



天津天聯公用事業股份有限公司
TIANJIN TIANLIAN PUBLIC UTILITIES COMPANY LIMITED
(a joint stock limited company incorporated in the People's Republic of China with limited liability)
Stock Code : 8290



2006
Third Quarterly Report

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.

HIGHLIGHTS

- Turnover of approximately RMB34,570,000 for the nine months ended 30 September 2006.
- Gross profit of approximately RMB17,519,000 for the nine months ended 30 September 2006.
- Net gain of approximately RMB4,991,000 for the nine months ended 30 September 2006.

RESULTS

The Board of Directors (the "Board") of Tianjin Tianlian Public Utilities Company Limited (the "Company") is pleased to present the unaudited results of the Company for the three months and nine months ended 30 September 2006 together with the unaudited comparative figures for the three months and nine months ended 30 September 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2006

		Three months ended		Nine months ended	
NOTES		30 September 2006 RMB'000 (unaudited)	30 September 2005 RMB'000 (unaudited)	30 September 2006 RMB'000 (unaudited)	30 September 2005 RMB'000 (unaudited)
Turnover	4 & 5	11,378	5,034	34,570	12,948
Cost of sales		(6,413)	(4,923)	(17,051)	(12,160)
Gross profit		4,965	111	17,519	788
Other income	6	370	9	1,501	35
Selling expenses		(68)	(90)	(141)	(557)
Administrative expenses		(2,696)	(4,157)	(9,407)	(11,379)
Finance costs		(470)	(870)	(1,299)	(2,570)
Profit (loss) before tax	7	2,101	(4,997)	8,173	(13,683)
Income tax expense	8	(884)	—	(3,182)	(99)
Profit (loss) for the period		1,217	(4,997)	4,991	(13,782)
Attributable to:					
Equity holders of the parent		1,217	(4,868)	4,991	(13,653)
Minority interests		—	(129)	—	(129)
		1,217	(4,997)	4,991	(13,782)
Earnings (loss) per share					
— Basic (RMBcent)	10	0.1	(0.5)	0.5	(1.4)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2006

	Attributable to equity holders of the parent							Minority interests	Total equity
	Share capital	Share premium	Statutory surplus reserve	Statutory welfare fund	Accumulated profits	Total			
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	
At 1 January 2005	99,500	31,667	5,220	2,609	45,648	184,644	—	184,644	
Contribution from minority Interests	—	—	—	—	—	—	500	500	
Loss for the period and total recognized income and expenses for the period	—	—	—	—	(13,653)	(13,653)	(129)	(13,782)	
At 30 September 2005	99,500	31,667	5,220	2,609	31,995	170,991	371	171,362	
Profit for the period and total recognized income and expenses for the period	—	—	—	—	15,745	15,745	(49)	15,696	
Disposal of a subsidiary	—	—	—	—	—	—	(322)	(322)	
Transfer	—	—	201	101	(302)	—	—	—	
At 31 December 2005	99,500	31,667	5,421	2,710	47,438	186,736	—	186,736	
Profit for the period and total recognized income and expenses for the period	—	—	—	—	4,991	4,991	—	4,991	
At 30 September 2006	99,500	31,667	5,421	2,710	52,429	191,727	—	191,727	

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2006

1. GENERAL

The Company was established at 55 Heiniucheng 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 Enterprise 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. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and a subsidiary (the "Group") for the year ended 31 December 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new standard, amendments and interpretations issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of these new standard, amendments and interpretations has no material impact on the results for the current or prior accounting period of the Group.

