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)

Stock Code: 8290

2007

Annual Report

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.

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

Zhang Yu Li
Luo Wei Kun
Chan Shun Kuen, Eric

INDEPENDENT SUPERVISORS

Qi Yin Feng
Sha Jin Cheng

SUPERVISORS

Cao Shu Jing
Sun Xue Gang
Hao Li

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

Zhang Yu Li
Luo Wei Kun
Chan Shun Kuen, Eric

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Hong Kong

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SHARE REGISTRAR

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PRINCIPAL BANKER

Agricultural Bank of China
Tianjin He Xi Sub-branch
PRC

STOCK CODE

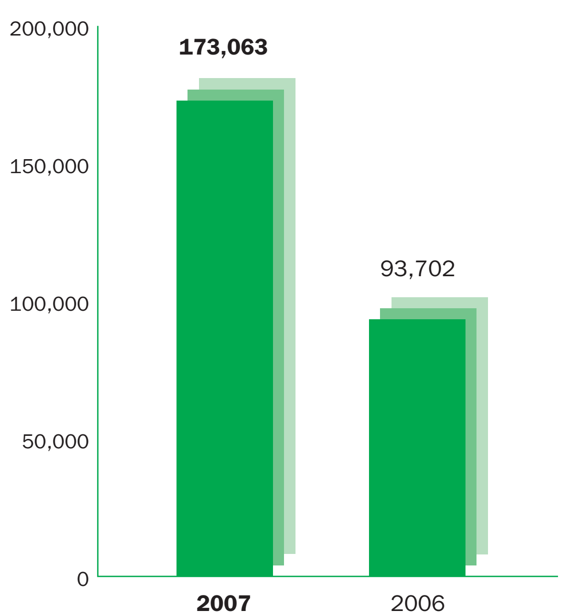
8290

Financial Summary

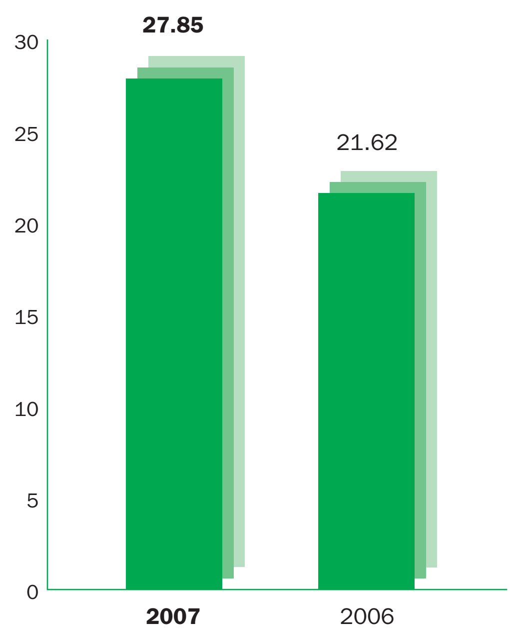
	2007 RMB'000	2006 RMB'000
Turnover	**173,063**	**93,702**
Gross profit	**105,218**	**57,120**
Net profit attributable to equity holders of the Company	**61,939**	**28,428**
Shareholders' interest	**277,103**	**215,164**
Total assets	**369,832**	**281,670**

	2007 RMB (cents)	2006 RMB (cents)
Earnings per share	**6.23**	**2.86**
Net asset per share	**27.85**	**21.62**

Turnover
(RMB'000)



Net asset per share
(RMB cents)



Chairman's Statement

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 2006). We believe that the Group will achieve a satisfactory result for our shareholders in year 2008.

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 2007. 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.

Chairman's Statement

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 has been 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 affected the Property industry and hence affects 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 2008 for our shareholders.

Sun Bo Quan
Chairman

The PRC, 28 March 2008

Management Discussion and Analysis

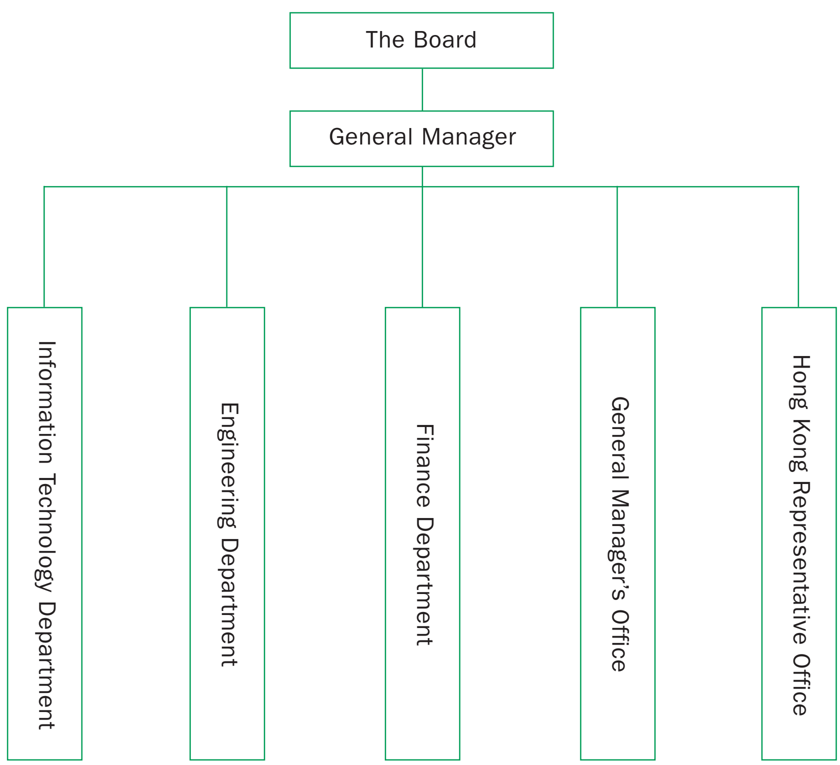
The performance of Tianjin Tianlian Public Utilities Co., Ltd. (the "Company") and its subsidiary (collectively the "Group") attained a good business development and gained a higher market share and its results had a strong growth (compared with 2006). We believe that the Group will achieve a satisfactory result for our shareholders in year 2008.

