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 Repubic of China with limited liability)

2005
Annual Report

Stock Code : 8290

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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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
Yang Rui *(Resigned on 04 January 2006)*
Tang Jie
Fu Shou Gang *(Resigned on 04 January 2006)*
Jin Jian Ping *(Appointed on 04 January 2006)*
Dong Hui Qiang *(Appointed on 04 January 2006)*

Non-Executive Directors

Sun Bo Quan *(Chairman)*
Gong Jing

Independent Non-executive Directors

Ma Jun Lu
Luo Wei Kun
Chan Shun Kuen

Independent Supervisors

Qi Yin Feng
Zhang Qi

SUPERVISORS

Dong Hui Qiang *(Resigned on 04 January 2006)*
Chang Jian
Sha Jin Cheng
Cao Shu Jing *(Appointed on 04 January 2006)*

QUALIFIED ACCOUNTANT

Kwok Shun Tim CPA ACCA CBA MHKSI ITA MSC

COMPANY SECRETARY

Kwok Shun Tim CPA ACCA CBA MHKSI ITA MSC

AUTHORISED REPRESENTATIVES

Wang Zhong Sheng
Kwok Shun Tim

COMPLIANCE OFFICER

Wang Zhong Sheng

AUDIT COMMITTEE

Ma Jun Lu
Luo Wei Kun
Chan Shun Kuen

LEGAL ADDRESS

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Hexi District
Tianjin

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SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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PRINCIPAL BANKER

Agricultural Bank of China
Tianjin He Xi Sub-branch
PRC

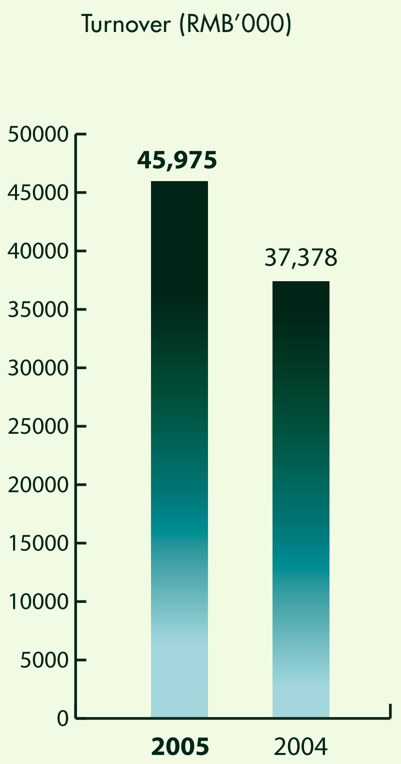
STOCK CODE

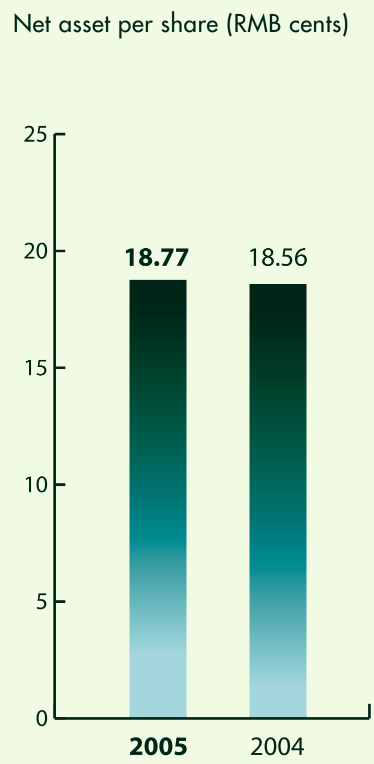
8290

FINANCIAL SUMMARY

	2005	2004
	RMB' 000	RMB' 000
Turnover	**45,975**	37,378
Gross profit	**22,997**	26,553
Net profit attributable to equity holders of the Company	**2,092**	4,899
Shareholders' interest	**186,736**	184,644
Total assets	**253,580**	254,537

	2005	2004
	RMB (cents)	RMB (cents)
Earnings per share	**0.2**	0.5
Net asset per share	**18.77**	18.56





CHAIRMAN'S STATEMENT

To all the shareholders:

Due to the macro-economic control in the People's Republic of China (the "PRC"), Tianjin Tianlian Public Utilities Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group") did not perform as well as expected. Besides, the Group experience some reconstruction and hence, reduced our profit. We believe that the Group will achieve a satisfactory result for our shareholders in year 2006.

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 2005. Nonetheless, natural gas still plays a small role in the PRC's energy consumption structure. Presently, the PRC's annual per capita consumption of natural gas remained low comparing to global standard, but given the environmental benefits of using natural gas, the PRC has embarked on a major expansion of its gas infrastructure. We believe that the natural gas in the PRC 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.

Per capita consumption of LPG also remained much lower than the world average. This suggests a strong sustainable growth in the coming years for the LPG market in the PRC. Domestic consumption is expected to record strong growth, where the increase in investment and 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

CHAIRMAN'S STATEMENT

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.

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 importing natural gas from Shaganling oil field and Russia to Tianjin, currently used appliances with natural gas burning appliances and constructing natural gas supply infrastructure.

In fact, the Macro-economic control in PRC has largely affect the Property industry and hence affect our business (gas connection).

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 2006 for our shareholders.

Sun Bo Quan
Chairman

The PRC, 27 March 2006

MANAGEMENT DISCUSSION AND ANALYSIS

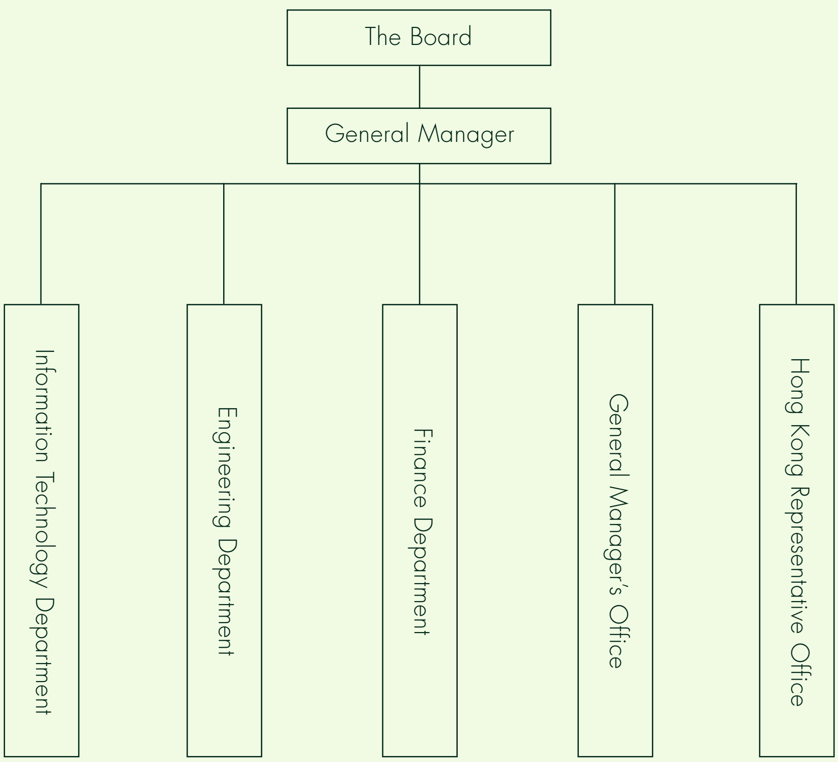
The Macro-economic Control in PRC has largely affected the Property industry and hence has affected our business (gas connection). The Group was successfully listed on GEM of the Stock Exchange on 9 January 2004.

BUSINESS REVIEW

For the year ended 31 December 2005, the Group reported a turnover of approximately RMB45,975,000, representing an increase of approximately 23% as compared with the previous year . The Group's net profit attributable to the equity holders of the Company for the year 2005 amounted to approximately RMB2,092,000, decreased by 57.3% as compared 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

Segmental Information Analysis

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. The gas connection revenue is still the major sources of income for the group, which is following by sales of gas and sales of gas appliances. The group will further expand the operate in these two areas, in order to attain its strategic objectives for this year.

Financial Resources

The Group is generally funded by equity and bank borrowings. As at 31 December, 2005, the Group had no bank borrowings, and had no charge created on its assets.