3. PRINCIPAL ACCOUNTING POLICIES — *Continued*

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC)-Int 8	Scope of HKFRS 2 ³
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment ⁵

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

² Effective for annual periods beginning on or after 1 March 2006

³ Effective for annual periods beginning on or after 1 May 2006

⁴ Effective for annual periods beginning on or after 1 June 2006

⁵ Effective for annual periods beginning on or after 1 November 2006

4. TURNOVER

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

5. SEGMENT INFORMATION

Business segments

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

5. SEGMENT INFORMATION – Continued

Segment information about these businesses is presented below:

	Turnover				Result			
	Three months ended 30 September 2006		Nine months ended 30 September 2006		Three months ended 30 September 2005		Nine months ended 30 September 2005	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Gas connection construction revenue	8,576	2,125	27,281	7,588	5,981	811	20,473	3,358
Sales of gas	2,729	2,733	7,181	4,939	434	136	880	(241)
Sales of gas appliances	73	176	108	421	18	74	32	101
	11,378	5,034	34,570	12,948	6,433	1,021	21,385	3,218
Other income					370	9	1,501	35
Unallocated expenses					(4,232)	(5,157)	(13,414)	(14,366)
Finance costs					(470)	(870)	(1,299)	(2,570)
Profit (loss) before tax					2,101	(4,997)	8,173	(13,683)
Income tax expense					(884)	–	(3,182)	(99)
Profit (loss) for the period					1,217	(4,997)	4,991	(13,782)

6. OTHER INCOME

Included in other income, for the nine months ended 30 September 2006 and three months ended 30 September 2006, there were government subsidies of RMB1,188,000 and RMB320,000 respectively, (Nine months ended 30 September 2005 and three months ended 30 September 2005: Nil and Nil respectively), which represent the subsidies from the government for encouraging the Group to conduct business in Jinnan development zone.

7. PROFIT (LOSS) BEFORE TAX

Profit (loss) before tax has been arrived at after charging (crediting):

	Three months ended 30 September		Nine months ended 30 September	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Depreciation of property, plant and equipment	1,836	1,408	4,994	3,902
Amortisation of prepaid lease payments included in administrative expenses	24	14	110	14
Operating lease rentals	134	189	604	612
Bank interest income	(50)	(9)	(160)	(32)
	<u>1,944</u>	<u>1,602</u>	<u>5,348</u>	<u>4,596</u>

8. INCOME TAX EXPENSE

	Three months ended 30 September		Nine months ended 30 September	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
The charge comprises:				
Current PRC enterprise income tax	884	—	3,182	—
Deferred taxation	—	—	—	99
	<u>884</u>	<u>—</u>	<u>3,182</u>	<u>99</u>

The Company is subject to the PRC enterprise income tax rate of 33% for the period (nine months ended 30 September 2005: 33%).

In previous period, in respect of the Company's branch office in Jining, the PRC, the branch office was entitled to exemption from the 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.

8. INCOME TAX EXPENSE — *Continued*

The subsidiary did not have taxable profit for the period (nine months ended 30 September 2005: Nil).

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

9. DIVIDEND

The directors do not recommend the payment of any dividend for the period (nine months ended 30 September 2005: Nil).

10. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share for the nine months ended 30 September 2006 and three months ended 30 September 2006 are based on the profit attributable to equity holders of the parent for the period of RMB4,991,000 and RMB1,217,000, respectively, (nine months ended 30 September 2005 and three months ended 30 September 2005: loss attributable to equity holders of the parent was RMB13,653,000 and RMB4,868,000, respectively) and the number of 995,000,000 shares in issue during both periods.

No diluted earnings (loss) per share has been presented as the Company had no potential ordinary shares during the period or at the balance sheet date.

11. RELATED PARTY TRANSACTIONS

(a) During the period, the following related party transactions took place:

Name of related party	Relationship	Nature of transactions	Three months ended 30 September		Nine months ended 30 September	
			2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
天津市燃氣集團有限公司 ("天津燃氣集團")	Shareholder	Purchase of gas	<u>2,301</u>	<u>815</u>	<u>6,052</u>	<u>2,755</u>

11. RELATED PARTY TRANSACTIONS — *Continued*

- (b) Transaction with 天津市華水自來水建設有限公司

During the period, the Group had engaged天津市華水自來水建設有限公司 (“天津自來水”) to construct property, plant and equipment of approximately RMB28 million for the Group. This amount was settled by the Group’s construction in progress of approximately RMB11.6 million, amounts due from customers for contract work of approximately RMB13.7 million and bank balances and cash of RMB2.7 million. 天津自來水 is controlled by the PRC government. In addition, during the period, 天津自來水 had also carried out the project work for the Group of approximately RMB3 million. The above transactions had been included and disclosed in section (c) “Purchase of service”.

