



天津天聯公用事業股份有限公司  
TIANJIN TIANLIAN PUBLIC UTILITIES COMPANY LIMITED

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**Interim Report 2007**

## 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.**

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

### HIGHLIGHTS

- Turnover of approximately RMB49,538,000 for the six months ended 30 June 2007.
- Gross profit of approximately RMB23,825,000 for the six months ended 30 June 2007.
- Net gain of approximately RMB10,686,000 for the six months ended 30 June 2007.

## RESULTS

The board of directors (the “Board”) of Tianjin Tianlian Public Utilities Company Limited (the “Company”) is pleased to present the unaudited results of the Company for the six months ended 30 June 2007 together with the unaudited comparative figures for the six months ended 30 June 2006 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

		Three months ended		Six months ended	
NOTES		30 June 2007 RMB'000 (unaudited)	30 June 2006 RMB'000 (unaudited)	30 June 2007 RMB'000 (unaudited)	30 June 2006 RMB'000 (unaudited)
Turnover	4 & 5	<b>35,254</b>	13,749	<b>49,538</b>	23,192
Cost of sales		<b>(14,884)</b>	(5,473)	<b>(25,713)</b>	(10,638)
Gross profit		<b>20,370</b>	8,276	<b>23,825</b>	12,554
Other income	6	<b>85</b>	209	<b>457</b>	1,131
Selling expenses		<b>(6)</b>	(22)	<b>(14)</b>	(73)
Administrative expenses		<b>(4,349)</b>	(3,326)	<b>(6,660)</b>	(6,710)
Finance costs	7	<b>(678)</b>	(466)	<b>(1,198)</b>	(829)
Profit before tax	8	<b>15,422</b>	4,671	<b>16,410</b>	6,073
Income tax expense	9	<b>(5,226)</b>	(1,648)	<b>(5,724)</b>	(2,298)
Profit for the period		<b>10,196</b>	3,023	<b>10,686</b>	3,775
Attributable to:					
Equity holders of the parent		<b>10,196</b>	3,023	<b>10,686</b>	3,775
Earnings per share					
— basic (RMB cent)	11	<b>1.02</b>	0.30	<b>1.07</b>	0.38

## CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2007

	NOTES	<b>30 June 2007 RMB'000 (unaudited)</b>	31 December 2006 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	12	<b>183,034</b>	184,541
Prepaid lease payments	13	<b>5,389</b>	5,462
Prepayment		<b>147</b>	161
		<b>188,570</b>	190,164
Current assets			
Inventories		<b>953</b>	1,160
Bills and trade receivables	14	<b>48,967</b>	55,961
Deposits, prepayments and other receivables		<b>4,929</b>	2,854
Amount due from a shareholder	20	<b>1,900</b>	—
Bank balances and cash		<b>47,696</b>	31,531
		<b>104,445</b>	91,506
Current liabilities			
Trade and other payables	15	<b>21,251</b>	20,607
Amount due to a shareholder	20	<b>—</b>	3,978
Income tax payable		<b>5,286</b>	11,275
Bank loans	16	<b>40,000</b>	30,000
		<b>66,537</b>	65,860

	NOTES	<b>30 June 2007 RMB'000 (unaudited)</b>	31 December 2006 RMB'000 (audited)
Net current assets		<b>37,908</b>	25,646
Total assets less current liabilities		<b>226,478</b>	215,810
Capital and reserves			
Share capital	17	<b>99,500</b>	99,500
Reserves		<b>126,350</b>	115,664
Total equity		<b>225,850</b>	215,164
Non-current liabilities			
Deferred tax liability	18	<b>628</b>	646
		<b>226,478</b>	215,810