BUSINESS REVIEW

For the year ended 31 December 2007, the Group reported a turnover of approximately RMB173,063,000, representing an increase of approximately 84.70% as compared with the previous year. The Group's net profit attributable to the equity holders of the Company for the year 2007 amounted to approximately RMB61,939,000, significantly increased by 117.88% 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:



Management Discussion and Analysis

Segmental Information Analysis

During the year, the Group has implemented its formulated development strategies to provide piped gas connection to the users in the Group's operational locations in Tianjin City and Jining, Inner Mongolia. The gas connection revenue is still the major sources of income for the group, which is following by sales of gas and sales of gas appliances. The group will further expand the operate in these two areas, in order to attain its strategic objectives for this year.

Financial Resources

The Group is generally funded by equity and bank borrowings. As at 31 December, 2007, 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 2008.

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 2007 was approximately 0.25.

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 2007, the Group had a workforce of 74 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.

Management Discussion and Analysis

Benefiting from the reformation of gas companies across China and the considerable demands, the Group expects to further increase the market share. The directors and management of the Company will try their best to bring satisfactory returns to shareholders.

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

- Focus on the balanced development of various gas-related businesses and make efforts to develop the piped gas market, including participating in the urban natural gas pipeline network projects in local areas by way of mergers or acquisitions.

- Continue to advance the research, evaluation, negotiation and other work related to existing projects, and ensure the fulfillment of the business objectives.

- Continue to strengthen the financial management of the Group. The Group also aims to continuously lower the operating costs and maximize the revenue from the operating projects.

- Further its efforts in personnel training and recruitment, facilitate the smooth operations and developments of the Group, develop positive corporate culture, and upgrade the management of the Company.

Based on these achievements, the Group will further strengthen the operating management of existing businesses and input greater resources into the market development.

ACKNOWLEDGEMENT

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

By Order of the Board
Tianjin Tianlian Public Utilities Company Limited
Sun Bo Quan
Chairman

The PRC, 28 March 2008

Directors, Supervisors and Senior Management

At the 2006 annual general meeting of the Company held on 25 June 2007 (the "Previous AGM"), ordinary resolutions were passed by the shareholders of the Company to approve (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 ("New Supervisors") were elected as staff representative supervisors earlier by the representatives' meeting of the staff. The term of the proposed appointment of New Director and New Supervisors was a period commencing on the date of the Previous AGM and ending at the conclusion of the annual general meeting 2008 of the Company to be held in 2009.

DIRECTORS

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

Executive Directors

Mr. Jin Jian Ping, aged 49. 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 55, 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 50, 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 42. 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 56, is the Chairman of Tianjin Gas Group Company Limited, which is a substantial shareholder of the Company. Mr. Sun is a postgraduate and before he joined Tianjin Gas Group Company Limited, he is Vice Bureau head and deputy Chief Economist of Tianjin Public Utility Bureau.

Directors, Supervisors and Senior Management

Mr. Gong Jing, aged 45, 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 Zhang Yu Li, aged 41, appointed as an independent non-executive Director on 25 June 2007. He graduated from Nan Kai University (南開大學). He received a bachelor degree of Economic Management in 1987, a master degree in corporate management in 1989 and a doctorate degree in corporate management in 1995. In 1990, Professor Zhang became the deputy dean of the School of Business of Nan Kai University. Since 2003, he has acted as the head of the Business Administration Research Centre of the School of Business of Nan Kai University. Professor Zhang is currently an independent director of 天津百利特精電氣股份有限公司 (Tianjin Benefo Tejing Electric Company Limited*), whose A shares are listed on the Shanghai Stock Exchange.

Mr. Luo Wei Kun, aged 69, 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 46, is a Director of the Development Principles Fund Management Group. Mr. Chan is an associate member of Hong Kong Institute of Certified Public Accounts (formerly known as Hong Kong Society of Accountants).

Directors, Supervisors and Senior Management

SUPERVISORS

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

Mr. Cao Shu Jing, aged 56, 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.

Independent Supervisors

Professor Qi Yin Feng, aged 70, 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. Sha Jin Cheng, aged 64, was redesignated as an independent Supervisors on 25 June 2007. He 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).

Directors, Supervisors and Senior Management

Staff Representative Supervisors

Mr. Sun Xue Gang, aged 31, graduated from Tianjin Finance College, major in Economic Information Management. Between 1997 and 2006, he had worked for 天津市自來水集團有限公司 (Tianjin Water Works Group Company*) in the department of human resources, the Committee of the Communist Youth League as a deputy secretary and the retail branch of Tianjin north as a deputy manager. Since 2006, Mr. Sun has acted as the deputy general manager of the Company.

Ms. Hao Li, aged 37, graduated from the School of Tianjin Committee of the Communist Party, major in economic management. Ms. Hao had worked in the planning department of 天津市燃氣集團 (Tianjin Gas Group*) between 1988 and 2005. Since 2005, she has worked in the management department of the Company.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Kwok Shun Tim (郭純恬), aged 34, 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 54, 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. Lan Rong Fa (蘭榮發先生), aged 52, graduated from the Dalian Marine College in 1978. Before he joined the Company, he had worked for the Second Branch of Tianjin Pipeline Engineering Group Company Limited (天津市管道工程集團有限公司第二分公司) from 1979 to January 2003. Since February 2003, he has worked for the engineering department of the Company.

Corporate Governance Report

COMPLIANCE WITH THE CODE

The Company has complied with all the code provisions set out in Appendix 15 Code on Corporate Governance Practices (“the Code”) of the GEM Listing Rules throughout the financial year ended 31 December 2007.