- (c) Material transactions with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government (these entities other than 天津燃氣集團 are hereinafter collectively referred to as “State-Controlled Entities”). In addition, the Group’s largest shareholder is 天津燃氣集團 which is controlled by the PRC government. Apart from the transactions with 天津燃氣集團 disclosed in section (a) above, the Group also conducts business with State-Controlled Entities including the non-cash transaction with 天津自來水 disclosed in section (b) above. The directors consider those State-Controlled Entities are independent third parties so far as the Group’s business transactions with them are concerned.

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are State-Controlled Entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

11. RELATED PARTY TRANSACTIONS — *Continued*(c) Material transactions with other state-controlled entities in the PRC — *Continued*

Material transactions with other state-controlled entities are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Sales	—	1,615	9,108	4,163
Purchase of service	1,720	316	32,728	2,488

Except as disclosed above, the directors are of the opinion that transactions with State-Controlled Entities are not significant to the Group's operations.

(d) Guarantee

At 30 September 2006, the short term bank loan of RMB30,000,000 was guaranteed by 天津燃氣集團.

11. RELATED PARTY TRANSACTIONS — *Continued*

- (e) Compensation of key management personnel

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

	Three months ended 30 September		Nine months ended 30 September	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Fees	187	187	562	562
Salaries and other benefits	188	185	427	568
Retirement benefit scheme contributions	3	9	3	27
	378	381	992	1,157

- (f) Others

On 27 September, 2006, the Company entered into an assets transfer agreement with its shareholder 天津燃氣集團, whereby the Company agreed to acquire certain pipe network and equipment, which were located in Xiqing, Tianjin, from 天津燃氣集團 at a consideration of approximately RMB7,194,000. The above transaction was completed in October 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group was successfully listed on GEM on 9 January 2004.

BUSINESS REVIEW

For the nine months ended 30 September 2006, the Group reported a revenue of approximately RMB34,570,000, representing an increase of approximately 167% as compared with the nine months of 2005. The Group's net profit for the nine months of 2006 amounted to approximately RMB4,991,000.

Segmental Information Analysis

During the nine months ended 30 September 2006, 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 source of income for the Group, which is followed by sales of gas and sales of gas appliances. The Group will further expand the operation in these two areas, in order to attain its strategic objectives for this year.

Financial Resources

The Group is generally funded by equity financing and bank borrowings. As at 30 September 2006, the Group had bank borrowings of RMB30,000,000 from Agricultural Bank of China.

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.

Contingent Liabilities

As at 30 September 2006, the Group had no material contingent liabilities or guarantees.

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 gases.

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.

SECOND SESSION OF BOARD OF DIRECTORS AND SECOND SESSION OF SUPERVISORY COMMITTEE

CHANGE OF COMPLIANCE OFFICER AND AUTHORISED REPRESENTATIVE

The term of office of the first session of the board of directors and supervisory committee of the Company ended at the close of the annual general meeting of the Company held on 26 May 2006 (the "AGM"). In the AGM, Mr. Jin Jian Ping, Mr. Dong Hui Qiang, Mr. Bai Shao Liang and Ms. Tang Jie were re-elected/appointed as executive directors of the second session of the board of directors of the Company; Mr. Sun Bo Quan and Mr. Gong Jing were re-elected as non-executive directors of the second session of the board of directors of the Company and Professor Ma Jun Lu, Mr. Luo Wei Kun and Mr. Chan Shun Kuen, Eric were re-elected as independent non-executive directors of the second session of the board of directors of the Company. Mr. Cao Shu Jing and Mr. Sha Jin Cheng were re-elected as supervisors of the second session of the supervisory committee of the Company and Professor Qi Yin Feng and Mr. Zhang Qi were re-elected as independent supervisors of the second session of the supervisory committee of the Company. Mr. Chang Jian was elected as supervisor representing the staff of the second session of the supervisory committee of the Company earlier by the representatives' meeting of the staff.