The Group mostly uses Renminbi in its operation and it had not used any financial instrument for currency hedging purposes, as it considers that its exposure to fluctuations in exchange rates is only minimal.

The Group's asset liability ratio (total Liabilities to total Asset rate) was approximately 0.26.

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 2005, the Group had a workforce of 65 full-time employees, among which 98% 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 discretional 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 share. The directors and management of the Company will try their best to 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. 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.

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
Sun Bo Quan
Chairman

The PRC, 27 March 2006

BUSINESS OBJECTIVES AND USE OF PROCEEDS

Comparisons of the business objectives with the actual business progress set out in the prospectus of the Company for the period from 1 January 2005 to 31 December 2005 are as follows:

	Business objective twelve months ended 31 December 2005	**Actual business progress twelve months ended 31 December 2005**
Development of piped natural gas supply projects in Tianjin City:		
	Commence gas pipeline network connections in the following districts within the Group's existing Operational Locations in Tianjin City:	Commenced gas pipeline network connections in the following districts within the Group's existing Operational Locations in Tianjin City:
	• Shuang Ma district (雙馬小區), Anju district (安居小區), Shuang Lin residential district (雙林居住區)	• Tianjin Railway Project • Jinnan Development district
Development of piped natural gas supply project in Jining:	• Making new connections within Jining	• Made new connections within Jining

BUSINESS OBJECTIVES AND USE OF PROCEEDS

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

	Business objective twelve months ended 31 December 2005	**Actual business progress twelve months ended 31 December 2005**
Development of piped LPG supply project in Yulin:	• Making new connections within Yulin	*Note 1*
Estimated no. of new connections that is determined with reference to information in the Tianjin Plan, Jining Report and Yulin Report (units)	44,000	8,568
Estimated aggregate pipeline network constructed (km)	680	352.4
Estimated maximum daily gas supply capacity (m^3)		
— Natural gas	102,000	46,000
— LPG	5,000	*Note 1*
Investment in other gas supply related projects	• Conduct feasibility studies on potential investment targets and make new investment if considered appropriate	• Conduct feasibility studies on potential investment targets and make new investment if considered appropriate

Note 1: On 11 November 2005, the Company entered into two agreements to sell its Yulin business to an independent third party. Details of the transactions are set out in the sub-section 'Disposal of Yulin Business' below.

BUSINESS OBJECTIVES AND USE OF PROCEEDS

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

On 9 January 2004, the Company received net proceeds, after deducting all relevant share issue expenses, of approximately HK$60 million from the new issue of shares by way of public offer and placing. Up to 31 December 2005, the Group has applied the net proceeds as follows:

	Use of Proceeds extracted from the Prospectus up to 31 December 2005	**Actual amount used up to 31 December 2005**
	HK$ million	*HK$ million*
Development of piped natural gas supply projects in Tianjin City	30	15
Development of piped natural gas supply project in Jining City	15	15
Development of piped LPG supply project in Yulin City *(Note 1)*	15	30
Total	60	60

Note 1: On 11 November 2005, the Company entered into two agreements to sell its Yulin business to an independent third party. Details of the transactions are set out in the sub-section 'Disposal of Yulin Business' below.

BUSINESS OBJECTIVES AND USE OF PROCEEDS

DISPOSAL OF YULIN BUSINESS

On 11 November 2005, the Company as vendor and Tianjin Deyili Thermal Insulation Materials Company Limited, an independent third party, as purchaser entered into an equity transfer agreement and an asset transfer agreement pursuant to which the Company disposed of all its 75% of the equity interests in Guangxi Beiliu Gas Company Limited ("Guangxi Beiliu") and the assets and external liabilities of the branch set up by the Company in Beiliu City, Yulin (the "Beiliu Assets").

Guangxi Beiliu and Beiliu Assets were originally the Group's investment in relation to exploration of natural gas business in Yulin City and were financed by the listing proceeds of the Company. The investment in Guangxi was part of the business plan of the Group as disclosed in detail in the IPO prospectus of the Company. The Group commenced its purchase of facilities and gas pipelines networking in Beiliu in November 2004. The same preparation for operation was still in process in November 2005. Owing to the long distance between Beiliu and Tianjin, the headquarter of the Group, the management costs for the Guangxi business are high and it fails to generate synergic effects with other business of the Group. The Group intends to focus its efforts on those other business and improve its overall financial performance. Coupled with the slow progress made so far, the Company decides to dispose of its equity interests in Guangxi Beiliu and Beiliu Assets held by it.

DIRECTORS AND SENIOR MANAGEMENT

As at the date of this report, the Company has four executive Directors, two non-executive Directors, and three independent non-executive Directors. Their details are set out below:

EXECUTIVE DIRECTORS

Mr. Wang Zhong Sheng (王忠勝先生), aged 43. He is an 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 32 (Resigned on 04/*January*/2006). 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 39. 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 (開聯公司) 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 (付壽剛先生), aged 41(Resigned on 04/*January*/2006). 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 (天津鋼集團有限公司) as designer.

Mr. Jin Jian Ping (金建平先生), aged 46 (Appointed on 04/*January*/2006). Mr. Jin holds the title of Senior Engineer. He is currently General Manager, Vice Secretary to the Party Committee and Vice Chairman of the Board of Tianjin Gas Group Company Limited, which is a substantial shareholders of the Company.

Mr. Dong Hui Qiang (董惠強先生), aged 52 (Appointed on 04/*January*/2006). He is the Chief Economist of Tianjin Gas Group Company Limited, a substantial shareholder of the Company. Mr. Dong is a graduate of the postgraduate course for investment management organized by Chinese Academy of Social Sciences. Before joining Tianjin Gas Group Company Limited, he was Vice General Manager and Chief Economist of Tianjin Water Works Group Company.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Sun Bo Quan (Chairman) (孫伯全先生), aged 54, is the Chairman of Tianjin Gas Group Company Limited, which is a substantial shareholder of the Company. Mr. Sun is a postgraduate and before he joined Tianjin Gas Group Company Limited, he is Vice Bureau head and Deputy Chief Economist of Tianjin Public Utility Bureau.

Mr. Gong Jing (宮靖先生), aged 42, 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 (馬君潞教授), aged 52, 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).

Mr. Luo Wei Kun (羅維昆先生), aged 67, 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 (國家醫葯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.

Mr. Chan Shun Kuen, Eric, aged 43, is the head of corporate finance department of KCG Securities Asia Limited. Mr. Chan is an associate member of Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants).

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. Chang Jian (常建先生), aged 41, 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 62, a Supervisor, graduated from Hua Dong Chemical College (華東化工學院) in Organic Chemical Engineering studies in 1968. Since graduation, he had worked for Tianjin 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 Long-Term Planning Department of Tianjin Chemical Bureau (天津市化工局長遠規劃處) from 1982 to 1991 and Department of Foreign Investment 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).

Mr. Cao Shu Jing (曹書經先生), aged 54, graduated from Tianjin Management Institute and majors in corporate ideological and political work, titled senior political officer, and is currently vice general manager of Tianjin Gas Group Company Limited, which is a substantial shareholder of the Company.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT SUPERVISORS

Professor Qi Yin Feng (齊寅峰教授), aged 68, 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 43, appointed as an independent Supervisor in October 2002. During 1981 to 1985, he worked in the Tianjin Branch of the Band 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 32, CPA, ACCA, CBA MHKSI, ITA, MSC

Mr. Kwok is the Chief Financial Officer and the Company Secretary of the Company. Mr. Kwok graduated from the Hong Kong University of Science and Technology and he also obtained a master degree from the Hong Kong Polytechnic University (China Business Studies). He has worked as senior management of security companies and Listed Companies. Mr. Kwok is experienced in the field of audit, corporate finance and financial management.

SENIOR MANAGEMENT

Mr. Zhao Tong (**趙彤先生**), aged 34, 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. Lan Rong Fa (**蘭榮發先生**), aged 50, 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.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CODE

The Company has complied with all the code provisions set out in Appendix 15 Code on Corporate Practices ("the Code") of the GEM Listing Rules throughout the financial year ended 31 December 2005.

