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)

2006 Annual Report

Stock Code: 8290

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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.

Contents

Company Information

Directors

Executive Directors

Jin Jian Ping
Dong Hui Qiang
Bai Shao Liang
Tang Jie

Non-Executive Directors

Sun Bo Quan *(Chairman)*
Gong Jing

Independent Non-executive Directors

Ma Jun Lu
Luo Wei Kun
Chan Shun Kuen, Eric

Independent Supervisors

Qi Yin Feng
Zhang Qi

Supervisors

Chang Jian
Sha Jin Cheng
Cao Shu Jing

Qualified Accountant

Kwok Shun Tim CPA ACCA CBA MHKSI ITA MSC

Company Secretary

Kwok Shun Tim CPA ACCA CBA MHKSI ITA MSC

Authorised Representatives

Dong Hui Qiang
Kwok Shun Tim

Compliance Officer

Jin Jian Ping

Audit Committee

Ma Jun Lu
Luo Wei Kun
Chan Shun Kuen, Eric

Legal Address

Weishan Road
Chang Qing Science, Industry and Trade Park
Jinnan District
Tianjin

Principal Place of Business in the PRC

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

Auditors

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

Compliance Adviser

Guotai Junan Capital Limited
26/F, Low Block, Grand Millennium Plaza
181 Queen's Read Central
Hong Kong

Hong Kong Legal Adviser

Loong & Yeung in association with Rodyk & Davidson
Suites 2911-2912, 29/F.,
Two International Finance Centre
No. 8 Finance Street
Central, Hong Kong

Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1901-1905
Hopewell Centre
183 Queen's Road East, HK

Principal Banker

Agricultural Bank of China
Tianjin He Xi Sub-branch
PRC

Stock Code

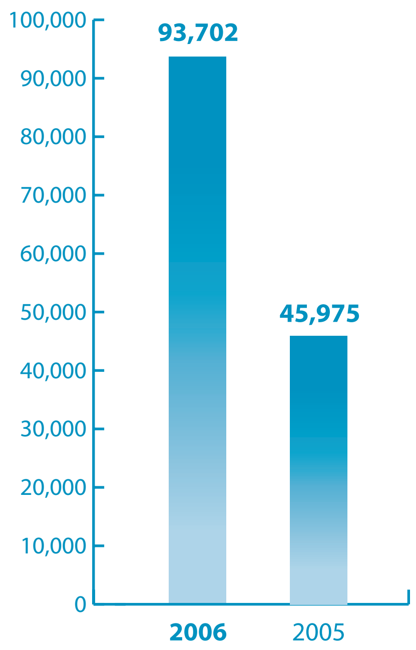
8290

Financial Summary

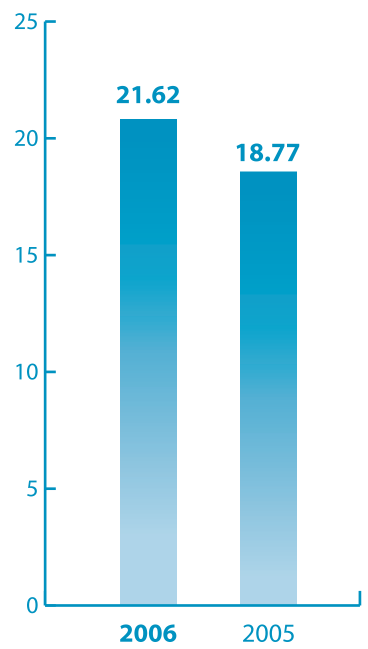
	2006 RMB'000	2005 RMB'000
Turnover	93,702	45,975
Gross profit	57,120	22,997
Net profit attributable to equity holders of the Company	28,428	2,092
Shareholders' interest	215,164	186,736
Total assets	281,670	253,580

	2006 RMB (cents)	2005 RMB (cents)
Earnings per share	2.86	0.2
Net asset per share	21.62	18.77

Turnover
(RMB'000)



Net asset per share
(RMB cents)



To all the shareholders:

The performance of Tianjin Tianlian Public Utilities Co., Ltd. (the "Company") and its subsidiary (collectively the "Group") attained a good business development and gained a higher market share and its results had a strong growth (compared with 2005). We believe that the Group will achieve a satisfactory result for our shareholders in year 2007.

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 2006. 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 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 shareholders, 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 2007 for our shareholders.