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Attributable to equity holders of the parent						Total equity
	Share capital	Share premium	Statutory surplus reserve	Statutory welfare fund	Accumulated profits	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2006 (audited)	99,500	31,667	5,421	2,710	47,438	186,736	186,736
Profit for the period and total recognized income and expenses for the period	—	—	—	—	3,775	3,775	3,775
At 30 June 2006 (unaudited)	99,500	31,667	5,421	2,710	51,213	190,511	190,511
Profit for the period and total recognized income and expenses for the period	—	—	—	—	24,653	24,653	24,653
Appropriation	—	—	2,706	—	(2,706)	—	—
Transfer	—	—	2,710	(2,710)	—	—	—
At 31 December 2006 (audited)	99,500	31,667	10,837	—	73,160	215,164	215,164
Profit for the period and total recognized income and expenses for the period	—	—	—	—	10,686	10,686	10,686
At 30 June 2007 (unaudited)	<u>99,500</u>	<u>31,667</u>	<u>10,837</u>	<u>—</u>	<u>83,846</u>	<u>225,850</u>	<u>225,850</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	<b>Six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
<b>Operating activities</b>		
Net cash from operating activities	<b>8,552</b>	3,587
<b>Investing activities</b>		
Net cash (used in) from investing activities	<b>(2,387)</b>	21,856
<b>Financing activities</b>		
Repayment of the advance from a shareholder	—	(40,000)
New bank loans raised	<b>40,000</b>	30,000
Repayment of a bank loan	<b>(30,000)</b>	—
Net cash from (used in) financing activities	<b>10,000</b>	(10,000)
Net increase in cash and cash equivalents	<b>16,165</b>	15,443
Cash and cash equivalents at 1 January	<b>31,531</b>	12,876
Cash and cash equivalents at 30 June	<b>47,696</b>	28,319
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>47,696</b>	28,319



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2007

### 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 and has commenced the procedure of deregistration.

### 2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the GEM Rules) and with Hong Kong Accounting Standard 34 "HKAS 34", Interim Financial Reporting.

### 3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis and in accordance with HKAS 34.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual consolidated financial statements for the year ended 31 December 2006.

### 3. PRINCIPAL ACCOUNTING POLICIES — *Continued*

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>5</sup> Effective for annual periods beginning on or after 1 November 2006

The adoption of these new HKFRSs had no material effect on the results or financial position for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognized.

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

HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions <sup>2</sup>
HK(IFRIC)-Int 12	Service Concession Agreements <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2008

#### 4. TURNOVER

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

#### 5. SEGMENT INFORMATION

##### Business segments

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

Segment information about these businesses is presented below:

	Turnover				Results			
	Three months ended 30 June		Six months ended 30 June		Three months ended 30 June		Six months ended 30 June	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Gas connection contract revenue	<b>27,004</b>	12,271	<b>31,331</b>	18,705	<b>20,464</b>	9,416	<b>23,607</b>	14,492
Sales of gas	<b>8,003</b>	1,460	<b>17,873</b>	4,452	<b>1,517</b>	51	<b>3,388</b>	446
Sales of gas appliances	<b>247</b>	18	<b>334</b>	35	<b>35</b>	7	<b>72</b>	14
	<b><u>35,254</u></b>	<u>13,749</u>	<b><u>49,538</u></b>	<u>23,192</u>	<b><u>22,016</u></b>	9,474	<b><u>27,067</u></b>	14,952
Other income					<b>85</b>	209	<b>457</b>	1,131
Unallocated expenses					<b>(6,001)</b>	(4,546)	<b>(9,916)</b>	(9,181)
Finance costs					<b>(678)</b>	(466)	<b>(1,198)</b>	(829)
Profit before tax					<b>15,422</b>	4,671	<b>16,410</b>	6,073
Income tax expense					<b>(5,226)</b>	(1,648)	<b>(5,724)</b>	(2,298)
Profit for the period					<b><u>10,196</u></b>	<u>3,023</u>	<b><u>10,686</u></b>	<u>3,775</u>

## 6. OTHER INCOME

Included in other income, for the six months ended 30 June 2007 and three months ended 30 June 2007, there were government subsidies of RMB320,000 and RMB7,000 respectively, (six months ended 30 June 2006 and three months ended 30 June 2006: RMB869,000 and nil), which represents the subsidy from the government for encouraging the Group doing business in Jinnan development zone.