KEY CORPORATE GOVERNANCE PRINCIPLES AND THE COMPANY'S PRACTICES

The Board

Roles of Directors

The Board assumes responsibility for leadership and control of the Company and is collectively responsible for appointing and supervising senior management to ensure that the operations of the Group are conducted in accordance with the objectives of the Group. The principal roles of the Board are:

- to lay down the Group's objectives, strategies, policies and business plan;
- to monitor and control operating and financial performance through the determination of the annual budget; and
- to set appropriate policies to manage risks in pursuit of the Group's strategic objectives.

The Board is directly accountable to the shareholders and is responsible for preparing the accounts.

The Board has delegated the day-to-day management responsibility to the management staff under the instruction/supervision of General Manager and various Board committees.

Composition

As at the date of this report, the Board consists of 9 members, comprising 4 executive Directors namely Mr. Wang Zhong Sheng, Ms. Tang Jie, Mr. Jin Jian Ping and Mr. Dong Hui Qiang, 2 non-executive Directors namely Mr. Sun Bo Quan (Chairman), Mr. Gong Jing, and 3 independent non-executive Directors namely Mr. Ma Jun Lu, Mr. Luo Wei Kun and Mr. Chan Shun Kuen. One of the independent non-executive Directors, Mr. Chan Shun Kuen, is a qualified accountant with substantial experience in accounting and financial matters. Biographical details of the Directors are set out in the section Directors and Senior Management on page 13 to page 16 of this Annual Report.

Although the Company does not set up a Nomination Committee, the Board is mandated to assess annually the independence of all non-executive Directors, and affirms that all independent non-executive Directors satisfy the criteria of independence, as set out in the GEM Listing Rules. Board members are totally unrelated in every aspect including financial, business, or family.

CORPORATE GOVERNANCE REPORT

Appointment and Re-election of Directors

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure of agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing directors.

The notice of the annual general meeting contains detailed information on election of directors including detailed biography of all directors standing for election or re-election to ensure shareholders to make an informed decision on their election.

In the selection process, the Board makes reference to criteria including, inter alia, reputation for integrity, accomplishment and experience in the relevant industry, professional and educational background, and commitment in respect of available time and relevant interest.

The Board has considered in a board meeting the policy for the nomination of directors, and selection of candidate to fill a casual vacancy in the year 2005.

Chairman and Chief Executive Officer

As at the date of this report, Mr. Sun Bo Quan serves as the Chairman of the Company. The Company does not have a chief executive officer. The General Manager (currently Mr. Zheng Tai Qi) acts as the leading officer of the Group in executing the business and other policies and strategies laid down by the Board.

Term of non-executive Director

The non-executive Directors are appointed for a fixed term for no more than 3 years.

Board Process

The proceedings of the Board are well defined and follow all the code provisions of the Code.

Regular Board meetings are held normally every 3 months, with additional meetings arranged, if and when required. 4 Board meetings were held in 2005 and the average attendance rate was 88.9 per cent. Individual attendance records are set out below.

CORPORATE GOVERNANCE REPORT

Board Attendance

No of meetings held during the year	4
Executive Directors	
Wang Zhong Sheng	4
Yang Rui (Resigned on 4 January 2006)	0
Fu Shou Gang (Resigned on 4 January 2006)	4
Tang Jie	4
Non-executive Directors	
Sun Bo Quan	4
Gong Jing	4
Independent Non-executive Directors	
Ma Jun Lu	4
Luo Wei Kun	4
Chan Shun Kuen	4
Average attendance rate	88.9%

Directors are free to contribute alternative views at meetings and major decisions would only be taken after deliberation at Board meetings. Directors who are considered having conflict of interests or material interests in the proposed transactions or issues to be discussed would not be counted in the quorum of meeting and would abstain from voting on the relevant resolution. Minutes of the Board/committee meetings are kept by the Company Secretary and are open for inspection by Directors.

All Directors have access to the Company Secretary who is responsible for ensuring that the Board procedures are complied with, and advising the Board on compliance matters.

CORPORATE GOVERNANCE REPORT

Directors' Duties

Every Director is kept abreast of his responsibilities as a director of the Company and of the conduct, business activities and development of the Company:

- A comprehensive director's handbook is issued to every Director, which sets out guidelines on conduct by making reference to the relevant sections of the statutes or the GEM Listing Rules, and reminds Directors of their responsibilities in making disclosure of their interests and potential conflict of interests.

- Orientation programmes are organised for providing induction to new Directors to help them familiarise with the Company's management, business and governance practices.

- Management provides appropriate and sufficient information to Directors and the committee members in a timely manner to keep them apprised of the latest development of the Group and enable them to discharge their responsibilities. Directors also have independent and unrestricted access to senior executives of the Company.

Conduct on Share Dealings

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company, having made specific enquiries to its directors and supervisors, confirms that, throughout the financial year ended 31 December 2005, all directors and supervisors met the criteria laid down in the said code for securities transactions by directors.

Board Committees

The Board is supported by two committees, namely Remuneration Committee and Audit Committee. Each of them has defined terms of reference covering its duties, powers and functions.

The Board and the committees are provided with sufficient resources to discharge their duties including, retention of outside advisers, if necessary, at the cost of the Company, to provide advice on any specific matter.

All committees comprise independent non-executive Directors. The chairmen of the respective committees report regularly to the Board, and, as appropriate, make recommendations on matters discussed. The governance structure and meetings attendance record of the Committees are set out below.

CORPORATE GOVERNANCE REPORT

	Major roles and functions	Composition during 2005	Attendance in 2005
Audit Committee	• To serve as a focal point for communication between Directors, the external auditors and internal auditors	Ma Jun Lu Luo Wei Kun Chan Shun Kuen	100% 100% 100%
	• To assist the Board in fulfilling its responsibilities by providing an independent review and supervision of financial reporting, and the effectiveness of the Group's internal control system		
	• To review the appointment of external auditors on an annual basis as well as to ensure independence of the continuing auditor		
Total number of meetings held in 2005: 4			
Remuneration Committee	• To formulate remuneration policy and make recommendations on the annual remuneration review	Sun Bo Quan Luo Wei Kun Chan Shun Kuen	100% 100% 100%
	• To determine the remuneration of Executive Director and members of the Senior Management		
Total number of meetings held in 2005: 4 Times			

Remuneration of Directors and Senior Management

The Board has established a Remuneration Committee with specific written terms of reference which set out its authority and duties. The terms of reference of the Remuneration Committee have included the specific duties set out in Code Provision B.1.3(a) to (f) of the Code, with appropriate modifications where necessary. The Remuneration Committee determines the Group's remuneration policy and reviews, in particular, the remuneration packages of the Senior Management. It also makes recommendations to the Board on the annual salary adjustment and provision of the performance bonus, if any.

CORPORATE GOVERNANCE REPORT

The Remuneration Committee has held 4 meeting during 2005 to determine the Group's remuneration policy for executive Directors, and the terms of the service contract of the executive Director appointed in that year. A general description of the emolument policy and long-term incentive schemes as well as the basis of determining the emolument payable to the directors is set out on page 21 of the Annual Report.

Accountability and Audit

Financial reporting

The Directors are responsible for overseeing the preparation of the annual accounts which give a true and fair view of the Group's state of affairs of the results and cash flow for the year. In preparing the accounts for the year ended 31 December 2005, the Directors have:

- selected suitable accounting policies and applied them consistently; and
- made judgements and estimates that are prudent and reasonable; and ensured the accounts are prepared on the going concern basis.

The company recognises that high quality corporate reporting is important in reinforcing the trustworthy relationship with the Company's stakeholders and aims at presenting a balanced, clear and comprehensible assessment of the Company's performance, position and prospects in all corporate communications. The annual, interim and quarterly results of the Company are announced in a timely manner within the required limits after the end of the relevant periods.

A statement by the auditors about their reporting responsibilities is included in the Report of the Auditors on page 36.

Internal Control

The Board, through the Audit Committee, has reviewed the effectiveness of the Company's system of internal control over financial, operational and compliance issues for the year 2005. The Audit Committee concluded that, in general, the Company has set up a sound control environment and installed necessary control mechanisms to monitor and correct non-compliance. The Board, through the review of the Audit Committee, is satisfied that the Group in 2005, fully complied with the code provisions on internal controls as set forth in the Code.