Sun Bo Quan
Chairman

The PRC, 29 March 2007

Management Discussion and Analysis

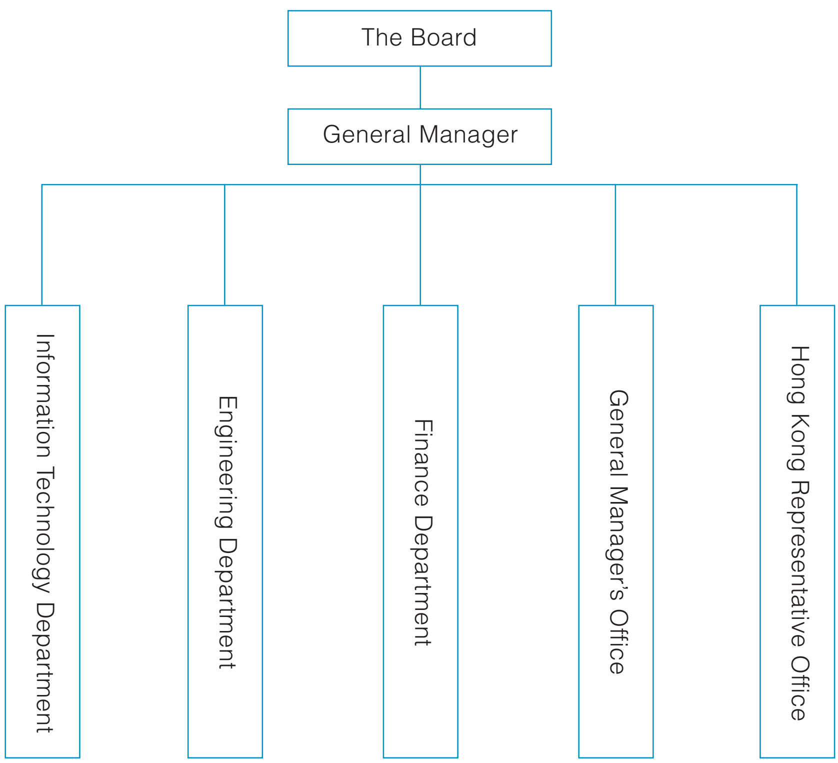
The performance of Tianjin Tianlian Public Utilities Co., Ltd. (the "Company") and its subsidiary (collectively the "Group") attained a good business development and gained a higher market share and its results had a strong growth (compared with 2005). We believe that the Group will achieve a satisfactory result for our shareholders in year 2007.

Business Review

For the year ended 31 December 2006, the Group reported a turnover of approximately RMB93,702,000, representing an increase of approximately 104% as compared with the previous year. The Group's net profit attributable to the equity holders of the Company for the year 2006 amounted to approximately RMB28,428,000, significantly increased by 1259% as compared with the previous year.

Management Structure

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



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, 2006, the Group had an unsecured bank borrowing of RMB30,000,000 from Agricultural Bank of China, and had no charge created on its assets. The aforesaid bank loan was fully repaid in January 2007.

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) as at 31 December 2006 was approximately 0.24.

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 2006, the Group had a workforce of 69 full-time employees, among which 99% were working in China.

Emoluments of employees were determined pursuant to the common practice of the industry as well as individual performance. In addition to regular salaries, the Group also paid 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.

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, 29 March 2007

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:

Directors

The term of office of the first session of the board of directors and supervisory committee of Tianjin Tianlian Public Utilities Company Limited (the "Company") ended at the close of the annual general meeting of the Company held on 26 May 2006 (the "AGM"). The board of directors of the Company is pleased to announce that 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 a supervisor representing the staff of the second session of the supervisory committee of the Company earlier by the representatives' meeting of the staff.

Executive Directors

Mr. Jin Jian Ping, aged 47. 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 shareholder of the Company.

Mr. Dong Hui Qiang, aged 53, 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.

Mr. Bai Shao Liang, aged 48, is the General Manager and Chairman of Tianjin Wanshun Real Estate Company Limited, which is a substantial shareholder of the Company. Mr. Bai is also the Chairman of Tianjin Wanshun Business Development Company Limited.

Ms. Tang Jie, aged 40. 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關公司), 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.

Non-executive Directors

Mr. Sun Bo Quan, 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 Limited, he is Vice Bureau head and deputy Chief Economist of Tianjin Public Utility Bureau.

Mr. Gong Jing, aged 43, 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, aged 53, 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, aged 68, 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 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 a Senior Vice President (Investment Banking-Business Development) of KGI Capital Asia Limited. Mr. Chan is an associate member of Hong Kong Institute of Certified Public Accounts (formerly known as Hong Kong Society of Accountants).

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. Cao Shu Jing, aged 55, 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.

Mr. Sha Jin Cheng, aged 63, a Supervisor, graduated from Hua Dong Chemical College (華東化工學院) 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).

Independent Supervisors

Professor Qi Yin Feng, aged 69, 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, aged 44, 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).

Supervisor Representing the Staff

Mr. Chang Jian, aged 42, 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.

Qualified Accountant

Mr. Kwok Shun Tim (郭純恬), aged 33, 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. Zheng Tai Qi (**鄭太琪先生**), aged 53, tertiary educated, senior engineer, had been a deputy manager of Tianjin Gas Distribution (No.1) Company and has been appointed as the general manager of the Company since December 2004.

Mr. Zhao Tong (**趙彤先生**), aged 35, 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 51, 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.

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 2006.

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. Bai Shao Liang, 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 9 to page 10 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.

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 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 2006.

