for establishment of a subsidiary	—	(600)
Interest received	86	73
	(52,970)	(53,882)
Net cash used in investing activities	(52,970)	(53,882)
Financing activities		
New bank loans raised	20,000	36,000
Repayment of bank loans	—	(9,500)
Establishment of a subsidiary (Note 16)	1,000	—
Payment of listing related expenses	(3,340)	(1,701)
	17,660	24,799
Net cash generated from financing activities	17,660	24,799
Net decrease in cash and cash equivalents	(20,753)	(2,258)
Cash and cash equivalents at beginning of the year	23,725	25,983
Cash and cash equivalents at end of the year	2,972	23,725
Bank balances and cash	2,972	23,725

Notes to the Financial Statements

For the year ended 31 December 2003

1. GENERAL

The Company was established in Tianjin, the People's Republic of China (the "PRC") as a joint stock limited company on 29 December 2001 and took up the business activities previously carried out by Tianjin Tianlian Gas Company Limited (the "Predecessor"). The Company was considered as a continuing entity of the Predecessor.

The principal activities of the Company are the operation and management of gas pipeline infrastructure and the sale and distribution of piped gas. The principal activity of its subsidiary is the sale of gas and gas appliances.

Subsequent to 31 December 2003, the Company issued 300,000,000 H Shares and converted 30,000,000 Domestic Shares into H Shares for placing and listing of H Shares on the Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from 9 January 2004. Net proceeds of approximately HK\$60 million were received by the Company.

2. BASIS OF PREPARATION

In preparing the financial statements, the Group has considered its net current liability position as at 31 December 2003. The financial statements have been prepared on a going concern basis because the Company believes that the net current liabilities sustained by the Group is expected to be reversed taking into account the availability of the listing proceeds, the unutilized banking facilities and the ongoing income generated from the gas connection projects and sales of gas.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Investment in subsidiary

Investment in subsidiaries is included in the Company's balance sheet at cost less any identified impairment loss.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Gas connection contracts

When the outcome of a gas connection 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 recognised based on the percentage of completion method, as measured by reference to the cost of work carried out during the year bear to the estimated total contract costs. When the outcome of a gas connection contract cannot be estimated reliably, revenue is only recognised to the extent of contract cost incurred that it is probable to be recoverable.

Instalment sales

In respect of instalment sales, revenue attributable to the sales price, exclusive of interest, is recognised at the date of sale. The sale price is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The interest element is recognised as revenue as it is earned, on a time proportion basis that takes into account the imputed rate of interest.

Others

Sales of gas and gas appliances are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipments other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment losses.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives, and after taking into account their estimated residual value, using the straight-line method, as follows:

Land and Buildings	Over the shorter of the term of lease or 40 years
Pipelines	25 years
Machinery	10 - 25 years
Furniture, fixtures and equipment	5 - 8 years
Motor vehicles	5 years

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction in progress

Construction in progress represents property, plant and equipment under construction and is stated at cost less any identified impairment loss. Cost includes development expenditure and other direct costs and interest cost on the related borrowed funds during the construction period attributable to the construction of pipelines. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Gas connection contracts

When the outcome of a gas connection contract can be estimated reliably and the stage of contract completion at the balance sheet date can be measured reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue is recognised.

When the outcome of a gas connection contract cannot be estimated reliably, contract costs are recognised 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 recognised as an expense immediately.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Retirement benefit scheme contribution

The retirement benefit scheme contribution charged to the income statement represents the Group's contribution payable to the retirement funds scheme managed by local social security bureau in accordance with the government regulations in the PRC.

Notes to the Financial Statements

For the year ended 31 December 2003

4. TURNOVER

Turnover represents revenue from gas connection contracts, net of business and related tax and surcharges, and from the sales of gas and gas appliances, net of value added tax, during the year.