## 7. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Interest on bank borrowings wholly repayable within five years	<b>(678)</b>	(466)	<b>(1,198)</b>	(829)

## 8. PROFIT BEFORE TAX

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

	Three months ended 30 June		Six months ended 30 June	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Depreciation of property, plant and equipment	<b>2,069</b>	1,492	<b>4,030</b>	3,244
Amortisation of prepaid lease payments included in administrative expenses	<b>37</b>	37	<b>74</b>	73
Operating lease rentals	<b>148</b>	136	<b>297</b>	470
Allowances for bad and doubtful debts	<b>1,459</b>	—	<b>1,459</b>	—
Bank interest income	<b>(78)</b>	(56)	<b>(137)</b>	(110)

## 9. INCOME TAX EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
The charge comprises:				
Current PRC enterprise income tax	5,234	1,648	5,742	2,298
Deferred taxation	(8)	—	(18)	—
	<u>5,226</u>	<u>1,648</u>	<u>5,724</u>	<u>2,298</u>

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

The subsidiary did not have taxable profit for both periods.

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

## 10. DIVIDEND

The Directors do not recommend the payment of any dividend for the period (six months ended 30 June 2006: Nil).

## 11. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2007 and three months ended 30 June 2007 are based on the profit attributable to equity holders of the parent for the period of RMB10,686,000 and RMB10,196,000, respectively (six months ended 30 June 2006 and three months ended 30 June 2006: RMB3,775,000 and RMB3,023,000, respectively) and the number of 995,000,000 shares in issue during both periods.

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

## 12. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately RMB2,521,000 (six months ended 30 June 2006: 29,289,000) on acquisition of property, plant and equipment.

### 13. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
Leasehold land outside Hong Kong: Medium-term lease	<u><b>5,535</b></u>	<u>5,609</u>
Analysed for reporting purpose as:		
Current portion (included in deposits, prepayments and other receivables)	<u><b>146</b></u>	147
Non-current portion	<u><b>5,389</b></u>	<u>5,462</u>
	<u><b>5,535</b></u>	<u>5,609</u>

At 30 June 2007, the Group is in the process of applying title certificates for certain land with a carrying value of approximately RMB4.8 million (31 December 2006: RMB4.9 million).

### 14. BILLS AND TRADE RECEIVABLES

	<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
Bills receivables	—	4,373
Trade receivables	<u><b>48,967</b></u>	<u>51,588</u>
	<u><b>48,967</b></u>	<u>55,961</u>

The Group has a policy of allowing average credit period of 90 days to its trade customers. For certain customers with long-established relationship and good past repayment record, a longer credit period up to 180 days may be granted.

14. **BILLS AND TRADE RECEIVABLES** — *Continued*

The ageing analysis of net trade debtors is as follows:

	<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
0-90 days	<b>21,516</b>	41,760
91-180 days	<b>2,064</b>	2,991
181-270 days	<b>20,715</b>	1,726
271-365 days	<b>3,169</b>	887
Over 365 days	<b>1,503</b>	4,224
	<b><u>48,967</u></b>	<b><u>51,588</u></b>

15. **TRADE AND OTHER PAYABLES**

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

	<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
0-90 days	<b>6,459</b>	12,695
91-180 days	<b>1,130</b>	632
181-270 days	<b>7,562</b>	836
271-365 days	<b>316</b>	—
Over 365 days	<b>322</b>	841
	<b><u>15,789</u></b>	<b><u>15,004</u></b>

## 16. BANK LOANS

	<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
Unsecured bank loans	<u><b>40,000</b></u>	<u>30,000</u>

The above loans are unsecured, carried interest at floating rate and will be repayable within next twelve months from the balance sheet date. The loans are guaranteed by 天津市燃氣集團有限公司, the substantial shareholder of the Company.

## 17. SHARE CAPITAL

	<b>Number of shares</b>		<b>Registered, issued and fully paid</b>
	<b>Domestic Shares</b>	<b>H Shares</b>	<b>RMB'000</b>
Shares of RMB0.1 each			
Balance at 1 January 2007 and 30 June 2007	<u>665,000,000</u>	<u>330,000,000</u>	<u>99,500</u>

There were no movements in the share capital of the Company during the period.