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. Jin Jian Ping, Mr. Dong Hui Qiang, Mr. Bai Shao Liang and Ms. Tang Jie, 2 non-executive Directors namely Mr. Sun Bo Quan (Chairman), Mr. Gong Jing, and 3 independent non-executive Directors namely Mr. Zhang Yu Li, 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 12 of this Annual Report.

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

Corporate Governance Report

Appointment and Re-election of Directors

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

The notice of 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 2007.

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. 6 Board meetings were held in 2007 and the average attendance rate was 98 per cent. Individual attendance records are set out below.

Corporate Governance Report

Board Attendance

No of meetings held during the year	6
Executive Directors	
Jin Jian Ping	6
Dong Hui Qiang	6
Bai Shao Liang	6
Tang Jie	6
Non-executive Directors	
Sun Bo Quan	6
Gong Jing	5
Independent Non-executive Directors	
Ma Jun Lu *(Resigned on 25 June 2007)*	3
Zhang Yu Li *(Appointed on 25 June 2007)*	3
Luo Wei Kun	6
Chan Shun Kuen	6
Average attendance rate	98%

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 2007, 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 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 2007	Attendance in 2007
Audit Committee	• To serve as a focal point for communication between Directors, the external auditors and internal auditors	Ma Jun Lu (resigned on 25 June 2007)	100%
		Luo Wei Kun	100%
		Chan Shun Kuen	100%
		Zhang Yu Li (appointed on 25 June 2007) *(Chairman)*	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 2007: 4			
Remuneration Committee	• To formulate remuneration policy and make recommendations on the annual remuneration review	Sun Bo Quan *(Chairman)*	100%
		Luo Wei Kun	100%
		Chan Shun Kuen	100%
	• To determine the remuneration of Executive Director and members of the Senior Management		
Total number of meetings held in 2007: 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.

Corporate Governance Report

The Remuneration Committee has held one meeting during 2007 to determine the Group's remuneration policy for executive Directors. 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 pages 7 and 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 2007, 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 2007. 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 2007, 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 2007, the fees paid to the Company's external auditors for audit services amounted to approximately RMB0.66 million and for non-audit related activities (which are account review fees) 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 GEM 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. Zhang Yu Li *(Chairman)*, 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 2007, the Audit Committee met four times to discuss the annual results of 2006 and the first quarterly, interim and third quarterly results of 2007. 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.

Directors' Report

The Board of Directors is pleased to present the audited consolidated financial statements of the Group for the year ended 31 December 2007.

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 2007 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 2007 (2006: Nil) 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.

Directors' Report

The Company's reserves available for distribution to shareholders as at 31 December 2007, comprised the retained profits determined under PRC accounting standards of approximately RMB132 million (2006: RMB70 million).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group and the Company are set out in note 14 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. Jin Jian Ping
Mr. Dong Hui Qiang
Mr. Bai Shao Liang
Ms. Tang Jie

Non-executive directors:

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

Independent non-executive directors:

Professor Ma Jun Lu *(Resigned on 25 June 2007)*
Professor Zhang Yu Li *(Appointed on 25 June 2007)*
Mr. Luo Wei Kun
Mr. Chan Shun Kuen

Supervisors:

Mr. Chang Jian *(Resigned on 25 June 2007)*
Mr. Cao Shu Jing
Ms. Sun Xue Gang *(Appointed on 25 June 2007)*
Ms. Hao Li *(Appointed on 25 June 2007)*

Independent supervisors:

Professor Qi Yin Feng
Mr. Zhang Qi *(Resigned on 25 June 2007)*
Mr. Sha Jin Cheng *(Redesignated as independent supervisor on 25 June 2007)*

Directors' Report

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' Report

DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' INTERESTS IN SECURITIES

As at 31 December 2007, 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 2007, 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.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

So far as known to the Directors, as at 31 December 2007, 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 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%

Directors' Report

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 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 (Holdings) Limited	Held by controlled corporation	30,000,000	3.02%/9.09%
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 2007, 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.

Directors' Report

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

During the year ended 31 December 2007, neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

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 2007, 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 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.

AMENDMENTS TO ARTICLES OF ASSOCIATION

At the annual general meeting of the Company ("Previous 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 order to comply with the PRC 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.

Directors' Report

CHANGE OF DIRECTOR AND SUPERVISORS

At the Previous 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 was a period commencing on the date of the Previous 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"), a substantial shareholder and connected person of the Company, 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"), a wholly owned subsidiary of Tianjin Gas, 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 exempted 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 proposed 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 proposed 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 sought 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.

For details of the above transactions, please refer to the announcement and circular of the Company dated 20 June 2007 and 11 July 2007 respectively.

At the extraordinary general meeting of the Company held on 27 August 2007, the independent Shareholders approved the above amendments and new proposals on the annual caps in relation to Gas Supply Transaction.

During the year, the Company had purchased natural gas of RMB28,524,000 from Tianjin Gas and paid a construction design fee of RMB496,000 to the Design Institute which transaction amounts were within the relevant annual caps approved by the shareholders 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.

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.

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

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") which were held on 14 August 2007 approved the grant of 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.

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

SUBSEQUENT EVENT

Placing of H Shares of the Company

On 27 February 2008, the Company entered into a placing agreement (the "Placing Agreement") with Kingsway Financial Services Group Limited in relation to the placing of an aggregate of 170,060,000 H Shares ("Placing Shares") at a placing price of HK$1.90 per Placing Share on a best effort basis to not less than six independent professional, institutional and/or individual investors.