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 2006 and the average attendance rate was 97.2 per cent. Individual attendance records are set out below.

Board Attendance

No of meetings held during the year	4
Executive Directors	
Jin Jian Ping	4
Dong Hui Qiang	4
Bai Shao Liang	2
Wang Zhong Sheng (Ceased to the Director on 26 May 2006)	1
Yang Rui (Resigned on 4 January 2006)	0
Fu Shou Gang (Resigned on 4 January 2006)	0
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	97.2%

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 the 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.

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 2006, 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.

	Major roles and functions	Composition during 2006	Attendance in 2006
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 2006: 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 2006: 1			

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.

The Remuneration Committee has held 1 meeting during 2006 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 22 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 2006, 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 Independent Auditor's Report on page 33.

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 2006. 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 2006, fully complied with the code provisions on internal controls as set forth in the Code.

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 quarterly reviews; 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 2006, the fees paid to the Company's external auditors for audit services amounted to approximately RMB0.7 million and for non-audit related activities amounted to approximately RMB0.3 million.

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 2006, the Audit Committee met four times to discuss the annual results of 2005 and the first quarterly, interim and third quarterly results of 2006. 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 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.

The Board of Directors is pleased to present the audited consolidated financial statements of the Group for the year ended 31 December 2006.

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 subsidiary is dormant.

Results and Dividend

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 35 of the annual report.

The directors do not recommend the payment of a dividend for the year ended 31 December 2006 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 22 to the consolidated financial statements.

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 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 2006, comprised the retained profits determined under PRC accounting standards of RMB70 million (2005: RMB46 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 consolidated 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 *(Ceased to be director from 26 May 2006)*
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)*
Mr. Bai Shao Liang *(Appointed on 26 May 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

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

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', Chief Executive and Supervisors' Interests in Securities

As at 31 December 2006, the interests and short positions of the Directors, Chief Executive 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 required standard of dealings by Directors and Supervisors of the Company as referred to in Rule 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%

Save as disclosed in this paragraph, as at 31 December 2006, none of the Directors, Chief Executive 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 Supervisor of the Company as referred to in Rule 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 31 December 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)* 天津燈塔涂料有限公司	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 31 December 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.

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 2006, neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed securities.

Compliance Advisor's Interest

At 31 December 2006, 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 2006, 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.

Code of Conduct Regarding Securities Transactions by Directors

During the year ended 31 December 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.

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.

During the year, the Company had purchased natural gas of RMB12,185,000 from Tianjin Gas Group Co., Ltd., ("Tianjin Gas") 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; and

(iv) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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.

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 28.61% of the Group's total turnover for the year, with the largest customer accounted for approximately 8.55%. The five largest suppliers of the Group together accounted for approximately 97.13% of the Group's total purchases for the year, with the largest supplier accounted for 48.66%.

Except Tianjin Gas, a substantial shareholder of the Company, is a major supplier of the Group, 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.

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 2006. 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

29 March 2007

Supervisory Committee's Report

To All Shareholders:

During the period of this report, all members of the Supervisory Committee have faithfully discharged their supervisory duties vested in them by the Articles of Association of the Company in compliance with the provisions of the Company Law of the People's Republic of China and the Articles of Association of the Company to safeguard the interests of the Company and its shareholders and abiding by the principle of good faith in performing its work prudently and diligently. Our major functions comprised: exercising supervision over the Board of Directors to ensure that they are performing effectively, supervision of the major policies and decisions of the Company's management to determine their consistency with the law and regulations of the State, the Articles of Association of the Company and the interests of the shareholders, and making recommendations on the development strategy of the Group.

The Supervisory Committee has reviewed the accounting evidence, books and records, statements and other accounting information of the Company. We are of the opinion that the Company's financial statements have been properly prepared, and that the auditing work and financial management of the Company are in compliance of the relevant regulations. We have found nothing contained therein to be doubtful.

The Supervisory Committee has also carefully reviewed the report of the Directors, the audited financial statements and the proposed profit appropriation plan to be submitted by the Board of Directors to the forthcoming Annual General Meeting. We are of the opinion that the directors, general manager and other senior management staff of the Company have strictly adhered to the principle of good faith and sincerely acted in the best interests of the Company when they exercised their powers. They have not committed any acts in violation of any laws or regulations or Articles of Association, nor have they been provided in any acts of abuse of power or infringement of the interests of the Company and its shareholders.
In 2007, the Supervisory Committee will continue faithfully to perform its duties and work diligently to safeguard the interests of all of the Company's investors.