The respective term of office of Mr. Jin Jian Ping, Mr. Dong Hui Qiang, Mr. Bai Shao Liang, Ms. Tang Jie, Mr. Sun Bo Quan, Mr. Gong Jing, Professor Ma Jun Lu, Mr. Luo Wei Kun and Mr. Chan Shun Kuen, Eric, Mr. Cao Shu Jing, Mr. Sha Jin Cheng, Professor Qi Yin Feng, Mr. Zhang Qi and Mr. Chang Jian is three years from the date of the AGM to the date on which the annual general meeting 2008 of the Company is held.

Effective from the close of the AGM, Mr. Jin Jian Ping has replaced Mr. Wang Zhong Sheng, who did not offer himself to be re-elected as director of the Company, as the compliance officer of the Company under Rule 5.19 of the GEM Listing Rules, and Mr. Dong Hui Qiang has replaced Mr. Wang Zhong Sheng as one of the two authorised representatives of the Company under Rule 5.24 of the GEM Listing Rules.

SPECIFIC MANDATE TO ISSUE NEW H SHARES RELATING TO A POSSIBLE PLACING OF NEW H SHARES

On 26 May 2006, an extraordinary general meeting, a class meeting of the holders of H shares and a class meeting of the holders of domestic shares of the Company were held, whereby the shareholders, the holders of H shares and the holders of domestic shares have respectively approved the grant of a specific mandate to issue new H shares (the "Specific Mandate") to the board of directors of the Company.

The major terms of the Specific Mandate are as follows:

- (1) to issue not more than 20% (i.e. 199,000,000 shares) of the total issued share capital of the Company as at 26 May 2006;
- (2) the new H Shares will not be issued at a discount of more than 20% to (i) the closing price of the H Shares as quoted on GEM of the Stock Exchange on the date of signing of the relevant placing agreement; or (ii) the average closing price of the H Shares as quoted on GEM of the Stock Exchange for the 5 trading days immediately prior to the signing of relevant placing agreement;
- (3) the Specific Mandate is for the period from 26 May 2006 up to the earliest of: (i) the expiration of the 12-month period from 26 May 2006; or (ii) the revocation or variation of the authority given under the relevant resolution(s) by special resolution(s) of the shareholders of the Company in a general or a class meeting.

Issue of new H Shares pursuant to the Specific Mandate is subject to, among other things, the obtaining of the necessary approvals from the relevant PRC regulatory authorities, including the China Securities Regulatory Commission for the issue of the new H Shares and the National Social Security Fund Council of the PRC and the State-owned Assets Supervision and Administration Commission for the disposal of the state-owned shares. Depending on market conditions, the Directors may or may not exercise the Specific Mandate to issue new H shares. If the Directors proceed to issue and place new H shares pursuant to the Specific Mandate, a separate announcement will be made as required by the GEM Listing Rules.

The placing of new H Shares will enlarge the shareholder and capital bases of the Company and strengthen the financial position of the Group.

Should the board of directors proceed to exercise the Specific Mandate to issue new H shares, the Company will apply to the GEM Listing Committee for the listing of and permission to deal in all of the new H shares to be issued and placed.

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO (1) GAS SUPPLY (2) PIPELINE NETWORK DESIGN SERVICES

On 22 May 2006, Tianjin Gas Group Company Limited ("Tianjin Gas") and the Company entered into a gas supply contract in respect of the supply of natural gas by Tianjin Gas to the Group for the following two years. Pursuant to the gas supply contract, Tianjin Gas agreed to supply to the Company and the Company agreed to purchase from Tianjin Gas up to 5,000,000 cubic metres of natural gas per year at a price of RMB1.80 per cubic metre (to be adjusted in accordance with the direction of the Tianjin Municipal Price Bureau) commencing from 22 May 2006 to 21 May 2008 i.e. up to RMB9,000,000 per year. The above purchase volume was determined based on the past consumptions and the growth of gas users as a result of the expansion of gas pipeline network of the Group by connecting gas pipelines to new property developments and newly developed areas in Tianjin City. The unit price of natural gas is regulated by the Tianjin Municipal Price Bureau. The above unit price was determined and regulated according to "Document of Tianjin Municipal Price Bureau" Jin Jia Shang 2006 No. 58 dated 1 March 2006 and issued by the Tianjin Municipal Price Bureau to, among others, Tianjin Gas and effective from 1 April 2006, Tianjin Gas is obligated to sell natural gas to the Company at a price of RMB1.80 per cubic metre. The Company is required to settle the gas charge by cheque on or before the 25th day of each month, based on the actual consumption of natural gas by the Group during the month.