The Placing Shares were placed at a placing price of HK$1.90 per Placing Share, (exclusive of stamp duty (if any), brokerage (if any), Stock Exchange trading fees and SFC transaction levy) which represents:

(i) a discount of approximately 7.77% to the closing price of HK$2.06 per H Share as quoted on the Stock Exchange on 27 February 2008, being the last full trading day immediately before the signing of the Placing Agreement;

(ii) a discount of approximately 4.71% to the average of the closing prices of HK$1.994 per H Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 27 February 2008;

(iii) a discount of approximately 4.52% to the average of the closing prices of HK$1.99 per H Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including 27 February 2008; and

(iv) a premium of approximately 169.53% over net asset value per H Share of approximately RMB0.684 as at 30 June 2007 as shown or derived from the unaudited consolidated balance sheet of the Group made up to 30 June 2007.

The Placing Shares comprise of (1) 154,600,000 new shares of the Company ("New Shares") allotted and issued by the Company and (2) an aggregate of 15,460,000 H shares of the Company ("Sale Shares") converted from the same number of state-owned domestic shares of the Company transferred from 天津燈塔塗料有限公司 (Tianjin Beacon Coatings Co., Ltd*) ("Tianjin Beacon") and Tianjin Gas to the 全國社會保障基金理事會 (National Social Security Fund Council of the PRC). The Placing Shares represent approximately 51.53% and 17.09%, respectively, of the issued H share capital and the registered capital of the Company prior to the completion of the Placing and approximately 34.01% and 14.79%, respectively, of the issued H share capital and the registered capital of the Company as enlarged by the issue of the New Shares and the conversion of the Sale Shares. The Directors consider that the placing will enable the Group to raise further equity capital and strengthen the capital base of the Company. The net proceeds of the placing of the New Shares were approximately HK$280 million (representing a net placing price of approximately HK$1.81 per New Share). The entire net proceeds from the placing of the Sale Shares would be remitted to the Ministry of Finance of the PRC. The Company intends to use the net proceeds from the placing of the New Shares for the construction and investment in gas pipeline infrastructure, acquisition of assets and working capital. The placing of the Placing Shares was completed on 13 March 2008.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 33.77% of the Group's total turnover for the year, with the largest customer accounted for approximately 20.34%. The five largest suppliers of the Group together accounted for approximately 93.49% of the Group's total purchases for the year, with the largest supplier accounted for 38.63%.

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.

Directors' Report

AUDIT COMMITTEE

The Company established an audit committee on 3 December 2003 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee currently comprises the three independent non-executive directors, Professor Zhang Yu Li, Mr. Luo Wei Kun and Mr. Chan Shun Kuen. There were 4 meetings held within year 2007. 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

28 March 2008

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 2008, 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
28 March, 2008

Independent Auditor's Report

Deloitte.
德勤

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

We have audited the consolidated financial statements of Tianjin Tianlian Public Utilities Company Limited (the "Company") and its subsidiary (collectively referred to as the "Group") set out on pages 35 to 66, which comprise the consolidated balance sheet as at 31 December 2007, 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.

AUDITOR'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 2007 and of the Group's profit and cash flows 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
28 March 2008

Consolidated Income Statement

For The Year Ended 31 December 2007

	Notes	**2007 RMB'000**	2006 RMB'000
Turnover	7 & 8	**173,063**	93,702
Cost of sales		**(67,845)**	(36,582)
Gross profit		**105,218**	57,120
Other income		**4,040**	2,908
Selling expenses		**(42)**	(155)
Administrative expenses		**(13,023)**	(14,491)
Finance costs	9	**(2,406)**	(1,829)
Profit before tax		**93,787**	43,553
Income tax	10	**(31,848)**	(15,125)
Profit for the year	11	**61,939**	28,428
Attributable to:			
Equity holders of the parent		**61,939**	28,428
Earnings per share			
— basic (RMB cents)	12	**6.2**	2.9

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	14	**184,787**	184,541
Prepaid lease payments	15	**5,315**	5,462
Prepayment		**134**	161
		190,236	190,164
Current assets			
Inventories	16	**978**	1,160
Bills and trade receivables	17	**91,505**	55,961
Deposits, prepayment and other receivables	17	**5,931**	2,854
Amount due from a related party	18	**11,230**	—
Bank balances and cash	19	**69,952**	31,531
		179,596	91,506
Current liabilities			
Trade and other payables	20	**35,161**	20,607
Amounts due to related parties	18	**496**	3,978
Bank loan	21	**30,000**	30,000
Income tax payable		**26,608**	11,275
		92,265	65,860
Net current assets		**87,331**	25,646
Total assets less current liabilities		**277,567**	215,810
Capital and reserves			
Share capital	22	**99,500**	99,500
Reserves		**177,603**	115,664
Total equity		**277,103**	215,164
Non-current liability			
Deferred tax liability	23	**464**	646
		277,567	215,810

The consolidated financial statements on pages 35 to 66 were approved and authorised for issue by the Board of Directors on 28 March 2008 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 2007

	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000 (Note i)	Statutory public welfare fund RMB'000 (Note ii)	Retained profits RMB'000	Total RMB'000
At 1 January 2006	99,500	31,667	5,421	2,710	47,438	186,736
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	99,500	31,667	10,837	—	73,160	215,164
Profit for the year, representing total recognised income for the year	—	—	—	—	61,939	61,939
At 31 December 2007	99,500	31,667	10,837	—	135,099	277,103

Note:

(i) Basis of appropriations reserves

Prior to August 2007, each of the Company's and its subsidiary's Articles of Association requires the appropriation of 10% its profit after taxation determined under the PRC accounting standards each year to the statutory surplus reserve until the balance reaches 50% of the share capital. The statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation. After transformation to a foreign invested joint stock company in June 2007. The transfers to statutory surplus reserve fund is based on the profit after taxation stated in the financial statements prepared under the PRC accounting standards at the discretion of the board of directors.

(ii) Statutory surplus reserve

Pursuant to the PRC Company Law, each of the Company and its subsidiary shall make allocation from its profit after taxation determined under the PRC accounting standards at the rate of 5% to 10% to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employees' collective welfare. Individual employee has the right to use these facilities, but the titles of these facilities are remained with the Company and its subsidiary. The statutory public welfare fund forms part of the shareholders' equity but is non distributable other than in liquidation. According to the new Company Laws (effective from 1 January 2006), Companies are not allowed to accrue statutory public welfare fund from 1 January 2006. The balance ended at 31 December 2005 is required to transfer into statutory surplus reserve.