By order of the Supervisory Committee
Cao Shu Jing
Chairman of the Supervisory Committee
The PRC
29 March, 2007

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 subsidiary (collectively referred to as the "Group") set out on pages 35 to 64 which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2006 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards 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
29 March 2007

Consolidated Income Statement

For The Year Ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Turnover	6 & 7	**93,702**	45,975
Cost of sales		**(36,582)**	(22,978)
Gross profit		**57,120**	22,997
Other income		**2,908**	47
Selling expenses		**(155)**	(892)
Administrative expenses		**(14,491)**	(16,956)
Gain on disposal of a subsidiary and a branch		**—**	2,833
Finance costs	8	**(1,829)**	(3,207)
Profit before tax		**43,553**	4,822
Income tax expense	9	**(15,125)**	(2,908)
Profit for the year	10	**28,428**	1,914
Attributable to:			
Equity holders of the parent		**28,428**	2,092
Minority interests		**—**	(178)
		28,428	1,914
Earnings per share			
— basic *(RMB cents)*	11	**2.86**	0.2

Consolidated Balance Sheet

At 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	13	**184,541**	162,696
Prepaid lease payments	14	**5,462**	5,609
Prepayment		**161**	186
		190,164	168,491
Current assets			
Inventories	15	**1,160**	874
Bills and trade receivables	16	**55,961**	10,392
Deposits, prepayment and other receivables		**2,854**	47,277
Amounts due from customers for contract work	17	**—**	13,670
Bank balances and cash	18	**31,531**	12,876
		91,506	85,089
Current liabilities			
Trade and other payables	19	**20,607**	23,834
Amount due to a shareholder	20	**3,978**	42,060
Bank loan	21	**30,000**	—
Income tax payable		**11,275**	242
		65,860	66,136
Net current assets		**25,646**	18,953
Total assets less current liabilities		**215,810**	187,444
Capital and reserves			
Share capital	22	**99,500**	99,500
Reserves		**115,664**	87,236
Total equity		**215,164**	186,736
Non-current liability			
Deferred tax liability	23	**646**	708
		215,810	187,444

The consolidated financial statements on pages 35 to 64 were approved and authorised for issue by the Board of Directors on 29 March 2007 and are signed on its behalf by:

Dong Hui Qiang
DIRECTOR

Sun Bo Quan
DIRECTOR

Consolidated Statement Of Changes In Equity

For The Year Ended 31 December 2006

	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Attributable to equity holders of the parent RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2005	99,500	31,667	5,220	2,609	45,648	184,644	—	184,644
Contribution from minority interests	—	—	—	—	—	—	500	500
Profit for the year, representing total recognised income for the year	—	—	—	—	2,092	2,092	(178)	1,914
Disposal of a subsidiary	—	—	—	—	—	—	(322)	(322)
Appropriation	—	—	201	101	(302)	—	—	—
At 31 December 2005	99,500	31,667	5,421	2,710	47,438	186,736	—	186,736
Profit for the year, representing total recognised income for the year	—	—	—	—	28,428	28,428	—	28,428
Appropriation	—	—	2,706	—	(2,706)	—	—	—
Transfer	—	—	2,710	(2,710)	—	—	—	—
At 31 December 2006	99,500	31,667	10,837	—	73,160	215,164	—	215,164

Consolidated Cash Flow Statement

For The Year Ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Operating activities			
Profit before tax		**43,553**	4,822
Adjustments for:			
Depreciation and amortisation		**7,161**	5,657
Interest income		**(205)**	(44)
Interest expense		**1,829**	3,207
Allowances for bad and doubtful debts		**1,061**	6
Gain on disposal of a subsidiary and a branch		**—**	(2,833)
Operating cash flows before movements in working capital		**53,399**	10,815
Increase in inventories		**(286)**	(300)
(Increase) decrease in bills and trade receivables		**(45,734)**	201
Decrease (increase) in deposits, prepayments and other receivables		**15,238**	(3,103)
(Decrease) increase in trade and other payables		**(3,227)**	32,370
Net cash generated from operations		**19,390**	39,983
Interest paid		**(1,829)**	(3,207)
Tax paid		**(4,154)**	(2,567)
Net cash generated from operating activities		**13,407**	34,209
Investing activities			
Purchase of property, plant and equipment		**(12,733)**	(25,592)
Proceeds received on disposal of a subsidiary and a branch		**25,858**	—
Interest received		**205**	44
Disposal of a subsidiary (net of cash and cash equivalents)	24	**—**	(797)
Disposal of a branch (net of cash and cash equivalents)	25	**—**	(1,728)
Net cash from (used in) investing activities		**13,330**	(28,073)
Financing activities			
New bank loans raised		**30,000**	—
(Repayment to) advance from a shareholder		**(38,082)**	42,060
Repayment of bank loan		**—**	(56,000)
Contribution from minority interests		**—**	500
Net cash used in financing activities		**(8,082)**	(13,440)
Net increase (decrease) in cash and cash equivalents		**18,655**	(7,304)
Cash and cash equivalents at beginning of the year		**12,876**	20,180
Cash and cash equivalents at end of the year, represented by bank balances and cash		**31,531**	12,876

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").