CORPORATE GOVERNANCE REPORT

External Auditors

The Group's external auditors are Deloitte Touche Tohmatsu. The Audit Committee is mandated to ensure continuing auditors' objectivity and safeguard independence of the auditors, and it has:

- determined the framework for the type and authorisation of non-audit services for which the external auditors may provide. In general, the engagement of the external auditors to perform non-audit services is prohibited except for tax-related services; and

- agreed with the Board on the policy relating to the hiring of employees or former employees of the external auditors and monitored the applications of such policy.

During 2005, the fees paid to the Company's external auditors for audit services amounted to RMB689,000 and for non-audit related activities amounted to RMB389,000.

The Group has not employed any staff who was formerly involved in the Group's statutory audit.

Audit Committee

The Board has formed an audit committee in compliance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting and internal control of the Company. The committee members currently comprises all the Independent Non-executive Directors, namely Mr. Ma Jun Lu, Mr. Luo Wei Kun and Mr. Chan Shun Kuen. The terms of reference adopted by the Audit Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants and modified to incorporate the relevant provisions set out in the Code.

The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls. The Audit Committee meets at least four times a year for review of the draft annual, interim and quarterly reports of the Company.

During 2005, the Audit Committee met four times to discuss the annual results of 2004 and the first quarterly, interim and third quarterly results of 2005. The adequacy and effectiveness of the Group's internal control are also discussed in these meetings. The committee has complete and unrestricted access to the external auditors and all staff of the Group.

CORPORATE GOVERNANCE REPORT

Corporate Communication

The Group recognizes the importance of shareholder feedback and the need for ongoing communication with its stakeholders, including the general public, investors, and the institutional and individual shareholders. The Company published annual, interim and quarterly reports which contained detailed information about the Group. Inquiries by shareholders are directed and dealt with by senior management of the Group.

DIRECTORS' REPORT

The Board of Directors is pleased to present the audited financial statements of the Group for the year ended 31 December 2005.

TRANSFORMATION AND LISTING

Tianjin Tianlian Gas Company Limited 天津市津聯燃氣有限公司 (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 2005 are set out in the consolidated income statement on page 37 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 is set out on page 3 of the annual report.

SHARE CAPITAL

Details of the Company's share capital are set out in note 23 to the financial statements.

DIRECTORS' REPORT

RESERVES

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 2005, comprised the retained profits determined under PRC accounting standards of RMB46 million (2004: RMB44 million).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group and the Company are set out in note 13 to the financial statements.

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
Mr. Yang Rui *(Resigned on 04 January 2006)*
Ms. Tang Jie
Mr. Fu Shou Gang *(Resigned on 04 January 2006)*
Mr. Jin Jian Ping *(Appointed on 04 January 2006)*
Mr. Dong Hui Qiang *(Appointed on 04 January 2006)*

Non-executive directors:

Mr. Sun Bo Quan *(Chairman)*
Mr. Gong Jing

Independent non-executive directors:

Professor Ma Jun Lu
Mr. Luo Wei Kun
Mr. Chan Shun Kuen

DIRECTORS' REPORT

Supervisors:

Mr. Dong Hui Qiang *(Resigned on 04 January 2006)*
Mr. Chang Jian
Mr. Sha Jin Cheng
Mr. Cao Shu Jing *(Appointed on 04 January 2006)*

Independent supervisors:

Professor Qi Yin Feng
Mr. Zhang Qi

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.

The Company has received from each of the independent non-executive directors their respective confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers that they remain independent.

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.

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.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Except for Sun Bo Quan and Chan Shun Kuen, Eric, whose appointments as directors of the Company were from their respective appointment dates to the expiry of the current session of the board of directors, the appointment of all non-executive directors are for three years.

POLICY FOR DIRECTORS' REMUNERATION

The remuneration of the directors is determined by the Remuneration Committee with reference to the directors' respective qualifications and experiences.

DIRECTORS' REPORT

DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES

As at 31 December 2005, the interests and short positions of the Directors, Chief Executives and Supervisors in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") which are 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 or short positions which they are 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 the Model Code for Securities Transactions by Directors of Listed Companies 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 *(Note)*	222,025,000	22.31%
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 222,025,000 Domestic Shares of the Company.

Tianjin Leason Investment Group Company Limited has entered into an agreement for the transfer of all its shares in the Company (refer to section below).

Save as disclosed in this paragraph, as at 31 December 2005, none of the Directors, Chief Executives and Supervisors had interest in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are 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 or short positions which they are 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 the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

So far as known to the Directors, as at 31 December 2005, the following, not being a Director or Supervisor, have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO:

DIRECTORS' REPORT

Long position

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 Beacon Coatings Co., Ltd *(Note 1)* 天津燈塔涂料有限公司	Beneficial owner	123,014,790	12.36%
Tianjin Gas Group Company Limited 天津市燃氣集集團有限公司	Beneficial owner	264,360,210	26.57%
Tianjin Leason Investment Group Company Limited	Beneficial owner	222,025,000	22.31%
Ms. Zhao Xin *(Note 2)*	Family	222,025,000	22.31%
Tianjin Wanshun Real Estate Company Limited *(Note 3)* 天津市萬順置業有限公司	Beneficial owner	235,925,000	23.71%
Tianjin Wanshun Business Development Company Limited *(Note 4)* 天津市萬順商務發展有限公司	Held by controlled corporation	235,925,000	23.71%
Mr. Bai Shao Liang *(Note 4)*	Held by controlled corporation	235,925,000	23.71%
Ms. Li Sha *(Note 4)*	Family	235,925,000	23.71%
Mr. Bai Shao Peng *(Note 4)*	Held by controlled corporation	235,925,000	23.71%
Ms. Zhang Xiu Ying *(Note 4)*	Family	235,925,000	23.71%

DIRECTORS' REPORT

Note 1: Tianjin Tianlian Investment & Trade Company Limited changed its name to Tianjin Beacon Coatings Co. Ltd on 20 January 2004.

Note 2: 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.

Note 3: On 28 December 2005, Tianjin Wanshun Real Estate Company Limited ("Wanshun Real Estate") entered into two agreements with Tianjin Leason Investment Group Company Limited and Ms. Liang Jing Qi to acquire from them 222,025,000 shares and 13,900,000 shares in the Company respectively. The relevant sale and purchase of shares are yet to be completed.

Note 4: Tianjin Wanshun Business Development Company Limited ("Wanshun Business Development") holds 80% interest in Wanshun Real Estate. Mr. Bai Shao Liang holds 34.40% and 20% interests in Wanshun Business Development and Wanshun Real Estate respectively and is the sole executive director of Wanshun Real Estate. Ms. Li Sha is the wife of Mr. Bai Shao Liang. Mr. Bai Shao Peng holds 65.60% interests in Wanshun Business Development. Ms. Zhang Xiu Ying is the wife of Mr. Bai Shao Peng. Under the SFO, Wanshun Business Development. Mr. Bai Shao Liang, Ms. Li Sha, Mr. Bai Shao Peng and Ms. Zhang Xiu Ying are taken to be interested in all the shares of the Company held by Wanshun Real Estate.

Tianjin Leason Investment Group Company Limited has entered into an agreement for the transfer of all its shares in the Company (refer to section below).

Save as disclosed above, as at 31 December 2005, the Directors are not aware of any person, not being a Director or Supervisor, have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO.

SALE AND PURCHASE OF DOMESTIC SHARES

On 28 December 2005, the Board was informed by the board of directors of Tianjin Leason Investment Group Company Limited ("Leason"), Ms. Liang Jing Qi ("Ms. Liang") and the executive director of Wanshun Real Estate of the followings:

1. on 28 December 2005 Leason and Wanshun Real Estate entered into a share transfer agreement (the "Leason Transfer Agreement") in relation to the sale of 222,025,000 Domestic Shares (representing approximately 22.31% of the total issued share capital of the Company) by Leason to Wanshun Real Estate at a price of RMB0.29 per Domestic Share amounting to a total consideration of RMB64,387,250;

2. on 28 December 2005 Ms. Liang and Wanshun Real Estate entered into a share transfer agreement (the "Liang Transfer Agreement") in relation to the sale of 13,900,000 Domestic Shares (representing approximately 1.40% of the total issued share capital of the Company) by Ms. Liang to Wanshun Real Estate at a price of RMB0.29 per Domestic Share amounting to a total consideration of RMB4,031,000; and

DIRECTORS' REPORT

3. the entering into the Leason Transfer Agreement and the Liang Transfer Agreement were the commercial decisions of the relevant parties and were concluded after arm's length negotiation between them. The prices of such share transfers are determined between vendors and purchaser after arm's length negotiations with reference to the then price of the Company's H Shares, the net asset value per share of approximately RMB0.176 of the Company's shares (based on the 2005 interim report of the Company) and the liquidity discount of non-circulating Domestic Shares with respect to circulating H Shares.