Consolidated Cash Flow Statement

For The Year Ended 31 December 2007

	2007 RMB'000	2006 RMB'000
Operating activities		
Profit before tax	**93,787**	43,553
Adjustments for:		
Depreciation	**8,014**	7,015
Amortisation of prepaid lease payments	**147**	146
Loss on disposal of property, plant and equipment	**70**	—
Interest income	**(355)**	(205)
Interest expense	**2,406**	1,829
Allowances for bad and doubtful debts	**2,941**	1,076
Revised of allowance for bad and doubtful debts	**(201)**	(47)
Operating cash flows before movements in working capital	**106,809**	53,367
Decrease (Increase) in inventories	**182**	(286)
Increase in bills and trade receivables	**(37,183)**	(45,734)
(Increase) decrease in deposits, prepayments and other receivables	**(4,151)**	15,270
Increase in amount due from a related party	**(11,230)**	—
Increase (decrease) in trade and other payables	**14,554**	(3,227)
Increase in amount due to a related party	**(3,482)**	—
Net cash generated from operations	**65,499**	19,390
Interest paid	**(2,406)**	(1,829)
Tax paid	**(16,697)**	(4,154)
Net cash generated from operating activities	**46,396**	13,407
Investing activities		
Purchase of property, plant and equipment	**(8,338)**	(12,733)
Proceeds on disposal of property, plant and equipment	**8**	—
Proceeds received on disposal of a subsidiary and a branch in the prior period	**—**	25,858
Interest received	**355**	205
Net cash (used in) from investing activities	**(7,975)**	13,330
Financing activities		
New bank loans raised	**40,000**	30,000
Repayment to related parties	**—**	(38,082)
Repayment of bank loan	**(40,000)**	—
Net cash used in financing activities	**—**	(8,082)
Net increase in cash and cash equivalents	**38,421**	18,655
Cash and cash equivalents at beginning of the year	**31,531**	12,876
Cash and cash equivalents at end of the year, represented by bank balances and cash	**69,952**	31,531

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 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") on 9 January 2004. In June 2007, the Company tranformed into a foreign invested joint stock limited company.

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 during the year.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

In the current financial year, 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 on 1 January 2007.

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

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 required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") *(continued)*

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.

HKFRS 1	Presentation of Financial Statements[1]
HKAS 23(Revised)	Borrowing Costs[1]
HKAS 27(Revised)	Consolidated and Separate Financial statements[2]
HKFRS 3(Revised)	Business combinations[1]
HKFRS 2(Amendment)	Vesting Conditions and Cancellation[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2 : Group and Treasury Share Transactions[3]
HK(IFRIC)-Int 12	Service Concession Arrangement[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 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 Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary. 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 the subsidiary 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 the subsidiary to bring its accounting policies into line with those used by the other member of the Group.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold 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 costs incurred that it is probable to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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 receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment including buildings, held for use in the production or supply of goods and services for administrative purpose, 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 of other than construction in progress over their estimated useful lives, and after taking into account of 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 are 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

The Group as lessee

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 a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire contract is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency (i.e. RMB for both the Company and its subsidiary) 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 retranslated 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

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

Retirement benefit costs

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax is recognised on differences between the carrying amounts 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.

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 tangible 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets

The Group's financial assets are mainly classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis.

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, amount due from a related party and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty or it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivables are considered uncollectible, they are written off against the respective allowance accounts. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decreases can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment loss 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to related parties and bank loan 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 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 application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key sources of estimation uncertainty that can significantly, affect the amounts recognised in the consolidated financial statements are disclosed blow.

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. As at 31 December 2007, the allowance for bad and doubtful debts amounted to RMB4,088,000 (2006: RMB1,348,000).

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. Not withstanding that the management reviews and revise the estimate, the actual consumption may be higher or lower than the estimates and this will affect the revenue recognised.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy reviews unchanged from prior year.

The capital structure of the Group consists of bank loans, bank balance and cash and equity, comprising share capital, reserves and retained profits as disclosed in the consolidated financial statements.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends and possible new share issues as well as raising of bank loans.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2007 RMB'000	2006 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**162,967**	90,234
Financial liabilities		
Amortised cost	**64,550**	53,732

6b. Financial risk management objectives and policies

The Group's principal financial instruments include bills and trade receivables, other receivables, trade and other payable, amount due from/(to) related parties, bank balances and cash and bank loan. 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.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

(i) Credit risk

The Group's principal financial assets are bills and trade receivables, other receivables, bank balances and cash and amounts due from a related party which represent the Group's maximum exposure to credit risk in relation to financial assets, details of which are disclosed in respective notes.

The Group's credit risk is primarily attributable to its trade and other receivables. In order to minimise the credit risk, the Group delegate a team to assess the customers' credit worthiness, credit approval and other monitoring procedures on customers, the Group had also explored new markets and new customers in order to minimise the concentration of credit risk. The Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group is exposed to some concentration of credit risk. At 31 December 2007, the five largest debtors accounted for approximately RMB51,525,000 (56%) (2006: RMB20,877,000 (40%)) of the Group's total trade receivable. However, taking into account the strong financial background and good creditability of these customers, the management considers that there is no significant credit risk.

The table below shows the credit limit and balance of 5 major counterparties at the balance sheet date:

Counterparty	Location	31.12.2007 Carrying amount RMB'000	31.12.2006 Carrying amount RMB'000
Company A	The PRC	36,000	—
Company B	The PRC	4,449	—
Company C	The PRC	4,135	—
Company D	The PRC	3,885	—
Company E	The PRC	3,056	—
Company F	The PRC	—	8,229
Company G	The PRC	—	4,458
Company H	The PRC	—	3,090
Company I	The PRC	—	2,683
Company J	The PRC	—	2,417

The credit risk on bank balances and cash is limited because majority of the counterparties are state-owned banks with good reputation or banks with good credit rating.