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

2. Application Of New And Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material impact on how the results and financial position for the current or prior accounting period of the Group have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, 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]
HKFRS 8	Operating Segments [2]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [3]
HK(IFRIC)-Int 8	Scope of HKFRS 2 [4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives [5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment [6]
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions [7]
HK(IFRIC)-Int 12	Service Concession Agreements [8]

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

[2] Effective for annual periods beginning on or after 1 January 2009

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

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

[5] Effective for annual periods beginning on or after 1 June 2006

[6] Effective for annual periods beginning on or after 1 November 2006

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

[8] Effective for annual periods beginning on or after 1 January 2008

3. Significant Accounting Policies

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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 in the net assets 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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Gas connection contracts

When the outcome of a fixed price 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.

3. Significant Accounting Policies *(continued)*

Revenue recognition *(continued)*

Others

Sales of gas and gas appliances are recognised when gas is supplied to customers, 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.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purpose. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets one ready for their intended use.

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 consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments represent lease prepayment paid 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.

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 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 recognised in profit or loss in the period in which they arise.

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 when employees have rendered service entitling them to the contributions.

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 consolidated 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 consolidated 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.

3. Significant Accounting Policies *(continued)*

Taxation *(continued)*

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 period 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.

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. An impairment loss is 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 consolidated 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 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.

Financial assets

The Group's financial assets mainly comprise loans and receivables.

3. Significant Accounting Policies *(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 bills and trade receivables, other receivables and bank balances) 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 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 trade and other payables, amount due to a shareholder and bank loan. These financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. Key Sources Of Estimation Uncertainty

In the process of applying the Group's accounting policies, management makes various estimates based on past experience, expectations of the future and other information. The key source of estimation uncertainty that can significantly affect the amounts recognised in the consolidated financial statements is disclosed below.

Allowance for bad and doubtful debts

In determining whether there is objective evidence of impairment loss for bill receivables, trade receivables and other receivables, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Recognition of sale of gas

Revenue for sales of gas includes an estimation of the gas supplied to the customers for each of the month end. The estimation is done mainly based on the past consumption records and recent consumption pattern of individual customers.

5. Financial Risks Management Objectives And Policies

a. Financial risk management objectives and policies

The Group's principal financial instruments includes bills and trade receivable, other receivable, trade and other payables, amount due to a shareholder, bank balances and bank loans. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

5. Financial Risks Management Objectives And Policies *(continued)*

a. Financial risk management objectives and policies *(continued)*

(i) Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2006 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 bills and 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 credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

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

(ii) Liquidity risk

The management has been closely monitoring the Group's cash flow in order to minimize the Group's liquidity risk. The management manages its liquidity risk by regularly review the cash flow and maintain adequate banking facilities.

(iii) Cash flow interest rate risk

The Group's bank balances have exposure to cash flow interest rate due to the fluctuation of the prevailing market interest rate on bank balances. It is the Group's policy to keep its bank balances at floating rate of interests so as to minimise the fair value interest rate risk.

b. Fair values of financial assets and financial liabilities

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing model based on discounted cash flow analysis. The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

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.

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	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Gas connection contract revenue	**79,157**	36,521	**61,058**	25,910
Sales of gas	**14,139**	9,002	**1,236**	460
Sales of gas appliances	**406**	452	**247**	103
	93,702	45,975	**62,541**	26,473
Other income			**2,908**	47
Unallocated expenses			**(20,067)**	(21,324)
Gain on disposal of a subsidiary and a branch			**—**	2,833
Finance costs			**(1,829)**	(3,207)
Profit before tax			**43,553**	4,822
Income tax expense			**(15,125)**	(2,908)
Profit for the year			**28,428**	1,914

7. Segment Information *(continued)*

(a) Business segments *(continued)*

	Gas connection contract revenue		Unallocated		Total	
	2006	2005	**2006**	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Depreciation of property, plant and equipment	**—**	—	**7,015**	5,485	**7,015**	5,485
Amortisation of prepaid lease payment, included in administrative expense	**—**	—	**146**	172	**146**	172
Additions of property, plant and equipment	**—**	—	**40,476**	25,592	**40,476**	25,592
Allowances for bad and doubtful debts	**1,061**	6	**—**	—	**1,061**	6

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

	2006	2005
	RMB'000	*RMB'000*
Segment assets		
Gas connection contract revenue	**52,234**	26,883
Sales of gas	**4,411**	14,079
Sales of gas appliances	**615**	363
Unallocated corporate assets	**224,410**	212,255
	281,670	253,580
Segment liabilities		
Gas connection contract revenue	**16,851**	18,114
Sales of gas	**3,978**	2,060
Sales of gas appliances	**116**	56
Unallocated corporate liabilities	**45,561**	46,614
	66,506	66,844

(b) Geographical segment

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

8. Finance Costs

	2006 RMB'000	2005 RMB'000
Interest on bank borrowings wholly repayable within five years	**1,829**	3,207

9. Income Tax Expense

	2006 RMB'000	2005 RMB'000
The charge comprises:		
PRC enterprise income tax	**15,187**	2,809
Deferred tax (note 23)	**(62)**	99
	15,125	2,908

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

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:

	2006 RMB'000	2005 RMB'000
Profit before tax	**43,553**	4,822
Tax at the domestic income tax rate	**14,372**	1,591
Tax effect of expenses that are not deductible in determining taxable profit	**753**	1,317
Tax expense for the year	**15,125**	2,908

10. Profit for the Year

	2006 RMB'000	2005 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Auditors' remuneration	**966**	1,078
Staff costs including directors' and supervisors' remuneration	**3,039**	4,937
Depreciation of property, plant and equipment	**7,015**	5,485
Amortisation of prepaid lease payments included in administrative expense	**146**	172
Operating lease rentals in respect of rented premises	**779**	842
Allowances for bad and doubtful debts	**1,061**	6
Cost of inventories recognised as expense	**13,060**	8,891
Bank interest income	**(205)**	(44)

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 RMB 28,428,000 (2005: RMB 2,092,000) and the number of shares of 995,000,000 in issue during the year.

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

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:

	2006 RMB'000	2005 RMB'000
Fees	**750**	750
Salaries and other benefits	**—**	732
Retirement benefit scheme contributions	**—**	13
	750	1,495

12. Directors' And Supervisors' Remuneration And Five Highest Paid Employees *(continued)*

Directors and supervisors *(continued)*

Analysed into:

	2006 RMB'000	2005 RMB'000
Wang Zhongsheng	—	342
Fu Shougang	—	130
Chang Jian	50	140
Gong Jing	50	50
Yang Rui	—	200
Luo Weikun	50	50
Ma Junlu	50	50
Sha Jincheng	50	50
Tang Jie	50	183
Zhang Qi	50	50
Qi Yinfeng	50	50
Dong Huiqiang	50	50
Sun Boquan	50	50
Chen Shunquan	100	100
Bai Shaoliang	50	—
Jin Jianping	50	—
Cao Shujing	50	—
	750	1,495

Employees

The five highest paid employees in the Group for the year ended December 31, 2005 included three directors. The details of the remuneration of the five highest paid employees for 2006 (2005: 2) are as follows:

	2006 RMB'000	2005 RMB'000
Salaries and other benefits	608	421
Discretionary bonus	—	11
Retirement benefit scheme contributions	8	5
	616	437

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

	2006	2005
Nil-RMB1,004,000 (2005: Nil to RMB1,040,000) (equivalent to HK$1,000,000)	5	2

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 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
Reclassification	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 1 January 2006	27,721	101,680	19,798	1,087	4,479	—	25,453	180,218
Additions	2,457	5,524	645	1,424	140	—	30,286	40,476
Reclassification	—	28,092	—	—	—	—	(28,092)	—
Asset transfer (note 29 (b))	—	—	—	—	—	—	(11,616)	(11,616)
At 31 December 2006	30,178	135,296	20,443	2,511	4,619	—	16,031	209,078
DEPRECIATION AND AMORTISATION								
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 1 January 2006	1,575	13,077	478	479	1,913	—	—	17,522
Provided for the year	660	4,478	769	192	916	—	—	7,015
At 31 December 2006	2,235	17,555	1,247	671	2,829	—	—	24,537
CARRYING VALUES								
At 31 December 2006	27,943	117,741	19,196	1,840	1,790	—	16,031	184,541
At 31 December 2005	26,146	88,603	19,320	608	2,566	—	25,453	162,696

13. Property, Plant And Equipment *(continued)*

The above items of property, plant and equipment are depreciated after residual value on a straight-line basis at the following rate per annum:

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

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

At 31 December 2006, the Group is in the process of applying title certificates for certain buildings with a carrying value of approximately RMB 4.3 million (2005: RMB 2 million).

During the year ended 31 December 2006, the construction in progress with the carrying amount of RMB11,616,000 was used to settle against the consideration payable for acquisition of property, plant and equipment. Details of these are set out in note 29 (b).

14. Prepaid Lease Payments

The Group's prepaid lease payments comprise:

	2006	2005
	RMB'000	*RMB'000*
Leasehold land outside Hong Kong:		
medium-term lease	**5,609**	5,755
Analysed for reporting purpose as:		
Current portion (included in deposits, prepayment and other receivables)	**147**	146
Non-current portion	**5,462**	5,609
	5,609	5,755

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

At 31 December 2006, the Group is in the process of applying title certificates for certain land with a carrying value of approximately RMB 4.9 million (2005: RMB 5 million).

15. Inventories

	2006	2005
	RMB'000	*RMB'000*
Gas appliances	**615**	363
Gas	**37**	8
Spare parts and consumables	**508**	503
	1,160	874

16. Bills And Trade Receivables

	2006	2005
	RMB'000	*RMB'000*
Bills receivables	**4,373**	—
Trade receivables	**51,588**	10,392
	55,961	10,392

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 repayment histories, a longer credit period up to 180 days may be granted.