On 22 May 2006, the Company and Tianjin Gas Engineering Design Institute ("Design Institute") entered into a pipeline design agreement in respect of the provision of pipeline design service by Design Institute to the Company in the following two years. Pursuant to the pipeline design agreement, Design Institute agreed to, for a term of two years commencing on 22 May 2006, provide pipeline design service to the Company upon the Company's order at a consideration to be determined by the parties based on the principles of justness, fairness and reasonableness and normal commercial practices; provided that the total fee for service provided by Design Institute to the Company for each of the 12 months ended on 31 December 2006 and 31 December 2007 shall not exceed RMB600,000 respectively. This

cap was determined with regard to the capacity of the Company's in-house pipeline design team, whose major role is to coordinate and monitor pipeline design work, and the Company's forecast of need for outsourced pipeline design service for the following two years. It was further agreed that the Company is not bound to commission Design Institute to provide pipeline design service and Design Institute will be selected only if the terms offered by Design Institute are not less favourable than those terms offered by other qualified designers. If the Company commissions Design Institute to do the pipeline design in a particular project, the Company and Design Institute will enter into a separate contract which will contain the relevant contract price. The payment terms will be separately negotiated.

Tianjin Gas is one of the promoters of the Company which holds 26.57% shareholding in the Company and is a substantial shareholder of the Company as defined in the GEM Listing Rules. Design Institute is a wholly owned subsidiary of Tianjin Gas and is an associate of Tianjin Gas as defined in the GEM Listing Rules. Accordingly, Tianjin Gas and Design Institute are connected persons of the Company pursuant to Rules 20.11(1) and 20.11(4) of the GEM Listing Rules respectively. As each of the percentage ratios (other than the profits ratio) for the aggregate proposed caps of the gas supply transaction and the pipeline design transaction (for the purpose of Rule 20.25 of the GEM Listing Rules, the Company is regarded to transact with the same party) for each of the 12 months ending 31 December 2006 and ending 31 December 2007 of RMB9,600,000 (equivalent to approximately HK\$9,231,000) is on an annual basis more than 2.5% but not more than 25% for each of the percentage ratios (other than the profits ratio) and the annual consideration is not more than HK\$10,000,000, the gas supply transaction and the pipeline design transaction will, pursuant to Rules 20.34 to 20.41 of the GEM Listing Rules, constitute a continuing connected transaction exempt from the independent shareholders' approval requirement and will only be subject to the reporting and announcement requirements under Chapter 20 of the GEM Listing Rules.

CONNECTED AND DISCLOSEABLE TRANSACTION

On 27 September 2006, the Company entered into an asset transfer agreement (the "Asset Transfer Agreement") with Tianjin Gas, whereby the Company agreed to acquire part of fixed assets (including structures, pipe network, machinery equipment, electronic equipment and vehicles) of Xiqing Sales Office of Third Sales Branch of Tianjin Gas listed in an asset valuation report numbered Hua Xia Song De Ping I Zi [2006] 55 issued by Tianjin Huaxia Songde CPA Limited (the "Xiqing Assets") from Tianjin Gas at a consideration of RMB7,193,500 (approximately HK\$6,916,827). The Company will entrust Tianjin Gas to manage the Xiqing Assets from the completion day of the Asset Transfer Agreement to 30 November 2006, and will pay entrusted management fee of RMB70,800 per month to Tianjin Gas. Tianjin Gas is one of the promoters of the Company, which holds 26.57% shareholding of the Company as at the date of this report. Therefore, Tianjin Gas is a substantial shareholder of the Company (as defined in the GEM Listing Rules), and pursuant to Rules 20.11(1) and 20.11(3) of the GEM Listing Rules, it is also a connected person of the Company. According to Rule 20.13(1) of the GEM Listing Rules, the entering into the Asset Transfer Agreement constitutes a connected transaction of the Company.