The Company was confirmed by Wanshun Real Estate and its ultimate beneficial owners that they are not connected to Tianjin Gas Group Company Limited nor Tianjin Beacon Coatings Co., Ltd., nor are they parties acting in concert (as defined in the Hong Kong Code on Takeovers and Mergers) with Tianjin Gas Group Company Limited and/or Tianjin Beacon Coatings Co., Ltd.

SHAREHOLDING STRUCTURE

Based on the above, upon completion of the Leason Transfer Agreement and the Liang Transfer Agreement, Wanshun Real Estate will be interested in approximately 23.71% of the total issued share capital of the Company. Wanshun Real Estate will become the second largest shareholder of the Company, Leason and Ms. Liang will not hold any Domestic Share of the Company, while Tianjin Gas Group Company Limited will remain as the largest shareholder of the Company.

DIRECTORS' REPORT

The table below sets out the shareholding structure of the Company as at the date hereof and after the completion of the aforesaid two agreements:—

	As at the date hereof		No. of Domestic Shares involved in the Leason Transfer Agreement and the Liang Transfer Agreement	Completion of the Leason Transfer Agreement and the Liang Transfer Agreement	
	No. of shares	**%**	**No. of shares**	**No. of shares**	**%**
Wanshun Real Estate	—	0%	235,925,000	235,925,000	23.71%
Initial Management Shareholders					
Leason *(Note 1)*	222,025,000	22.31%	(222,025,000)	—	0%
Tianjin Beacon *(Note 2)*	123,014,790	12.36%	—	123,014,790	12.36%
Tianjin Gas *(Note 3)*	264,360,210	26.57%	—	264,360,210	26.57%
Ms. Tang Jie *(Note 4)*	41,700,000	4.19%	—	41,700,000	4.19%
Ms. Liang *(Note 5)*	13,900,000	1.40%	(13,900,000)	—	0%
Total number of Domestic Shares	665,000,000	66.83%	—	665,000,000	66.83%
Total number of H Shares	330,000,000	33.17%	—	330,000,000	33.17%
Total issued share capital of the Company	995,000,000	100.00%	—	995,000,000	100.00%

Notes:

1. Leason is owned as to 90% by Mr. Wang, and as to 10% by Ms. Zhao Xin, the wife of Mr. Wang.

2. Tianjin Beacon Paint & Coatings Co. Ltd (天津燈塔塗料有限公司) (formerly known as Tianjin Tsinlien Investment & Trade Company (天津津聯投資貿易有限公司)), is a state-owned enterprise established in the PRC with limited liability and is beneficially owned by the Tianjin Municipal Government.

3. Tianjin Gas, a state-owned enterprise established in PRC with limited liability, and beneficially owned by the Tianjin Municipal Government.

4. Ms. Tang Jie is an executive Director of the Company.

5. Ms. Liang was a senior management of the Company responsible for the project management department of the Company. (Ms. Leung ceased to be the senior management of the Company after the date of disposal of the equity interest.)

DIRECTORS' REPORT

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.

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

During the year ended 31 December 2005, neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE ADVISOR'S INTEREST

At 31 December 2005, none of the Company's Compliance Advisor, Guotai Junan Capital Limited (the "Compliance Advisor"), nor its directors, employees or associates had any interests in the share capital of the Company.

Pursuant to an agreement dated 12 September 2005 entered into between the Company and the Compliance Advisor, the Compliance Advisor will receive usual sponsorship fees for acting as the Company's Compliance Advisor for the period from 12 September 2005 to 31 December 2006.

CORPORATE GOVERNANCE

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the period of review.

During the year under review, the Company had complied with the Code on Corporate Governance Practice set out in Appendix 15 to the GEM Listing Rules.

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.

COMPETING INTERESTS

As at 31 December 2005, the Directors are not aware of any business or interest of the directors, the initial management shareholders of the Company and their respective associates, that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

DIRECTORS' REPORT

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2005, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry with all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

CONNECTED TRANSACTIONS

During the year, the Company had purchased natural gas of RMB4,268,000 from Tianjin Gas Group Co., Ltd., a substantial shareholder of the Company.

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 49.90% of the Group's total turnover for the year, with the largest customer accounted for approximately 12.34%. The five largest suppliers of the Group together accounted for approximately 75.48% of the Group's total purchases for the year, with the largest supplier accounted for 27.15%.

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) have 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 three independent non-executive directors, Professor Ma Jun Lu, Mr. Luo Wei Kun and Mr. Chan Shun Kuen. There were 4 meetings held within year 2005. Audit Committee has reviewed this report.

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.

AUDITORS

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

On behalf of the Board
Tianjin Tianlian Public Utilities Company Limited
Sun Bo Quan
Chairman

27 March 2006

AUDITORS' REPORT

Deloitte.
德勤

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 consolidated financial statements of Tianjin Tianlian Public Utilities Company Limited (the "Company") and its subsidiaries (collectively the "Group") on pages 37 to 72 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 consolidated financial statements which give a true and fair view. In preparing consolidated 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2005 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
Hong Kong

27 March 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	**2005 RMB'000**	2004 RMB'000
Turnover	6 & 7	**45,975**	37,378
Cost of sales		**(22,978)**	(10,825)
Gross profit		**22,997**	26,553
Other operating income		**47**	71
Selling expenses		**(892)**	(681)
Administrative expenses		**(16,956)**	(14,266)
Operating profit		**5,196**	11,677
Gain on disposal of a subsidiary and a branch	24 & 28	**2,833**	–
Finance costs	9	**(3,207)**	(2,498)
Profit before tax		**4,822**	9,179
Income tax expense	10	**(2,908)**	(4,680)
Profit for the year	8	**1,914**	4,499
Attributable to:			
Equity holders of the parent		**2,092**	4,899
Minority interests		**(178)**	(400)
		1,914	4,499
Earnings per share			
— basic (RMB cents)	11	**0.2**	0.5

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	13	**162,696**	173,658
Prepaid lease payments	14	**5,609**	7,009
Prepayment		**186**	213
		168,491	180,880
Current assets			
Inventories	17	**874**	613
Trade debtors	15	**10,392**	14,942
Deposits, prepayments and other receivables	16	**47,277**	24,252
Amounts due from customers for contract work	18	**13,670**	13,670
Bank balances and cash		**12,876**	20,180
		85,089	73,657
Current liabilities			
Trade and other payables	19	**23,834**	13,284
Amount due to a shareholder	20	**42,060**	–
Income tax payable		**242**	–
Bank loans	21	**–**	56,000
		66,136	69,284
Net current assets		**18,953**	4,373
Total assets less current liabilities		**187,444**	185,253
Capital and reserves			
Share capital	23	**99,500**	99,500
Reserves		**87,236**	85,144
Total equity		**186,736**	184,644
Non-current liability			
Deferred tax liability	22	**708**	609
		187,444	185,253

The financial statements on pages 37 to 72 were approved and authorised for issue by the Board of Directors on 27 March 2006 and are signed on its behalf by:

Dong Hui Qiang	Sun Bo Quan
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Attributable to equity holders of the parent	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	69,500	–	4,775	2,387	41,416	118,078	400	118,478
Issue of H shares	30,000	49,928	–	–	–	79,928	–	79,928
Shares issue expenses	–	(18,261)	–	–	–	(18,261)	–	(18,261)
Net profit for the year	–	–	–	–	4,899	4,899	(400)	4,499
Transfer *(note 30)*	–	–	445	222	(667)	–	–	–
At 31 December 2004	99,500	31,667	5,220	2,609	45,648	184,644	–	184,644
Contribution from minority interests	–	–	–	–	–	–	500	500
Net profit for the year	–	–	–	–	2,092	2,092	(178)	1,914
Disposal of a subsidiary *(note 24)*	–	–	–	–	–	–	(322)	(322)
Transfer *(note 30)*	–	–	201	101	(302)	–	–	–
At 31 December 2005	99,500	31,667	5,421	2,710	47,438	186,736	–	186,736