Other than concentration of credit risk on liquid funds, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers which spread across diverse industries.

The Group's geographical concentration of credit risk is totally in the PRC as at 31 December 2007 and 2006.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

(ii) Market risk

The Group's activities expose primarily to the financial risks of changes in interest rates (see below).

There has been no change to the Group's exposure to market risks or the minor in which it manages and measures the risk.

Interest rate risk management

The Group is exposed to cash flow interest rate risk through the impact of changes on floating-interest bearing financial assets and liabilities, mainly bank balances and cash and bank loan at prevailing market interest rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates risks for variable-rate bank balances and cash and bank loan at the balance sheet date and assumed that the amount of assets and liabilities outstanding at the balance sheet date was outstanding for the whole year.

If interest rates on bank balances and cash and bank loan had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year would:

	2007 RMB'000	2006 RMB'000
Increase/decrease in profit for the year	**200**	8

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in bank balances and cash.

(iii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate level of cash and banking facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group's holdings of cash, together with net cash flow from operations, are expected to be sufficient to cover the operating cost of the Group in the next financial year. The management considers that the Group expects to have adequate source of funding to finance the Group and manage the liquidity position.

6. FINANCIAL INSTRUMENTS *(continued)*

6b. Financial risk management objectives and policies *(continued)*

(iii) Liquidity risk management *(continued)*

The following tables details the remaining contractual maturity for the financial liabilities of the Group as at 31 December 2007. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 3 months RMB'000	Over 3 Months but not more than 6 months RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial assets					
As at 31 December 2007					
Bills and trade receivables	—	91,505	—	91,505	91,505
Other receivables	—	1,510	—	1,510	1,510
Bank balances and cash	0.72	69,952	—	69,952	69,952
		162,967	—	162,967	162,967
As at 31 December 2006					
Bills and trade receivables	—	55,961	—	55,961	55,961
Other receivables	—	2,742	—	2,742	2,742
Bank balances and cash	0.72	31,531	—	31,531	31,531
		90,234	—	90,234	90,234
Non-derivative financial liabilities					
As at 31 December 2007					
Amounts due to related parties	—	496	—	496	496
Trade and other payables	—	34,054	—	34,054	34,054
Short-term bank loans	7.29	30,074	—	30,074	30,000
		64,624	—	64,624	64,550
As at 31 December 2006					
Amounts due to related parties	—	3,978	—	3,978	3,978
Trade and other payables	—	19,754	—	19,754	19,754
Short-term bank loans	6.138	30,062	—	30,062	30,000
		53,794	—	53,794	53,732

6. FINANCIAL INSTRUMENTS *(continued)*

6c. Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using rates from observable current market transaction as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the balance sheet date.

7. 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.

8. 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 business are presented below:

Year ended 31 December 2007

	Gas connection contract revenue RMB'000	Sales of gas RMB'000	Sales of gas appliance RMB'000	Consolidation RMB'000
Revenue	137,477	35,200	386	173,063
Segment result before depreciation	105,725	5,976	88	111,789
Depreciation	—	(6,130)	—	(6,130)
Segment result	105,725	(154)	88	105,659
Unallocated other income				4,040
Unallocated corporate expenses				(13,506)
Finance costs				(2,406)
Profit before taxation				93,787
Taxation				(31,848)
Profit for the year				61,939

8. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Year ended 31 December 2006

	Gas connection contract revenue RMB'000	Sales of gas RMB'000	Sales of gas appliance RMB'000	Consolidation RMB'000
Revenue	79,157	14,139	406	93,072
Segment result before depreciation	61,058	1,236	247	62,541
Depreciation	—	(5,247)	—	(5,247)
Segment result	61,058	(4,011)	247	57,294
Unallocated other income				2,908
Unallocated corporate expenses				(14,820)
Finance costs				(1,829)
Profit before taxation				43,553
Taxation				(15,125)
Profit for the year				28,428

	Gas connection contract revenue		Sales of gas		Unallocated		Total	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Depreciation of property, plant and equipment	—	—	6,130	5,247	1,884	1,768	8,014	7,015
Amortisation of prepaid lease payment, included in administrative expense	—	—	—	—	147	146	147	146
Additions of property, plant and equipment	—	—	5,712	36,183	2,626	4,293	8,338	40,476
Allowances for had and doubtful debts	1,840	212	—	—	1,101	864	2,941	1,076
Loss on disposal of property, plant and equipment	—	—	—	—	70	—	70	—

8. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

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

	2007 RMB'000	2006 RMB'000
Segment assets		
Gas connection contract revenue	**93,477**	52,234
Sales of gas	**162,233**	155,791
Sales of gas appliances	**539**	615
Unallocated corporate assets	**113,583**	73,030
	369,832	281,670
Segment liabilities		
Gas connection contract revenue	**30,763**	16,851
Sales of gas	**—**	3,978
Sales of gas appliances	**—**	116
Unallocated corporate liabilities	**61,966**	45,561
	92,729	66,506

During the year, the Group had carried out gas connection contract work with revenue of approximately RMB 53 million (2006: RMB 57 million) in certain areas in Tianjin, in which the gas supply is being separately provided by 天津市燃氣集團有限公司, a substantial shareholder of the Company, to its own customers.

(b) Geographical segment

The Group's operations are all located in the PRC and all its revenue are earned from customers located in the PRC. Accordingly no geographical segment analysis is presented.

9. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest on bank borrowings wholly repayable within five years	**2,406**	1,829

10. INCOME TAX EXPENSE

	2007 RMB'000	2006 RMB'000
The charge comprises:		
PRC Enterprise Income Tax	**32,030**	15,187
Deferred tax (note 23)		
— current year	**(25)**	(62)
— attributable to a change in tax rate	**(157)**	—
	31,848	15,125

The Company is subject to PRC Enterprise Income Tax rate of 33% for the year.