The Directors (including the independent non-executive Directors) confirm that the Asset Transfer Agreement is entered into on normal commercial terms. The applicable percentage ratios calculated under Rule 19.07 of the GEM Listing Rules are all lower than 25% with the consideration of the transaction lower than HK\$10,000,000. Therefore, in accordance with Rule 20.32 of the GEM Listing Rules, the transaction is subject only to the reporting and announcement requirements as set out in Rules 20.45 to 20.47 of the GEM Listing Rules, and is exempt from the independent shareholders' approval requirement.

Since the relevant percentage ratio (as defined in the GEM Listing Rules) of the transaction contemplated under the Asset Transfer Agreement is higher than 5% but lower than 25%, the Asset Transfer Agreement constitutes a discloseable transaction under Rule 19.06 of the GEM Listing Rules.

The Asset Transfer Agreement was completed in October 2006.

DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS IN SECURITIES

As at 30 September 2006, 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 Futures 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 required standard of dealings by Directors and Supervisors of the Company as referred to in Rules 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long position

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

Name of Director/Supervisor	Capacity	Number of Domestic Shares held	Approximate percentage of interests in the Company/ Domestic Shares of the Company
Ms. Tang Jie	Beneficial owner	41,700,000	4.19%/6.27%
Mr. Bai Shao Liang (please see Note 3 under the section "Substantial Shareholders")	Held by controlled corporation	235,925,000	23.71%/35.48%

Note:

Save as disclosed in the above paragraph, as at 30 September 2006, 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 required standard of dealings by Directors and Supervisors of the Company as referred to in Rules 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

So far as known to the Directors, as at 30 September 2006, 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:

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 interests in the Company/ Domestic Shares of the Company
Tianjin Beacon Coatings Co., Ltd (Note 1) 天津燈塔塗料有限公司	Beneficial owner	123,014,790	12.36%/18.50%
Tianjin Gas Group Company Limited 天津市燃氣集團有限公司	Beneficial owner	264,360,210	26.57%/39.75%
Tianjin Wanshun Real Estate Company Limited (Note 2) 天津市萬順置業有限公司	Beneficial owner	235,925,000	23.71%/35.48%
Tianjin Wanshun Business Development Company Limited (Note 3) 天津市萬順商務發展有限公司	Held by controlled corporation	235,925,000	23.71%/35.48%
Ms. Li Sha (Note 3)	Family	235,925,000	23.71%/35.48%
Mr. Bai Shao Peng (Note 3)	Held by controlled corporation	235,925,000	23.71%/35.48%
Ms. Zhang Xiu Ying (Note 3)	Family	235,925,000	23.71%/35.48%

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

Note 2: 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 was completed on 20 April 2006.

Note 3: 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.

Long position

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

Name of shareholder	Capacity	Number of H Shares held	Approximate percentage of interests in the Company/ H Shares of the Company
Martin Currie Investment Management Limited	Investment Manager	20,000,000	2.01%/6.06%
China Development Capital Partnership L.P.	Investment Manager	20,000,000	2.01%/6.06%

Save as disclosed above, as at 30 September 2006, the Directors are not aware of any person, not being a Director, Chief Executive 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.

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

During the nine months ended 30 September 2006, neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed securities.

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 period under review or at any time during the period.

COMPETING INTERESTS

As at 30 September 2006, the Directors are not aware of any business or interest of the Directors, the 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.

COMPLIANCE ADVISER'S INTEREST

As at 30 September 2006, none of the Company's Compliance Adviser, Guotai Junan Capital Limited (the "Compliance Adviser"), 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 Adviser, the Compliance Adviser will receive usual sponsorship fees for acting as the Company's Compliance Adviser for the period from 12 September 2005 to 31 December 2006.

CORPORATE GOVERNANCE

The Company had 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 nine months ended 30 September 2006, 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 period under review 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 2006, 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.

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. The Audit Committee has reviewed the report for this period.

By order of the board

Tianjin Tianlian Public Utilities Company Limited

Sun Bo Quan

Chairman

Tianjin, PRC, 13 November 2006