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	2005 RMB'000	2004 RMB'000
Operating activities		
Profit before tax	**4,822**	9,179
Adjustments for:		
Depreciation and amortisation	**5,657**	4,770
Interest income	**(44)**	(71)
Interest expenses	**3,207**	2,498
Allowances for bad and doubtful debts	**6**	1,265
Gain on disposal of property, plant and equipment	**–**	(48)
Gain on disposal of a subsidiary and a branch	**(2,833)**	–
Operating cash flows before movements in working capital	**10,815**	17,593
Increase in inventories	**(300)**	(357)
Decrease (increase) in trade debtors	**201**	(5,812)
Increase in amounts due from customer for contract work	**–**	(637)
Decrease in amount due from a related party	**–**	124
Increase in deposits, prepayments and other receivables	**(3,103)**	(8,618)
Increase (decrease) in trade and other payables	**32,370**	(9,173)
Decrease in amount due to a shareholder	**–**	(123)
Net cash generated from (used in) operations	**39,983**	(7,003)
Interest paid	**(3,207)**	(3,476)
Tax paid	**(2,567)**	(6,087)
Net cash generated from (used in) operating activities	**34,209**	(16,566)
Investing activities		
Purchase of property, plant and equipment	**(25,592)**	(28,024)
Disposal of a subsidiary (net of cash and cash equivalents) *(note 24)*	**(797)**	–
Disposal of a branch (net of cash and cash equivalents) *(note 28)*	**(1,728)**	–
Proceeds on disposal of property, plant and equipment	**–**	60
Interest received	**44**	71
Net cash used in investing activities	**(28,073)**	(27,893)
Financing activities		
Repayment of bank loans	**(56,000)**	–
Contribution from minority interests	**500**	–
Proceeds on issuing ordinary shares	**–**	61,667
Increase in amount due to a shareholder	**42,060**	–
Net cash (used in) generated from financing activities	**(13,440)**	61,667
Net (decrease) increase in cash and cash equivalents	**(7,304)**	17,208
Cash and cash equivalents at beginning of the year	**20,180**	2,972
Cash and cash equivalents at end of the year, represented by bank balances and cash	**12,876**	20,180

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

1. GENERAL

The Company was established at 55 Hei Niucheng Road Hexi District Tianjin, the People's Republic of China (the "PRC") as a joint stock limited company. The Company's overseas-listed foreign shares ("H Shares") were listed on the Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 January 2004.

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.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in the change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Groups' accounting policies in the following area that has an effect on how the result for the current and prior accounting years is prepared and presented:

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payment cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payment between the land and buildings elements can be made reliably, the leasehold interest in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortized over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(continued)*

The cumulative effects of the application of the new HKFRSs on 31 December 2004 are summarized below:

	As at 31 December 2004 *RMB'000* *(originally stated)*	**Adjustments** *RMB'000*	**As at 31 December 2004** *RMB'000* *(restated)*
Balance sheet items			
Impact of HKAS 17			
Property, plant and equipment	180,835	(7,177)	173,658
Prepaid lease payments	–	7,177	7,177
Total effects on assets and liabilities	180,835	–	180,835

The Group has not early applied the following standards and interpretations that have been issued but not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign opecation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissing, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market, Waste Electrical and Electronic equipment[3]
HK (IFRIC)-Int 7	Applying the restatement approach under HKAS 29 Financial Reporting Hyperinflationary Economics[4]

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(continued)*

[1] Effective for annual periods beginning on or after 1 January 2007

[2] Effective for annual periods beginning on or after 1 January 2006

[3] Effective for annual periods beginning on or after 1 January 2005

[4] Effective for annual periods beginning on or after 1 March 2006

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis.

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinances.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of the changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investment in subsidiary

Investment in subsidiary 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 2005

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 from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipt through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

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

Depreciation is 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:

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
Leasehold improvement	Over the term of lease

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

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.

Prepaid lease payments

Prepaid lease payments represent lease prepayment paid or payable for the right to use the land on which various plants and buildings are situated for a definite period, less accumulated amortisation. Amortisation of prepaid lease payments is calculated on a straight-line basis over the expected period of the rights.

Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency (i.e. RMB) of that entity (foreign currency) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange difference are also recognised directly in equity.

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.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense as they fall due.

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 2005

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 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised 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 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 Company 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 profits will be available to allow all or part of the assets to be recovered.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets mainly comprised loans and receivables. All regular way purchases or sales of financial assets are recognized and derecognized on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The Group's major financial assets are trade debtors, deposits, other receivables and amounts due from customers for contract work which fall within the category of loan and receivables and accounting policies adopted are set out below.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade debtors, deposits, other receivables and amounts due from customers for contract work) carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group's after deducting all of its liabilities. The accounting policy adopted in respect of financial liabilities is set out below.

The Group's financial liabilities are mainly bank loans, trade and other payables and amount due to a shareholder, these financial liabilities are subsequently measured at amortised cost, using the effective interest rate method.

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within the next financial year, as discussed below.

Allowance for bad and doubtful debts

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debts expenses in the year in which such estimate has been changed.

Impairment of property, plant and equipment

The Group assesses annually whether property, plant and equipment have any indication of impairment in accordance with the accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of judgment and estimates.

Percentage of completion of construction works

The Group recognizes the revenue from gas connection contract 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 recognized 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 recognized to the extent of contract cost incurred that it is probable to be recoverable.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The Group assessed annually the residual value and useful life of the property, plant and equipment and if the expectation differs from the original estimate, such difference will impact the depreciation in the year in which such estimate has been changed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

5. FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES

Credit risk

The group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2005 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its trade and other receivables. In order to minimise credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual debtor regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the Group's credit risk is significantly reduced.

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

Liquidity risk

The Group manages its liquidity risk by maintaining a balance between continuity of funding and flexibility through the use of bank borrowings.

Interest rate risk

The Group has minimal exposure to interest rate risk as all the Group's bank borrowings have been fully settled during the financial year ended 31 December 2005.

6. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

7. SEGMENT INFORMATION

(a) Business segments

For management purposes, the Group is currently divided into three divisions, namely gas connection contract revenue, sale of gas and sale 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		Results	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Gas connection contract revenue	**36,521**	34,193	**25,910**	29,311
Sales of gas	**9,002**	2,815	**460**	280
Sales of gas appliances	**452**	370	**103**	(20)
	45,975	37,378	**26,473**	29,571
Other operating income			**47**	71
Unallocated expenses			**(21,324)**	(17,965)
Operating profit			**5,196**	11,677
Gain on disposal of a subsidiary and a branch			**2,833**	–
Finance costs			**(3,207)**	(2,498)
Profit before tax			**4,822**	9,179
Income tax expense			**(2,908)**	(4,680)
Profit for the year			**1,914**	4,499

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

7. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

	Gas connection contract revenue		Unallocated		Total	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Depreciation and amortization	**–**	–	**5,657**	4,770	**5,657**	4,770
Additions of property, plant and equipment	**–**	–	**25,592**	27,672	**25,592**	27,672
Allowances for bad and doubtful debts	**6**	1,265	**–**	–	**6**	1,265

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

	2005 RMB'000	2004 RMB'000
Segment assets		
Gas connection contract revenue	**26,883**	31,332
Sales of gas	**14,079**	18,008
Sales of gas appliances	**363**	583
Unallocated corporate assets	**212,255**	204,614
	253,580	254,537
Segment liabilities		
Gas connection contract revenue	**18,114**	10,943
Sales of gas	**2,060**	–
Sales of gas appliances	**56**	120
Unallocated corporate liabilities	**46,614**	58,830
	66,844	69,893

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

7. SEGMENT INFORMATION *(continued)*

(b) Geographical segment

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

8. PROFIT FOR THE YEAR

	2005	2004
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Auditors' remuneration	**1,078**	637
Staff costs including directors' and supervisors' remuneration	**4,937**	3,904
Depreciation	**5,485**	4,751
Amortization of prepaid lease payments	**172**	19
Operating lease rentals in respect of rented premises	**842**	587
Allowances for bad and doubtful debts	**6**	1,265
Cost of inventories recognised as expense	**8,891**	2,925
Gain on disposal of property, plant and equipment	**–**	(48)
Bank interest income	**(44)**	(71)

9. FINANCE COSTS

	2005	2004
	RMB'000	*RMB'000*
Interest on bank borrowings wholly repayable within five years	**3,207**	3,421
Less: amount capitalised in construction in progress	**–**	(923)
	3,207	2,498

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

10. INCOME TAX

	2005	2004
	RMB'000	*RMB'000*
The charge comprises:		
PRC enterprise income tax	**2,809**	4,482
Deferred tax *(note 22)*	**99**	198
	2,908	4,680

The Company is subject to PRC enterprise income tax rate of 33% for the year.