## 18. DEFERRED TAXATION

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

	<b>Accelerated tax depreciation</b>	
	<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
At beginning of the period	<b>646</b>	708
Credit for the period	<u><b>(18)</b></u>	<u>(62)</u>
At end of the period	<u><b>628</b></u>	<u>646</u>



## 19. CAPITAL COMMITMENTS

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

	<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment:		
– contracted for but not provided in the condensed consolidated financial statements	<b>1,047</b>	6,509
– authorised but not contracted for	<b>31,457</b>	34,958
	<b><u>32,504</u></b>	<u>41,467</u>

## 20. RELATED PARTY TRANSACTIONS/BALANCES

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

Name of related party	Nature of transactions	Three months ended 30 June		Six months ended 30 June	
		2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
天津市燃氣集團有限公司 (Note i)	Purchase of gas	<b>6,412</b>	1,314	<b>14,277</b>	3,743
	Entrusted management fee (Note ii)	<b>–</b>	–	<b>71</b>	–
		<b><u>–</u></b>	<u>–</u>	<b><u>71</u></b>	<u>–</u>
				<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
	Amount due from (to) a shareholder (Note iii)			<b><u>1,900</u></b>	<u>[3,978]</u>

20. RELATED PARTY TRANSACTIONS/BALANCES — *Continued*

- (a) During the period, the following related party transactions/balances took place:  
— *Continued*

Name of related party	Nature of transactions	Three months ended 30 June		Six months ended 30 June	
		2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
天津市煤氣工程設計院 (Note iv)	Construction design fee	<u>300</u>	—	<u>300</u>	—
	Advance to suppliers (Note iii)			<u>7</u>	—

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 RMB7,194,000 (the "Asset Transfer Agreement"). Though the transfer of Xiqing Assets had 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 after the transfer. The Company agreed to pay management fee of RMB71,000 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.

20. RELATED PARTY TRANSACTIONS/BALANCES – *Continued*

- (b) Material transactions and balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government. In addition, the Group's substantial shareholder is 天津市燃氣集團有限公司 which is controlled by PRC government (these entities other than 天津市燃氣集團有限公司 are hereinafter collectively referred to as "State-Owned Entities"). During the period, 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 period as follows:

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

- (i) Material transactions

	<b>Three months ended 30 June</b>		<b>Six months ended 30 June</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
	<b>RMB'000</b>	RMB'000	<b>RMB'000</b>	RMB'000
Sales	<b><u>2,794</u></b>	<u>7,811</u>	<b><u>2,794</u></b>	<u>9,108</u>
Purchase of service	<b><u>5,084</u></b>	<u>31,005</u>	<b><u>5,084</u></b>	<u>31,005</u>
Interest expense	<b><u>678</u></b>	<u>466</u>	<b><u>1,198</u></b>	<u>829</u>

20. RELATED PARTY TRANSACTIONS/BALANCES – *Continued*

(b) Material transactions and balances with other state-controlled entities in the PRC  
– *Continued*

(ii) Material balances

	<b>30 June 2007 RMB'000</b>	31 December 2006 RMB'000
Bank balances	<u><b>47,691</b></u>	<u>31,519</u>
Trade debtors and other receivables	<u><b>1,537</b></u>	<u>2,350</u>
Trade and other payables	<u><b>13,385</b></u>	<u>13,217</u>
Bank loans	<u><b>40,000</b></u>	<u>30,000</u>

Except as disclosed above, the Directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

(c) Guarantee

At 30 June 2007 and 31 December 2006, the short term bank loans of RMB40,000,000 (2006: RMB30,000,000) were guaranteed by 天津市燃氣集團有限公司.

(d) Compensation of key management personnel

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

	<b>Three months ended 30 June</b>		<b>Six months ended 30 June</b>	
	<b>2007 RMB'000</b>	2006 RMB'000	<b>2007 RMB'000</b>	2006 RMB'000
Short-term benefit	<b>312</b>	315	<b>610</b>	588
Post employment benefit	<u><b>6</b></u>	<u>1</u>	<u><b>8</b></u>	<u>1</u>
	<u><b>318</b></u>	<u>316</u>	<u><b>618</b></u>	<u>589</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

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

### BUSINESS REVIEW

For the first half year of 2007, the Group reported a revenue of approximately RMB49,538,000, representing an increase of approximately 114% as compared with the first half year of 2006. The Group's net profit for the first half year of 2007 amounted to approximately RMB10,686,000.

#### Segmental Information Analysis

During the six months ended 30 June 2007, 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. Gas connection revenue is the major source of income for the Group, which is followed by sales of gas and sales of gas appliances. The Group will further expand the operation in these two areas, in order to attain its strategic objectives for this year.

#### Financial Resources

The Group is generally funded by equity financing and bank borrowings. As at 30 June 2007, the Group had bank borrowings of RMB30,000,000 and RMB10,000,000 from Agricultural Bank of China and Shenzhen Development Bank respectively.