5. SEGMENT INFORMATION

(a) Business segments

For management purposes, the Group is currently divided into three divisions, namely gas connection, sales of gas and sales of gas appliances. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses are presented below:

	Turnover		Result	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Gas connection contract revenue	39,918	41,064	34,066	34,487
Sales of gas	2,723	2,391	1,071	1,143
Sales of gas appliances	659	398	116	120
	<u>43,300</u>	<u>43,853</u>	<u>35,253</u>	<u>35,750</u>
Other operating income			86	95
Unallocated expenses:				
— depreciation (Note)			(2,750)	(1,331)
— corporate expenses			(5,249)	(4,950)
Profit from operations			27,340	29,564
Finance costs			(1,153)	(711)
Profit before taxation			26,187	28,853
Taxation			(2,868)	(4,914)
Profit before minority interest			23,319	23,939
Minority interest			—	—
Profit for the year			<u>23,319</u>	<u>23,939</u>

Note: The amount represents depreciation of property, plant and equipments relating to the gas connection and sales of gas that are included in cost of sales.

Notes to the Financial Statements

For the year ended 31 December 2003

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Gas connection contract revenue		Unallocated amount		Total	
	2003	2002	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation and amortisation	—	—	3,319	1,804	3,319	1,804
Additions of property, plant and equipments	—	—	59,376	53,355	59,376	53,355
(Write back) provision for allowance for doubtful debts	<u>(401)</u>	<u>391</u>	<u>—</u>	<u>—</u>	<u>(401)</u>	<u>391</u>

An analysis of the Group's total assets and liabilities by business segment is as follows:

	2003 RMB'000	2002 RMB'000
Segment assets		
Gas connection contract revenue	22,552	10,039
Sales of gas	7	6
Sales of gas appliances	285	40
Unallocated corporate assets	<u>176,285</u>	<u>131,114</u>
	<u>199,129</u>	<u>141,199</u>
Segment liabilities		
Gas connection contract revenue	10,815	9,443
Sales of gas	123	30
Sales of gas appliances	160	120
Unallocated corporate liabilities	<u>69,553</u>	<u>36,847</u>
	<u>80,651</u>	<u>46,440</u>

(b) Geographical segment

The Group's operations are all located in the PRC. No geographical segment analysis is presented.

Notes to the Financial Statements

For the year ended 31 December 2003

6. OTHER OPERATING INCOME

Included in other operating income is bank interest income amounting to RMB86,000 (2002: RMB73,000).

7. PROFIT FROM OPERATIONS

	2003 RMB'000	2002 RMB'000
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	750	150
Staff costs including directors' and supervisors' remuneration	1,969	1,462
Depreciation and amortisation	3,319	1,804
Operating lease rentals in respect of rented premises	45	164
(Write back) provision for allowance for doubtful debts	(401)	391
Cost of inventories recognised as expense	<u>2,195</u>	<u>1,526</u>

8. FINANCE COSTS

	2003 RMB'000	2002 RMB'000
Interest on bank borrowings wholly repayable within five years	2,990	710
Bank charges	<u>—</u>	<u>1</u>
Total borrowing costs	2,990	711
Less: amount capitalised in construction in progress	<u>(1,837)</u>	<u>—</u>
	<u>1,153</u>	<u>711</u>

9. TAXATION

	2003 RMB'000	2002 RMB'000
The charge comprises:		
PRC enterprise income tax		
Current year	2,670	4,701
Deferred tax		
Current year	<u>198</u>	<u>213</u>
	<u>2,868</u>	<u>4,914</u>

Notes to the Financial Statements

For the year ended 31 December 2003

9. TAXATION (continued)

Pursuant to the relevant laws and regulations in the PRC, the Company's head office in Tianjin has been entitled to exemption from PRC enterprise income tax for the first three years commencing from its first profit-making year of operation in 1999 and thereafter, has been entitled to a 50% relief from PRC enterprise income tax for the following two years. The Tianjin City Government granted such exemption as an incentive to the head office for hiring over 60% of its workforce from workers laid off by state-owned enterprises. Enterprise income tax had been charged at a reduced rate of 16.5% (2002:16.5%) for the year ended 31 December 2003.