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.

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

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

	2005	2004
	RMB'000	*RMB'000*
Profit before tax	**4,822**	9,179
Tax at the domestic income tax rate	**1,591**	3,029
Tax effect of expenses that are not deductible in determining taxable profit	**1,317**	1,651
Tax expense for the year	**2,908**	4,680

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to the equity holders of the parent of RMB2,092,000 (2004: RMB4,899,000) and the weighted average number of shares of 995,000,000 (2004: 988,442,623) in issue during the year.

No diluted earnings per share has been presented as the Company had no outstanding potential shares during the year or at the balance sheet date.

12. 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:

	2005	2004
	RMB'000	*RMB'000*
Fees	**750**	667
Salaries and other benefits	**732**	555
Bonuses	**–**	–
Retirement benefit scheme contributions	**13**	13
	1,495	1,235

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

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

Directors and supervisors *(continued)*

Analysed into:

	2005	2004
	RMB'000	*RMB'000*
Wang Zhongsheng	**342**	323
Fu Shougang	**130**	132
Chang Jian	**140**	132
Gong Jing	**50**	50
Yang Rui	**200**	105
Luo Weikun	**50**	50
Ma Junlu	**50**	50
Sha Jincheng	**50**	50
Hu Maojie	**–**	21
Tang Jie	**183**	126
Zhang Qi	**50**	50
Qi Yinfeng	**50**	50
Dong Huiqiang	**50**	29
Sun Boquan	**50**	29
Wang Shiming	**–**	21
Chen Shunquan	**100**	17
	1,495	1,235

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

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

Employees

The five highest paid employees in the Group for the year included 3 directors (2004: 3 directors and 1 supervisor), details of whose remuneration are set out above. The details of the remuneration of the remaining 2 (2004:1) highest paid employee for 2005 are as follows:

	2005	2004
	RMB'000	*RMB'000*
Salaries and other benefits	**421**	155
Discretionary bonuses	**11**	—
Retirement benefit scheme contributions	**5**	4
	437	159

Their emoluments paid by the Group are within the following band:

	Year ended December 31	
	2005	2004
Nil - RMB1,040,000 (equivalent to HK$1,000,000)	**5**	5

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Pipelines	Machinery	Furniture, fixtures and equipment	Motor vehicles	Leasehold improvement	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST								
At 1 January 2004	18,579	82,852	16,839	583	3,060	–	36,422	158,335
Additions	–	12	17	188	1,769	–	25,686	27,672
Transfer	17	4,075	9	–	–	–	(4,101)	–
Disposals	–	–	–	–	(55)	–	–	(55)
At 1 January 2005	18,596	86,939	16,865	771	4,774	–	58,007	185,952
Additions	–	1,795	1,084	441	532	120	21,620	25,592
Transfer	9,125	12,946	2,929	337	–	–	(25,337)	–
Disposal of a subsidiary	–	–	–	(18)	–	–	–	(18)
Disposal of a branch	–	–	(1,080)	(444)	(827)	(120)	(28,837)	(31,308)
At 31 December 2005	27,721	101,680	19,798	1,087	4,479	–	25,453	180,218
DEPRECIATION AND AMORTISATION								
At 1 January 2004	605	6,402	53	193	333	–	–	7,586
Provided for the year	446	3,277	48	166	814	–	–	4,751
Eliminated on disposals	–	–	–	–	(43)	–	–	(43)
At 1 January 2005	1,051	9,679	101	359	1,104	–	–	12,294
Provided for the year	524	3,398	394	179	969	21	–	5,485
Disposal of a branch	–	–	(17)	(59)	(160)	(21)	–	(257)
At 31 December 2005	1,575	13,077	478	479	1,913	–	–	17,522
NET BOOK VALUES								
At 31 December 2005	26,146	88,603	19,320	608	2,566	–	25,453	162,696
At 31 December 2004	17,545	77,260	16,764	412	3,670	–	58,007	173,658

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

At 31 December 2005, the Group is in the process of applying title certificates for certain buildings with a carrying value of approximately RMB2 million (2004: RMB2 million).

At 31 December 2004, included in construction in progress was interest capitalised of RMB923,000 (2005: nil). In addition, at 31 December 2004, the Group pledged certain office premises with the carrying amount of RMB10,212,000 to secure a bank loan borrowed by the Group. The said secured bank loan was repaid during the year.

14. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprises:

	2005	2004
	RMB'000	*RMB'000*
Leasehold land outside Hong Kong:		
medium-term lease	**5,755**	7,177
Analysed for reporting purpose as:		
Current portion (included in deposits, prepayment and other receivables)	**146**	168
Non-current portion	**5,609**	7,009
	5,755	7,177

The cost of prepaid lease payments is amortised over 40 to 50 years on a straight-line basis.

At 31 December 2005, the Group is in the process of applying title certificates for certain land with a carrying value of approximately RMB5 million (2004: RMB5.1 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

15. TRADE DEBTORS

The Group has a policy of allowing an 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:

	2005	2004
	RMB'000	*RMB'000*
0 — 90 days	**7,592**	5,059
91 — 180 days	**803**	400
181 — 270 days	**767**	2,265
271 — 365 days	**183**	491
Over 365 days	**1,047**	6,727
	10,392	14,942

The directors consider that the carrying amount of trade debtors approximates its fair value.

16. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The directors consider that the carrying amount of deposits and other receivables of approximately RMB32,605,000 as at 31 December 2005 approximates its fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

17. INVENTORIES

	2005	2004
	RMB'000	*RMB'000*
Gas appliances	**363**	309
Gas	**8**	8
Spare parts and consumables	**503**	296
	874	613

All inventories are carried at cost.

18. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORKS

	2005	2004
	RMB'000	*RMB'000*
Contracts in progress at the balance sheet date		
Contract cost incurred plus recognized profits less recognized losses	**13,670**	13,670
Less: progress billings	**–**	–
	13,670	13,670

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

19. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with an aged analysis as follows:

	2005	2004
	RMB'000	*RMB'000*
0 — 90 days	**7,836**	1,428
91 — 180 days	**3,112**	125
181 — 270 days	**–**	249
271 — 365 days	**56**	—
Over 365 days	**2,048**	8,809
	13,052	10,611

The directors consider that the carrying amount of trade and other payables approximates its fair value.

20. AMOUNT DUE TO A SHAREHOLDER

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

The directors consider that the carrying amount of amount due to a shareholder approximates its fair value.

21. BANK LOANS

	2005	2004
	RMB'000	*RMB'000*
Secured *(Note a)*	**–**	6,000
Unsecured *(Note b)*	**–**	50,000
	–	56,000

Notes:

(a) At 31 December 2004, the amount bore interest at commercial rates and was secured by certain office premises of the Group with a net book value of RMB10,212,000.