On 16 March 2007, the National People's Congress promulgated the Corporate Income Tax Law of the PRC (the new "CIT") which will be effective from 1 January 2008. The new CIT will impose a single income tax rate of 25% for both domestic and foreign invested enterprises. The existing Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises (the "FIE and FE tax laws") and Provisional Regulations of the PRC on Enterprise Income Tax (collectively referred to as the "existing tax laws") will be abolished simultaneously. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or liability is settled.

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:

	2007 RMB'000	2006 RMB'000
Profit before tax	**93,787**	43,553
Tax at the domestic income tax rate (33%)	**30,950**	14,372
Tax effect of expenses that are not deductible in determining taxable profit	**1,055**	753
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	**(157)**	—
Tax expense for the year	**31,848**	15,125

11. PROFIT FOR THE YEAR

	2007 RMB'000	2006 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Auditors' remuneration	**950**	966
Staff costs including directors' and supervisors' remuneration	**2,661**	3,039
Depreciation of property, plant and equipment	**8,014**	7,015
Loss on disposal of property, plant and equipment	**70**	—
Amortisation of prepaid lease payments included in administrative expense	**147**	146
Operating lease rentals in respect of rented premises	**582**	779
Allowances for bad and doubtful debts	**2,941**	1,076
Cost of gas purchased	**28,556**	12,205
Bank interest income	**(355)**	(205)

12. 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 RMB61,939,000 (2006: RMB28,428,000) 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.

13. 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:

	2007 RMB'000	2006 RMB'000
Fees	**750**	750
Salaries and other benefits	**90**	—
Retirement benefit scheme contributions	**12**	—
	852	750

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

Fees analysed into:

	2007 RMB'000	2006 RMB'000
Chang Jian	**25**	50
Gong Jing	**50**	50
Luo Weikun	**50**	50
Ma Junlu	**25**	50
Sha Jincheng	**50**	50
Tang Jie	**50**	50
Zhang Qi	**25**	50
Qi Yinfeng	**50**	50
Dong Huiqiang	**50**	50
Sun Boquan	**50**	50
Chen Shunquan	**100**	100
Bai Shaoliang	**50**	50
Jin Jianping	**50**	50
Cao Shujing	**50**	50
Zhang Yuli	**25**	—
Sun Xuegang	**25**	—
Hao Li	**25**	—
	750	750

Employees

The five highest paid employees in the Group for the year ended 31 December 2007 included one director/supervisor (2006: nil). The details of the remuneration of the remaining four highest paid employees for 2007 (2006: five) are as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other benefits	**479**	608
Retirement benefit scheme contributions	**—**	8
	479	616

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2007

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

Their emoluments are within the following band:

	2007	2006
Nil-RMB936,400 (2006: Nil to RMB1,040,000) (equivalent to HK$1,000,000)	**4**	5

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Pipelines RMB'000	Machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
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	—	27,997	95	—	—	(28,092)	—
Asset transfer	—	—	—	—	—	(11,616)	(11,616)
At 1 January 2007	30,178	135,201	20,538	2,511	4,619	16,031	209,078
Additions	2,254	—	259	30	—	5,795	8,338
Reclassification	375	7,918	264	—	—	(8,557)	—
Disposal	—	—	—	(101)	—	—	(101)
At 31 December 2007	32,807	143,119	21,061	2,440	4,619	13,269	217,315
DEPRECIATION AND AMORTISATION							
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 1 January 2007	2,235	17,555	1,247	671	2,829	—	24,537
Provided for the year	731	5,331	799	386	767	—	8,014
Disposal	—	—	—	(23)	—	—	(23)
At 31 December 2007	2,966	22,886	2,046	1,034	3,596	—	32,528
CARRYING VALUES							
At 31 December 2007	29,841	120,233	19,015	1,406	1,023	13,269	184,787
At 31 December 2006	27,943	117,646	19,291	1,840	1,790	16,031	184,541

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

The above items of property, plant and equipment other than construction in progress are depreciated, after taking into account their 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

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

At 31 December 2007, the Group is in the process of applying title certificates for certain buildings with a carrying value of approximately RMB4.2 million (2006: RMB4.3 million).

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	2007 RMB'000	2006 RMB'000
Leasehold land outside Hong Kong:		
medium-term lease	**5,462**	5,609
Analysed for reporting purpose as:		
Current portion (included in deposits, prepayment and other receivables)	**147**	147
Non-current portion	**5,315**	5,462
	5,462	5,609

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

At 31 December 2007, the Group is in the process of applying title certificates for certain land with a carrying value of approximately RMB4.7 million (2006: RMB4.9 million).

16. INVENTORIES

	2007 RMB'000	2006 RMB'000
Gas appliances	**539**	615
Gas	**40**	37
Spare parts and consumables	**399**	508
	978	1,160

17. BILLS AND TRADE RECEIVABLES/OTHER RECEIVABLES

	2007 RMB'000	2006 RMB'000
Bills receivables	—	4,373
Trade receivables	93,620	52,064
Less: impairment loss recognised	(2,115)	(476)
Total bills and trade receivables	91,505	55,961

	2007 RMB'000	2006 RMB'000
Other receivables	3,483	3,614
Less: impairment loss recognsied	(1,973)	(872)
Total other receivables	1,510	2,742
Deposits and prepayment	4,421	112
	5,931	2,854

Movement in impairment loss recognised:

	2007 RMB'000	2006 RMB'000
Trade receivables		
Balance at beginning of the year	476	311
Amounts provided during the year	1,840	212
Amounts reversed during the year	(201)	(47)
Balance at end of the year	2,115	476
Other receivables		
Balance at beginning of the year	872	8
Amounts provided during the year	1,101	864
Balance at end of the year	1,973	872