In respect of the Company's branch office in Jining, the PRC, the branch office is entitled to exemption from PRC enterprise income tax for the three years commencing from January 2003 according to the approval granted by the local tax bureau on 30 August 2003. The Jining Government granted such exemption as an incentive to the branch office for hiring over 30% of its workforce from workers laid off by state-owned enterprises.

The subsidiary did not have taxable profit for the year.

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2003		2002	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Profit before taxation	<u>26,187</u>		<u>28,853</u>	
Tax at the domestic income tax rate	8,642	33.0	9,521	33.0
Tax effect of expenses that are not deductible in determining taxable profit	93	0.4	47	0.2
Effect of temporary tax relief	<u>(5,867)</u>	<u>(22.4)</u>	<u>(4,654)</u>	<u>(16.1)</u>
Tax expense and effective tax rate for the year	<u>2,868</u>	<u>11.0</u>	<u>4,914</u>	<u>17.1</u>

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year of RMB23,319,000 (2002: RMB23,939,000) and the 695,000,000 shares (2002: 695,000,000 shares as if the sub-division of the Company's Domestic Shares as described in note 22 had taken place at the beginning of 2002) in issue during the year.

Notes to the Financial Statements

For the year ended 31 December 2003

11. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors and supervisors

Details of remuneration paid to the directors and supervisors during the year are as follows:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Fees	460	—
Salaries and other benefits	326	301
Bonuses	—	—
Retirement benefit scheme contributions	13	13
	<u>799</u>	<u>314</u>

Analysed into:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Director A	135	88
Director B	127	32
Director C	120	77
Director D	74	74
Director E	40	—
Director F	25	—
Director G	25	—
Director H	40	—
Supervisor I	83	43
Supervisor J	40	—
Supervisor K	40	—
Supervisor L	25	—
Supervisor M	25	—
	<u>799</u>	<u>314</u>

Notes to the Financial Statements

For the year ended 31 December 2003

11. DIRECTORS' AND SUPERVISORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

Employees

The five highest paid employees in the Group for the year included 4 directors (2002: 3 directors) and 1 supervisor (2002: 1 supervisor), details of whose remuneration are set out above. The details of the remuneration of the remaining highest paid employee for 2002 are as follows:

	2002 RMB'000
Fees	—
Salaries and other benefits	39
Retirement benefit scheme contributions	1
	40
	40

12. PROPERTY, PLANT AND EQUIPMENT

THE GROUP AND THE COMPANY

	Land and buildings	Pipelines	Machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2003	11,806	66,626	15,997	340	1,074	9,854	105,697
Additions	4,567	223	42	243	2,022	52,279	59,376
Transfer	3,798	16,003	800	—	—	(20,601)	—
Disposals	(750)	—	—	—	(36)	—	(786)
	19,421	82,852	16,839	583	3,060	41,532	164,287
At 31 December 2003	19,421	82,852	16,839	583	3,060	41,532	164,287
DEPRECIATION AND AMORTISATION							
At 1 January 2003	304	3,777	22	121	119	—	4,343
Provided for the year	374	2,625	31	72	217	—	3,319
Eliminated on disposals	(42)	—	—	—	(3)	—	(45)
	636	6,402	53	193	333	—	7,617
At 31 December 2003	636	6,402	53	193	333	—	7,617
NET BOOK VALUES							
At 31 December 2003	18,785	76,450	16,786	390	2,727	41,532	156,670
At 31 December 2002	11,502	62,849	15,975	219	955	9,854	101,354

Notes to the Financial Statements

For the year ended 31 December 2003

12. PROPERTY, PLANT AND EQUIPMENT (continued)

THE GROUP AND THE COMPANY (continued)

The land and buildings are situated in the PRC and are held under medium-term land use rights.