(b) At 31 December 2004, the balance included a loan of RMB30,000,000 borrowed specifically for the purpose of financing the construction of main pipelines in Jining, the PRC. Accordingly, during the year ended 31 December 2004, interest expense of RMB923,000 arising from the loan was capitalised as part of the cost of the pipelines.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

22. DEFRRED TAXATION

The following is the major deferred tax liability recognised and movements thereon during the year:

	Accelerated tax depreciation	
	2005	2004
	RMB'000	*RMB'000*
At beginning of the year	**609**	411
Charge for the year	**99**	198
At end of the year	**708**	609

23. SHARE CAPITAL

	Number of shares		**Registered, issued and fully paid**
	Domestic Shares	**H Shares**	***RMB'000***
Shares of RMB0.1 each			
At 1 January 2004	695,000,000	–	69,500
Issue of H Shares	–	300,000,000	30,000
Conversion of domestic share to H Shares	(30,000,000)	30,000,000	–
At 31 December 2004 and 2005	665,000,000	330,000,000	99,500

The Company issued 300,000,000 H Shares and converted 30,000,000 Domestic Shares into H Shares by way of placing for listing of H Shares on the GEM of the Stock Exchange on 9 January 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

24. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2005, the Group disposed of its non wholly-owned subsidiary, 廣西北流燃氣有限公司Guangxi Beiliu Gas Co., Ltd ("Beiliu Gas"), which was incorporated in June 2005, and certain assets and liabilities of a branch of the Company in Beiliu to an independent third party at the consideration of RMB1,500,000 and RMB24,358,000, respectively. The net assets of Beiliu Gas disposed of by the Group were summarized as follows:

	2005	2004
	RMB'000	*RMB'000*
NET ASSETS DISPOSED OF		
Property, plant and equipment	**18**	–
Trade debtors	**1,977**	–
Deposits, prepayments and other receivables	**1,796**	–
Bank balances and cash	**797**	–
Trade and other payables	**(3,300)**	–
Minority interests	**(322)**	–
	966	–
Gain on disposal of a subsidiary	**534**	–
	1,500	–
Satisfied by:		
Other receivables	**1,500**	–
Net cash outflow arising on disposal:		
Bank balances and cash disposed of	**(797)**	–

The impact of Beiliu Gas on the Group's results and cash flows in the current year was not significant.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

25. OPERATING LEASE COMMITMENTS

As lessee

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

	2005	2004
	RMB'000	*RMB'000*
Within one year	**445**	345
In the second to fifth year inclusive	**–**	6
	445	351

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 has the following commitments:

	2005	2004
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment:		
— contracted for but not provided in the financial statements	**8,749**	23,753
— authorised but not contracted for	**43,661**	93,993
	52,410	117,746

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 RMB225,000 (2004: RMB204,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

28. MAJOR NON-CASH TRANSACTION

As detailed in note 24, the Group had disposed of its non wholly-owned subsidiary, Builiu Gas and certain assets and liabilities of the branch of the Company in Beiliu at the total consideration of RMB25,858,000. The said amount was subsequently settled in January 2006.

The details of net assets disposed of by the Company's branch in Beiliu are summarised as followings:

	RMB'000
Property, plant and equipment	**31,051**
Prepaid lease payments	**1,250**
Trade debtors	**2,366**
Deposits, prepayments and other receivables	**4,145**
Inventories	**39**
Bank balances and cash	**1,728**
Trade and other payables	**(18,520)**
	22,059
Gain on disposal	**2,299**
	24,358
Satisfied by:	
Other receivables	**24,358**
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	**(1,728)**

29. RELATED PARTY TRANSACTIONS/BALANCES

(a) During the year, the following related party transactions/balances took place:

Name of related party	**Relationship**	**Nature of transactions**	**2005** ***RMB'000***	2004 *RMB'000*
天津市燃氣集團有限公司	Shareholder	Purchase of gas *(Note i)*	**4,268**	1,656
		Amount due to a shareholder *(Note ii)*	**42,060**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

29. RELATED PARTY TRANSACTIONS/BALANCES *(continued)*

(a) During the year, the following related party transactions/balances took place: *(continued)*

Notes:

(i) 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 m^3 during the year ended 31 December 2002 and for the three months ended 31 March 2003. The selling price has increased to RMB1.5 per m^3 since 1 April 2003. Since 1 August 2005, the selling price has increased to 1.6 per m^3.

In the opinion of the directors, the above transaction was carried out in the usual course of business and on normal commercial terms.

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

(b) Material transactions and balances with other state-owned enterprises in the PRC

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled by the PRC government (these enterprises other than天津市燃氣集團有限公司are hereinafter collectively referred to as "State-Owned Enterprises"). During the year, the Group had material transactions with some of these State-Owned Enterprises in its ordinary and usual course of business. In establishing its pricing strategies and approval process for its products and services, the Group does not differentiate whether the counter-party is a State-Owned Enterprise or not. In the opinion of the directors, all such transactions were conducted in the ordinary course of business and on normal commercial terms.

While the directors of the Company consider State-Owned Enterprises are independent third parties so far as the Group's business transactions with them are concerned, for the purpose of this report, the Group has identified the nature and quantified the amounts of its material transactions with State-Owned Enterprises during the year as follows:

(i) Material transactions

	2005	2004
	RMB'000	*RMB'000*
Sales	**15,498**	26,484
Purchases	**5,488**	263
Interest expense	**3,208**	3,421

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

29. RELATED PARTY TRANSACTIONS/BALANCES *(continued)*

(b) Material transactions and balances with other state-owned enterprises in the PRC *(continued)*

(ii) Material balances

	2005	2004
	RMB'000	*RMB'000*
Bank balances and deposits	**2,085**	20,249
Trade and other receivables	**4,669**	6,364
Trade and other payables	**5,975**	1,159
Bank borrowings	**–**	56,000

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005	2004
	RMB'000	*RMB'000*
Fees	**750**	667
Salaries and other benefits	**1,123**	703
Discretionary bonuses	**42**	7
Retirement benefit scheme contributions	**17**	17
	1,932	1,394

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

30. BALANCE SHEET OF THE COMPANY

The Company's balance sheet at the balance sheet dates are as follows:

	Note	2005 RMB'000	2004 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment		**162,696**	173,658
Prepaid lease payment		**5,609**	7,009
Investment in a subsidiary		**–**	–
Prepayment		**186**	213
		168,491	180,880
Current assets			
Inventories		**874**	613
Trade debtors		**10,392**	14,942
Deposits, prepayments and other receivables		**47,277**	24,252
Amounts due from customers for contract work		**13,670**	13,670
Bank balances and cash		**12,876**	20,180
		85,089	73,657
Current liabilities			
Trade and other payables		**23,834**	13,284
Amount due to a shareholder		**42,060**	–
Income tax payable		**242**	–
Bank loans		**–**	56,000
		66,136	69,284
Net current assets		**18,953**	4,373
Total assets less current liabilities		**187,444**	185,253
Capital and reserves			
Share capital		**99,500**	99,500
Reserves	*(a)*	**87,236**	85,144
Total equity		**186,736**	184,644
Non-current liability			
Deferred taxation		**708**	609
		187,444	185,253

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

30. BALANCE SHEET OF THE COMPANY *(continued)*

Note:

(a) RESERVES

	Share premium	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	–	4,775	2,387	41,416	48,578
Issue of H Shares	49,928	–	–	–	49,928
Shares issue expenses	(18,261)	–	–	–	(18,261)
Profit for the year	–	–	–	4,899	4,899
Transfer	–	445	222	(667)	–
At 31 December 2004	31,667	5,220	2,609	45,648	85,144
Profit for the year	–	–	–	2,092	2,092
Transfer	–	201	101	(302)	–
At 31 December 2005	31,667	5,421	2,710	47,438	87,236

(i) 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.

(ii) 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.

(iii) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

31. SUBSIDIARY

Details of the Company's subsidiary, which is a limited liability company, at 31 December 2005 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	the PRC	RMB1,000,000	60%	Sale of gas and gas appliances

FIVE YEAR FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2005	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**45,975**	37,378	43,300	43,853	27,140
Profit before taxation	**4,822**	9,179	26,187	28,853	19,162
Taxation	**(2,908)**	(4,680)	(2,868)	(4,914)	—
Profit before minority interests	**1,914**	4,499	23,319	23,939	19,162
Minority interests	**178**	400	—	—	—
Profit for the year	**2,092**	4,899	23,319	23,939	19,162

ASSETS AND LIABILITIES

	At 31 December				
	2005	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**253,580**	254,537	199,129	141,199	83,798
Total liabilities	**(66,844)**	(69,893)	(80,651)	(46,440)	(12,978)
Minority interest	**—**	—	(400)	—	—
Shareholders' funds	**186,736**	184,644	118,078	94,759	70,820

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