The aged analysis of net trade debtors is as follows:

	2006	2005
	RMB'000	*RMB'000*
0 — 90 days	**41,760**	7,592
91 — 180 days	**2,991**	803
181 — 270 days	**1,726**	767
271 — 365 days	**887**	183
Over 365 days	**4,224**	1,047
	51,588	10,392

At 31 December 2006, the bills receivables aged within the range from 91 — 180 days.

17. Amounts Due From Customers For Contract Works

	2006 RMB'000	2005 RMB'000
Contracts in progress at the balance sheet date		
Contract cost incurred plus recognised profits less recognised losses	—	13,670
Less: progress billings	—	—
	—	13,670

The balance at 31 December 2005 was used to settle against the consideration payable for acquisition of property, plant and equipment during the year ended 31 December 2006. Details of these are set out in note 29 (b).

18. Bank Balances and Cash

Bank balances carry interest at market rate at 0.72%. (2005: 0.72%)

19. Trade And Other Payables

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

	2006 RMB'000	2005 RMB'000
0 — 90 days	12,695	7,836
91 — 180 days	632	3,112
181 — 270 days	836	—
271 — 365 days	—	56
Over 365 days	841	2,048
	15,004	13,052

20. Amount Due To A Shareholder

The amount was unsecured, interest free and was repayable on demand. Details of these are set out in note 29 (a).

21. Bank Loan

	2006	2005
	RMB'000	RMB'000
Unsecured bank loan	30,000	—

The above loan was unsecured, carried interest at fixed rate of 6.138% per annum and was fully repaid in January 2007. The loan was guaranteed by 天津市燃氣集團有限公司, the shareholder of the Company.

22. Share Capital

	Number of shares		Registered, issued and fully paid
	Domestic Shares	H Shares	RMB'000
Shares of RMB 0.1 each			
At 1 January 2005, 31 December 2005 and 2006	665,000,000	330,000,000	99,500

23. Deferred Taxation

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

	Accelerated tax depreciation	
	2006	2005
	RMB'000	RMB'000
At beginning of the year	708	609
(Credit) charge for the year	(62)	99
At end of the year	646	708

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 of the consideration of RMB1,500,000 and RMB24,358,000, respectively. The net assets of Beiliu Gas disposed of by the Group were summarised as follows:

	RMB'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	18
Trade receivables	1,977
Deposits, prepayments and other receivables	1,796
Bank balances and cash	797
Trade and other payables	(3,300)
	1,288
Minority interests	(322)
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 for the year ended 31 December 2005 was not significant.

25. Major Non-Cash Transaction

(a) As detailed in note 24, the Group had disposed of its non wholly-owned subsidiary, Beiliu Gas and certain assets and liabilities of the Company in Beiliu at the branch of 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 receivables	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)

(b) During the year, the addition of property, plant and equipment of approximately RMB 28 million for the Group was settled by the Group's construction in progress of approximately RMB 11.6 million, amounts due from customers for contract work of approximately RMB 13.7 million and bank balances and cash of RMB 2.7 million. Details of these are set out in Note 29 (b).

26. 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:

	2006	2005
	RMB'000	*RMB'000*
Within one year	**545**	445
In the second year	**467**	—
	1,012	445

The leases are negotiated for an average term of one to two years with fixed monthly rentals.

27. Capital Commitments

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

	2006	2005
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment:		
— contracted for but not provided in the consolidated financial statements	**6,509**	8,749
— authorised but not contracted for	**34,958**	43,661
	41,467	52,410

28. 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 RMB281,000 (2005: RMB225,000).

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	2006 RMB'000	2005 RMB'000
天津市燃氣集團有限公司 *(Note i)*	Shareholder	Purchase of gas	**12,185**	4,268
		Purchase of assets *(Note ii)*	**7,194**	—
		Entrusted management fee *(Note ii)*	**215**	—
		Amount due to a shareholder *(Note iii)*	**3,978**	42,060
天津市煤氣工程設計院 *(Note iv)*	Related party	Construction design fee	**277**	—
		Advance to suppliers	**23**	—

Notes:

(i) 天津市燃氣集團有限公司 is the substantial shareholder of the Company.

(ii) On 27 September 2006, the Company entered into an agreement with 天津市燃氣集團有限公司, whereby the Company agreed to acquire certain plant and equipment located in Xiqing, Tianjin (the " Xiqing Assets") from 天津市燃氣集團有限公司 at a consideration of RMB 7,194,000 (the "Asset Transfer Agreement"). Though the transfer of Xiqing Assets has already been completed in early October 2006, the Company decided to entrust 天津市燃氣集團有限公司 to manage the Xiqing Assets from the completion date of the Asset Transfer Agreement until 31 January 2007 pursuant to the provision stated in the Asset Transfer Agreement, with a view to ensure normal operation of the Xiqing Assets right after the transfer. The Company agreed to pay management fee of approximately RMB 71,000 per month to 天津市燃氣集團有限公司.

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

(iv) 天津市煤氣工程設計院 is a wholly owned subsidiary of 天津市燃氣集團有限公司.