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 30 June 2007 was approximately 22.7%.

#### Contingent Liabilities

As at 30 June 2007, the Group had no material contingent liabilities or guarantees.

#### Staff and Emolument Policy

As at 30 June 2007, 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 discretionary bonus to eligible employees subject to the Group's operating results and individual performance. The Group also made contributions to medical welfare and retirement funds as well as provided other benefits to all employees.

## PROSPECTS

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

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.

## AMENDMENTS TO ARTICLES OF ASSOCIATION

At the annual general meeting of the Company ("AGM") held on 25 June 2007, amendments to the articles of association of the Company ("Articles of Association") were approved by the shareholders of the Company ("Shareholders") in compliance with the Company Law and other relevant laws and regulations of the PRC and to tidy up certain articles. Details of the amendments of the Articles of Association are set out in the circular of the Company dated 9 May 2007.

## CHANGE OF DIRECTOR AND SUPERVISORS

At the AGM, the following changes of Director and supervisors ("Supervisors") of the Company were approved by the Shareholders: (i) the resignation of Professor Ma Jun Lu as an independent non-executive Director, (ii) the resignation of Mr. Zhang Qi and Mr. Chang Jian as Supervisors, (iii) the appointment of Professor Zhang Yu Li as an independent non-executive Director ("New Director") and (iv) the redesignation of Mr. Sha Jin Cheng from a staff representative Supervisor to an independent Supervisor. Further, Mr. Sun Xue Gang and Ms. Hao Li were elected as staff representative Supervisors ("New Supervisors") earlier by the staff representatives' meeting of the Company. The term of the proposed appointment of New Director and New Supervisors will be a period commencing on the date of the AGM and ending at the conclusion of the annual general meeting 2008 of the Company to be held in 2009.

## EXCESS OVER ANNUAL CAP FOR CONTINUING CONNECTED TRANSACTION AND RENEWAL ON CONTINUING CONNECTED TRANSACTIONS

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 ("Gas Supply Transaction") 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.

On the same date, 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 ("Pipeline Design Transaction") 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.

The transaction amount of Gas Supply Transaction between Tianjin Gas and the Company for the year ended 31 December 2006 was RMB12,185,000, representing an excess of RMB3,185,000 comparing with the annual cap of RMB9,000,000 stated above. From 1 January 2007 to 31 May 2007, the transaction amount of Gas Supply Transaction was approximately RMB12,337,000, representing an excess of approximately RMB3,337,000 comparing with the annual cap of RMB9,000,000 stated above. The transaction amount of Pipeline Design Transaction between Design Institute and the Company for the year ended 31 December 2006 and for the period from 1 January 2007 to 15 June 2007 were RMB277,000 and RMB300,000 respectively and did not exceed the proposed caps.



As the transaction amount of Gas Supply Transaction for the years ended 31 December 2006 and ending 31 December 2007 exceeded the exempted annual cap, while taking into consideration the anticipated rapid growth of the Company's business and the resulting significant increase in the transaction amounts of Gas Supply Transaction and Pipeline Design Transaction, the Company proposes to amend the respective annual caps for the year ending 31 December 2007 in relation to Gas Supply Transaction and Pipeline Design Transaction to RMB68.4 million and RMB800,000. In addition, the Company also proposes the annual caps for the two years ending 31 December 2009 in relation to Gas Supply Transaction to be RMB106.2 million and RMB223.2 million respectively. The annual caps for the two years ending 31 December 2009 in relation to Pipeline Design Transaction are proposed to be RMB1,500,000 and RMB2,200,000.

In relation to the above amendments and the new proposals on the annual caps in relation to the Gas Supply Transaction and the Pipeline Design Transaction, on 15 June 2007, the Company entered into three gas supply contracts, in respect of the Gas Supply Transaction for 2007, 2008 and 2009 respectively with Tianjin Gas and a pipeline design agreement with Design Institute.

The above amendments and new proposals on the annual caps in relation to Gas Supply Transaction do not fall under the exemption in Rules 20.33 and 20.34 of the GEM Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under the Rules 20.45 to 20.54 of the GEM Listing Rules. Therefore, the Company will seek for the approval of the independent shareholders of the Company to pass the amendments and new proposals on the respective annual caps abovementioned.