Included in construction in progress is interest capitalised of RMB 1,837,000 (2002: Nil).

The Group has pledged certain office premises having a carrying amount of RMB10,498,000 (2002: RMB10,763,000) to secure a bank loan borrowed by the Group (Note 20).

As of 31 December 2003, the Group is in the process of applying title certificates for certain land and buildings with a carrying value of approximately RMB 7,143,000 (2002: Nil).

13. TRADE DEBTORS

The Group has a policy of allowing average credit period of 90 days to its trade customers. For certain customers with long-established relationship and good past repayment histories, a longer credit period up to 180 days may be granted. In addition, the Group operates an instalment arrangement for its retail customers in respect of the gas connection contracts under which the customers can settle the balance by instalment over a period of 4 years.

The aged analysis of net trade debtors is as follows:

	THE GROUP AND THE COMPANY	
	2003	2002
	RMB'000	RMB'000
0 - 90 days	4,324	574
91 - 180 days	249	7,609
181 - 270 days	1,474	1,262
271 - 365 days	432	—
Over 365 days	2,916	—
	<u>9,395</u>	<u>9,445</u>
Less: Amount due after one year	<u>(3,275)</u>	<u>(2,780)</u>
Amount due within one year	<u><u>6,120</u></u>	<u><u>6,665</u></u>

Notes to the Financial Statements

For the year ended 31 December 2003

14. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	THE GROUP AND THE COMPANY	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Contract costs incurred plus recognized profits	<u>13,033</u>	<u>—</u>

15. DEPOSITS

The deposits were for capital contribution to be made in relation to the establishment of a subsidiary registered on 2 January 2003 (Note 16).

16. INVESTMENT IN A SUBSIDIARY

	THE COMPANY	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Unlisted investment, at cost	<u>600</u>	<u>—</u>

Details of the Company's subsidiary, which is a limited liability company, at 31 December 2003 are as follows:

Name	Place of registration and operation	Registered capital	Proportion of registered capital held directly by the Company	Principal activities
烏盟乾生天聯公用 事業有限責任公司	PRC	RMB1,000,000 (Note)	60%	Sale of gas and gas appliances

Note: Amount injected in 2002 by the investing parties prior to the establishment of the subsidiary.

Notes to the Financial Statements

For the year ended 31 December 2003

17. INVENTORIES

	THE GROUP AND THE COMPANY	
	2003	2002
	RMB'000	RMB'000
Gas appliances	133	40
Gas	7	6
Spare parts and consumables	116	100
	<u>256</u>	<u>146</u>

All inventories are carried at cost.

18. CREDITORS AND ACCRUED CHARGES

Included in creditors and accrued charges are trade creditors with an aged analysis as follows:

	THE GROUP AND THE COMPANY	
	2003	2002
	RMB'000	RMB'000
0 - 90 days	6,725	7,760
91 - 180 days	2,699	1,046
181 - 270 days	620	—
271 - 365 days	746	445
Over 365 days	—	193
	<u>10,790</u>	<u>9,444</u>

Notes to the Financial Statements

For the year ended 31 December 2003

19. AMOUNT DUE TO A SHAREHOLDER

The Group and the Company

The amount is unsecured, interest free and is repayable on demand.

20. BANK LOANS

	THE GROUP AND THE COMPANY	
	2003	2002
	RMB'000	RMB'000
Secured (Note 1)	6,000	6,000
Unsecured (Note 2)	50,055	30,000
	<u>56,055</u>	<u>36,000</u>
Less: Amount due within one year shown under current liabilities	<u>(56,055)</u>	<u>(6,000)</u>
Amount due after one year but not exceeding two years	<u>—</u>	<u>30,000</u>

Notes:

1. The amount bears interest at commercial rates and is secured by certain office premises of the Group with a net book value of RMB10,498,000 (31 December 2002: RMB10,763,000) as at 31 December 2003 (Note 12).
2. The balance included a loan of RMB30,000,000 (31 December 2002: 30,000,000) borrowed specifically for the purpose of financing the construction of main pipelines in Jining, the PRC. Accordingly, interest expense arising from the loan is capitalised as part of the cost of the pipelines.