29. Related Party Transactions/Balances *(continued)*

(b) Transaction with 天津市華水自來水建設有限公司

During the year, the Group 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 RMB 28 million for the Group. This amount was settled by the Group's construction in progress of approximately RMB 11.6 million, amounts due from customers for contract work of approximately RMB 13.7 million and bank balances and cash of RMB 2.7 million. 天津自來水 is controlled by the PRC government. In addition, during the year, 天津自來水 had also carried out the project work for the Group of approximately RMB 15 million. The above transactions had been included and disclosed in section (c) (i) "Purchase".

(c) 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. In addition, the Group itself is part of a larger group of companies under 天津市燃氣集團有限公司which is 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.

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

	2006 ***RMB'000***	2005 *RMB'000*
Sales	**11,039**	15,498
Purchase	**15,021**	5,488
Interest expenses	**1,829**	3,207

29. Related Party Transactions/Balances *(continued)*

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

(ii) Material balances

	2006	2005
	RMB'000	*RMB'000*
Bank balances	**31,519**	12,875
Trade and other receivables	**2,350**	4,669
Trade and other payables	**13,217**	5,975
Bank loans	**30,000**	—

(d) Guarantee

At 31 December 2006, the bank loan of RMB 30,000,000 was guaranteed by 天津市燃氣集團有限公司.

(e) Compensation of key management personnel

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

	2006	2005
	RMB'000	*RMB'000*
Short-term benefit	**1,358**	1,915
Post employment benefit	**8**	17
	1,366	1,932

30. Balance Sheet Of The Company

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

	Note	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment		**184,541**	162,696
Prepaid lease payment		**5,462**	5,609
Investment in a subsidiary		**—**	—
Prepayment		**161**	186
		190,164	168,491
Current assets			
Inventories		**1,160**	874
Bills and trade receivables		**55,961**	10,392
Deposits, prepayments and other receivables		**2,854**	47,277
Amounts due from customers for contract work		**—**	13,670
Bank balances and cash		**31,531**	12,876
		91,506	85,089
Current liabilities			
Trade and other payables		**20,607**	23,834
Amount due to a shareholder		**3,978**	42,060
Income tax payable		**11,275**	242
Bank loans		**30,000**	—
		65,860	66,136
Net current assets		**25,646**	18,953
Total assets less current liabilities		**215,810**	187,444
Capital and reserves			
Share capital		**99,500**	99,500
Reserves	*a*	**115,664**	87,236
		215,164	186,736
Non-current liability			
Deferred tax liability		**646**	708
		215,810	187,444

30. Balance Sheet Of The Company *(continued)*

Note:

(a) RESERVES

	Share premium *RMB'000*	Statutory surplus reserve *RMB'000*	Statutory public welfare fund *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2005	31,667	5,220	2,609	45,648	85,144
Profit for the year, representing total recognised income for the year	—	—	—	2,092	2,092
Appropriation	—	201	101	(302)	—
At 31 December 2005	31,667	5,421	2,710	47,438	87,236
Profit for the year, representing total recognised income for the year	—	—	—	28,428	28,428
Appropriation	—	2,706	—	(2,706)	—
Transfer	—	2,710	(2,710)	—	—
At 31 December 2006	31,667	10,837	—	73,160	115,664

(i) Basis of appropriations reserves

The transfers to statutory surplus reserve and statutory public welfare fund are based on the profit in the financial statements prepared under the relevant accounting principles and financial regulations applicable to companies established in the PRC.

(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 relevant accounting principles and financial regulations applicable to companies established in the PRC 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) Transfer

In accordance with "Cai Qi" [2006] No. 67, Notice of accounting treatment as a result of the implementation of the PRC Company Law, the balance of statutory public welfare fund at 31 December 2005 is transferred to the statutory surplus reserve. Further, effective from 1 January 2006, appropriation of the profit as reported under the PRC statutory financial statements to the statutory public welfare fund is no longer required."

31. Subsidiary

Details of the Company's subsidiary, which is a limited liability company, at 31 December 2006 are as follows:

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

The subsidiary had not issued any debt securities at the end of the year.

Five Year Financial Summary

Results

	For the year ended 31 December				
	2006	2005	2004	2003	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**93,702**	45,975	37,378	43,300	43,853
Profit before taxation	**43,553**	4,822	9,179	26,187	28,853
Income tax expense	**(15,125)**	(2,908)	(4,680)	(2,868)	(4,914)
Profit before minority interests	**28,428**	1,914	4,499	23,319	23,939
Minority interests	**—**	178	400	—	—
Profit for the year	**28,428**	2,092	4,899	23,319	23,939

ASSETS AND LIABILITIES

	At 31 December				
	2006	2005	2004	2003	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**281,670**	253,580	254,537	199,129	141,199
Total liabilities	**(66,506)**	(66,844)	(69,893)	(80,651)	(46,440)
Minority interest	**—**	—	—	(400)	—
Shareholders' funds	**215,164**	186,736	184,644	118,078	94,759