As each of the percentage ratios (other than the profits ratio) for the above amendments and new proposals on the annual caps in relation to the Pipeline Design Transaction is on an annual basis less than 2.5%, the Pipeline Design Transaction, pursuant to Rules 20.34 to 20.41 of the GEM Listing Rules, constitute continuing connected transactions exempt from the independent shareholders' approval requirement and are only subject to the reporting and announcement requirements under Chapter 20 of the GEM Listing Rules.

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

The Board will seek approval from the Shareholders at the extraordinary general meeting ("EGM"), a class meeting of the holders of H shares and a class meeting of the holders of domestic shares of the Company (together "Class Meetings") to be held on 14 August 2007, to grant a specific mandate to issue new H shares (the "Specific Mandate").

The major terms of the Specific Mandate are as follows:

- (1) to issue new H Shares representing not more than 20% of the total issued share capital of the Company as at the date of the EGM;
- (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 proposed Specific Mandate is for the period from the passing of the relevant resolutions at the EGM and the Class Meetings up to the earliest of: (i) the expiration of the 12-month period following the passing of the relevant resolution(s) at the EGM and/or the Class Meetings; or (ii) the revocation or variation of the authority given under the relevant resolution(s) at the EGM and/or the Class Meetings by special resolution(s) of the Shareholders 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.

For details, please refer to the announcement of the Company dated 12 June 2007 and the circular of the Company dated 29 June 2007.

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

As at 30 June 2007, the interests and short positions of the Directors, chief executives and Supervisors of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the required standard of dealings by Directors and Supervisors 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 2 under the section "Substantial Shareholders")	Held by controlled corporation	235,925,000	23.71%/35.48%

Save as disclosed in the above paragraph, as at 30 June 2007, none of the Directors, chief executives and Supervisors of the Company had interests or short positions in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the required standard of dealings by Directors and Supervisors 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 30 June 2007, the following persons, not being a Director, chief executive or Supervisor of the Company, had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be recorded in the register kept by the Company pursuant to section 336 of the SFO:

### Long position

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

Name of Shareholder	Capacity	Number of Domestic Shares held	Approximate percentage of interests in the Company/ Domestic Shares of the Company
Tianjin Beacon Coatings Co., Ltd (Note 1) 天津燈塔塗料有限公司	Beneficial owner	123,014,790	12.36%/18.50%
Tianjin Gas Group Company Limited 天津市燃氣集團有限公司	Beneficial owner	264,360,210	26.57%/39.75%
Tianjin Wanshun Real Estate Company Limited 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 2) 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 2)	Family	235,925,000	23.71%/35.48%
Mr. Bai Shao Peng (Note 2)	Held by controlled corporation	235,925,000	23.71%/35.48%
Ms. Zhang Xiu Ying (Note 2)	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:* Tianjin Wanshun Business Development Company Limited ("Wanshun Business Development") holds 80% interest in Tianjin Wanshun Real Estate Company Limited ("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

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

Save as disclosed above, as at 30 June 2007, the Directors are not aware of any person, not being a Director, chief executive or Supervisor of the Company, who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be recorded in the register kept by the Company pursuant to section 336 of the SFO.

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

During the six months ended 30 June 2007, neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed securities.

## DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or its subsidiary was a party and in which a Director or Supervisor had a material interest, whether directly or indirectly, subsisted at the end of the period under review or at any time during the period.

## COMPETING INTERESTS

As at 30 June 2007, the Directors are not aware of any business or interest of the Directors, the management shareholders of the Company and their respective associates, that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

## 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 six months ended 30 June 2007, the Company had complied with the Code on Corporate Governance Practice set out in Appendix 15 to the GEM Listing Rules.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the period under review was the Company or its subsidiary a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2007, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry with all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

## AUDIT COMMITTEE

The Company established an audit committee on 3 December 2003 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises the three independent non-executive Directors, Professor Zhang Yu Li, Mr. Luo Wei Kun and Mr. Chan Shun Kuen. The Audit Committee has reviewed the report for this period.

By order of the Board

**Tianjin Tianlian Public Utilities Company Limited**

**Sun Bo Quan**

*Chairman*

Tianjin, PRC, 13 August 2007