21. DEFERRED TAXATION

In respect of accelerated tax depreciation:

	THE GROUP AND THE COMPANY	
	2003	2002
	RMB'000	RMB'000
At beginning of the year	213	—
Charge for the year	198	213
	<u>411</u>	<u>213</u>
At end of the year	<u>411</u>	<u>213</u>

Notes to the Financial Statements

For the year ended 31 December 2003

22. SHARE CAPITAL

Registered, issued and fully paid:

	Number of shares		Amount	
	2003	2002	2003	2002
			RMB'000	RMB'000
At beginning of the year	695,000,000	69,500,000	69,500	69,500
Sub-division of share	—	625,500,000	—	—
At end of the year	<u>695,000,000</u>	<u>695,000,000</u>	<u>69,500</u>	<u>69,500</u>

The registered capital of the Predecessor at date of establishment was RMB2,000,000. Pursuant to a resolution passed on 26 November 2001, the registered capital of the Predecessor was increased from RMB2,000,000 to RMB2,849,618 with a premium of RMB19,150,382 by contribution of properties of RMB9,401,592 and cash of RMB10,598,408 from the then existing shareholders and new investors.

Pursuant to a resolution passed on 12 December 2001, the registered capital of the Predecessor was increased from RMB2,849,618 to RMB69,500,000, divided into 69,500,000 Domestic Shares of RMB1 each, by capitalisation of reserves, including share premium of RMB 19,150,382, of the Predecessor as at 30 November 2001. Such transformation of the Company had been approved by the government of Tianjin City on 26 December 2001.

Pursuant to a resolution passed on 28 August 2002, each of the existing Company's Domestic Shares of RMB1 each was sub-divided into 10 Domestic Shares of RMB0.1 each. The share capital of the Company after such sub-division of shares was RMB69,500,000 divided into 695,000,000 Domestic Shares of RMB0.1 each.

Changes in the Company's share capital subsequent to 31 December 2003 are set out in note 29.

23. RESERVES

The Company

	Share capital	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2002	69,500	—	—	1,320	70,820
Profit for the year	—	—	—	23,939	23,939
Transfer	—	2,483	1,241	(3,724)	—
At 31 December 2002	69,500	2,483	1,241	21,535	94,759
Profit for the year	—	—	—	23,319	23,319
Transfer	—	2,292	1,146	(3,438)	—
At 31 December 2003	<u>69,500</u>	<u>4,775</u>	<u>2,387</u>	<u>41,416</u>	<u>118,078</u>

Notes to the Financial Statements

For the year ended 31 December 2003

23. RESERVES (continued)

Notes:

(a) Basis of appropriations to reserves

The transfers to statutory surplus reserve and statutory public welfare fund are based on the net profit in the financial statements prepared under the PRC accounting standards.

(b) Statutory surplus reserve

Each of the Company's and its subsidiary's Articles of Association requires the appropriation of 10% of its profit after taxation determined under the PRC accounting standards each year to the statutory surplus reserve until the balance reaches 50% of the share capital. The statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation.

(c) Statutory public welfare fund

Pursuant to the PRC Company Law, each of the Company and its subsidiary shall make allocation from its profit after taxation determined under the PRC accounting standards at the rate of 5% to 10% to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employees' collective welfare. Individual employee has the right to use these facilities, but the titles of these facilities are remained with the Company and its subsidiary. The statutory public welfare fund forms part of the shareholders' equity but is non-distributable other than in liquidation.

(d) Retained profits

The reserve available for distribution to shareholders is the amount which is the lesser of the accumulated profits carried forward at the balance sheet date after deduction of the current year's appropriations to the statutory surplus reserve and statutory public welfare fund determined under PRC accounting standards and that determined under general accepted accounting principles of Hong Kong.

The Company's reserves available for distribution to shareholders as at 31 December 2003, comprised the retained profits determined under PRC accounting standards of RMB40,582,000 (31 December 2002: RMB21,103,000).

24. MAJOR NON-CASH TRANSACTIONS

During the year, the Group disposed of certain property, plant and equipment with net book value amounting to RMB33,103 (2002: RMB646,000) for the settlement of sub-contracting charges of RMB33,103 (2002: RMB641,000) due to a third party.

Notes to the Financial Statements

For the year ended 31 December 2003

25. OPERATING LEASE COMMITMENTS

As lessee

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP AND THE COMPANY	
	2003	2002
	RMB'000	RMB'000
Within one year	95	72
In the second to fifth year inclusive	12	210
	<u>107</u>	<u>282</u>

The leases are negotiated for an average term of one year with fixed monthly rentals.

26. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company has the following commitments:

	THE GROUP AND THE COMPANY	
	2003	2002
	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment:		
– contracted for but not provided in the financial statements	5,880	14,400
– authorised but not contracted for	138,159	104,266
	<u>144,039</u>	<u>118,666</u>

27. RETIREMENT BENEFIT SCHEME

As stipulated in the rules and regulations in the PRC, the Group contributes to the retirement benefit scheme managed by a local social security bureau in the PRC. The Group contributes a certain percentage of basic salaries of its employees to the retirement plan, and has no further obligation for the actual payment of the previous or post retirement benefit. The retirement benefit scheme is responsible for the entire present obligation to retired employees.

During the year, the retirement benefit scheme contributions amounted to RMB134,000 (2002: RMB50,000).

Notes to the Financial Statements

For the year ended 31 December 2003

28. RELATED PARTY TRANSACTIONS/CONNECTED TRANSACTIONS

During the year, the following related party transactions/connected transactions took place:

Name of related party	Relationship	Nature of transactions	2003 RMB'000	2002 RMB'000
天津市燃氣集團有限公司	Shareholder	Purchase of gas (Note a)	1,296	1,108
天津市煤氣工程設計院	A subsidiary of a shareholder	Design fee for gas pipeline network (Note b)	<u>124</u>	<u>—</u>

Notes:

- (a) The selling prices of these transactions were arrived at after arm's length negotiations between the parties and with reference to the price set by the relevant commodity price bureau. The selling price was agreed at RMB1.4 per m3 during the year ended 31 December 2002 and for the three months ended 31 March 2003. The selling price increased to RMB1.5 per m3 since 1 April 2003.
- (b) The transaction was based on an agreed percentage of the total investment cost of the respective pipeline network project, subject to a cap of the lower of 5%, or the percentage as calculated under the pipeline design fee standard as set by the Construction Department of the State Planning Bureau of the PRC, of the total investment cost.

As of 31 December 2003, the Company has an amount due from 天津市煤氣工程設計院, a subsidiary of a shareholder of the Company, of RMB 124,000, representing prepaid design fee for gas pipeline network.

In the opinion of the directors, the above transactions were carried out in the usual course of business.

29. POST BALANCE SHEET EVENTS

Subsequent to 31 December 2003, the Company issued 300,000,000 H Shares and converted 30,000,000 Domestic Shares into H Shares for placing and listing of H Shares on the GEM of the Stock Exchange from 9 January 2004. Net proceeds of HK\$60 million were received by the Company.

Immediately after the listing, the Company's issued share capital was RMB99,500,000, comprised 665,000,000 Domestic Shares of RMB0.1 each and 330,000,000 H Shares of RMB0.1 each.

30. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

Financial Summary

RESULTS

	For the year ended 31 December		
	2003 RMB'000	2002 RMB'000	2001 RMB'000
Turnover	<u>43,300</u>	<u>43,853</u>	<u>27,140</u>
Profit before taxation	26,187	28,853	19,162
Taxation	<u>(2,868)</u>	<u>(4,914)</u>	<u>—</u>
Profit before minority interest	23,319	23,939	19,162
Minority interest	<u>—</u>	<u>—</u>	<u>—</u>
Profit for the year	<u>23,319</u>	<u>23,939</u>	<u>19,162</u>

ASSETS AND LIABILITIES

	At 31 December		
	2003 RMB'000	2002 RMB'000	2001 RMB'000
Total assets	199,129	141,199	83,798
Total liabilities	(80,651)	(46,440)	(12,978)
Minority interest	<u>(400)</u>	<u>—</u>	<u>—</u>
Shareholders' funds	<u>118,078</u>	<u>94,759</u>	<u>70,820</u>

Note: The results of the Group for the two years ended 31 December 2002 and the assets and liabilities of the Group as at 31 December 2001 and 2002 are extracted from the Company's prospectus dated 31 December 2003.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2003 annual general meeting ("AGM") of Tianjin Tianlian Public Utilities Company Limited (the "Company") will be held at Floor 9, Gangao Tower, 18 Zhengzhou Road, He Ping District, Tianjin, PRC on 20 May 2004, at 3:00 p.m. to transact the following ordinary business:

As ordinary resolution:

1. To receive and adopt the audited financial statements and the reports of the Directors and Supervisors and auditors for the year ended 31 December 2003.
2. To approve the appropriation to statutory common reserve and statutory public welfare fund for the year 2003.
3. To authorise the Board of Directors to fix the Directors' and the Supervisors' remuneration.
4. To re-appoint Messrs. Deloitte Touche Tohmatsu as the Company's Auditors and authorise the Board of Directors to fix their remuneration.
5.
 - (i) To approve the resignation of Mr. Hu Mao Jie as Director.
 - (ii) To approve the resignation of Mr. Wang Shi Ming as Supervisor.
6.
 - (i) To elect Mr. Sun Bo Quan as Director.
 - (ii) To elect Mr. Dong Hui Qiang as Supervisor.
7. To transact any other business.

By order of the Board
Tianjin Tianlian Public Utilities Company Limited
WANG Zhong Sheng
Chairman

The PRC, 29 March 2004

Notice of Annual General Meeting

Legal Address:

55 Heiniucheng Road
Hexi District
Tianjin

Principal Place of Business in the PRC:

Floor 9, Gangao Tower
18 Zhengzhou Road
He Ping District,
Tianjin

Notes:

1. The H share register of shareholders of the Company in Hong Kong will be closed from 17 April 2004 to 20 May 2004 (both days inclusive), during which time no transfer of H shares will be effected. All properly completed transfer forms accompanied by the relevant share certificate must be lodged with the Company's share registrar for H Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:00 p.m. on 16 April 2004. The holder of Domestic Shares or H shares whose name appears on the register of members of the Company at 4:00p.m. on 16 April 2004 will be entitled to attend and vote at the AGM.
2. Any holder of Domestic Shares or H shares entitled to attend and vote at the AGM convened by the above notice is entitled to appoint one or more proxies to attend and vote at the AGM on his behalf. A proxy needs not be a holder of Domestic Shares or H shares of the Company.
3. A voting proxy form for the AGM is enclosed. In order to be valid, the voting proxy form together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of the power of attorney must be delivered and in the case of Domestic Shares, to the Company at Floor 9, Gangao Tower, 18 Zhengzhou Road, He Ping District, Tianjin, PRC, in the case of holders of H shares, to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 24 hours before the time appointed for holding the AGM or any adjournment thereof.
4. Holders of Domestic Shares and H shares who intend to attend the AGM should complete the enclosed reply slip for the AGM and return it, in the case of Domestic Shares, to the Company at Floor 9, Gangao Tower, 18 Zhengzhou Road, He Ping District, Tianjin, PRC, in the case of holders of H shares, to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong on or before 30 April 2004. The reply slip may be delivered by hand, by post or by fax to the number (852) 2865 0990.