17. BILLS AND TRADE RECEIVABLES/OTHER RECEIVABLES *(continued)*

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

Before accepting any new customer, the Group will assess credit worthiness by customer. As the customers are mostly the real state developers, therefore based on the past history, the collectibility is expected.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB34 million (2006: RMB10 million) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not held any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	2007 RMB'000	2006 RMB'000
91 — 180 days	**21,149**	2,991
181 — 270 days	**4,937**	1,726
281 — 365 days	**1,467**	887
Over 365 days	**6,182**	4,224
Total	**33,735**	9,828

The aged analysis of trade debtors net of allowance is as follows:

	2007 RMB'000	2006 RMB'000
0 — 90 days	**57,770**	41,760
91 — 180 days	**21,149**	2,991
181 — 270 days	**4,937**	1,726
271 — 365 days	**1,467**	887
Over 365 days	**6,182**	4,224
	91,505	51,588

At 31 December 2006, the bills receivables aged within the range of 91-180 days.

18. AMOUNT DUE FROM/TO RELATED PARTIES

The amount was unsecured, interest free and was repayable on demand. Details of these are set out in note 28 (a).

19. BANK BALANCES AND CASH

Bank balances carry interest at market rate at 0.72%. (2006:0.72%).

20. TRADE AND OTHER PAYABLES

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

	2007 RMB'000	2006 RMB'000
0 — 90 days	**14,768**	12,695
91 — 180 days	**8,499**	632
181 — 270 days	**3,494**	836
271 — 365 days	**—**	—
Over 365 days	**316**	841
	27,077	15,004

21. BANK LOAN

	2007 RMB'000	2006 RMB'000
Unsecured bank loan	**30,000**	30,000

The above loan was unsecured, carried interest at floating rate of 7.29% (2006:6.138%) per annum and was fully repaid in January 2008. The loan was guaranteed by 天津市燃气集團有限公司, the shareholder of the Company.

22. SHARE CAPITAL

	Number of shares Domestic Shares	H Shares	Registered, issued and fully paid RMB'000
Shares of RMB0.1 each			
At 1 January 2006, 31 December 2006 and 2007	665,000,000	330,000,000	99,500

The Domestic Shares and H Shares are both ordinary shares in the share capital of the Company, However, H Shares may only be subscribed for by, and traded in Hong Kong dollars among, legal or natural persons of Hong Kong, Macau, Taiwan or any county other than the PRC. The Domestic Shares, on the other hand, may only be subscribed for by and traded among legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in RMB. All dividends in respect of H Shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of the Domestic Shares are to be paid by the Company in RMB.

Save for the above and in relation to the despatch of notices and financial reports to shareholders, dispute resolution, registration of shares on different parts of the register of shareholders, the method of share transfer and the appointment of dividend receiving agents, the Domestic Shares and the H Shares rank pari passu with each other in all aspects.

There is no movement of the Company's ordinary share capital during the year.

23. DEFERRED TAXATION

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

	Accelerated tax depreciation	
	2007 RMB'000	2006 RMB'000
At beginning of the year	**646**	708
Change in tax rate	**(157)**	—
Credit for the year	**(25)**	(62)
At end of the year	**464**	646

24. 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:

	2007 **RMB'000**	2006 RMB'000
Within one year	**420**	545
In the second year	**32**	467
	452	1,012

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

25. CAPITAL COMMITMENTS

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

	2007 **RMB'000**	2006 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
— authorised but not contracted for	**29,163**	34,958
	29,163	41,467

26. 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 beyond the contributions. The retirement benefit scheme is responsible for the entire present obligation to retired employees.

During the year, the retirement benefit scheme contributions amounted to RMB163,000 (2006: RMB281,000).

27. POST BALANCE SHEET EVENTS

On 3 February 2008, the Company obtained a consent from the China Securities Regulatory Commission (the "CSRC") to issue new H Shares. The Company then applied to the Stock Exchange for the listing of those H Shares on the GEM of Stock Exchange. Subsequently, the Company issued 154,600,000 new H Shares ("New Shares") and converted 15,460,000 Domestic Shares into H Shares ("Sale Shares") for placing and the above H Shares were approved to list on the GEM of the Stock Exchange with effect from 13 March 2008. The proceeds of HK$280 million received from the placing of the New Shares were received by the Company.

28. RELATED PARTY TRANSACTIONS/BALANCES

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

Name of related party	Relationship	Nature of transactions	2007 RMB'000	2006 RMB'000
天津市燃气集團有限公司 (Note i)	Shareholder	Purchase of gas	**28,524**	12,185
		Purchase of assets (Note ii)	**—**	7,194
		Entrusted management fee (Note ii)	**71**	215
		Amount due from/(to) a related party	**11,230**	(3,978)
天津市煤气工程設計院 (Note iii)	Related party	Construction design fee	**496**	277
		Amount due to a related party	**496**	—

Notes:

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

(ii) On 27 September 2006, the Company entered into an agreement with 天津市燃气集團有限公司, whereby the Company agreed to acquire certain plant and equipment located in Xiqing, Tianjin (the " Xiqing Assets") from 天津市燃气集團有限公司 at a consideration of RMB7,194,000 (the "Asset Transfer Agreement"). Though the transfer of Xiquing Assets has already been completed in early October 2006, the Company decided to entrust 天津市燃气集團有限公司 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 entrusted management fee of RMB71,000 per month to 天津市燃气集團有限公司.

(iii) 天津市煤气工程設計院 is a wholly owned subsidiary of 天津市燃气集團有限公司.

28. 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 ended 31 December 2006, the Group had engaged 天津市華水自來水建設有限公司 ("天津市自來水") to construct property, plant and equipment of approximately RMB28 million for the Group. This amount was settled by transferring the Group's construction in progress of approximately RMB11.6 million, amounts due from customers for contract work of approximately RMB13.7 million and bank balances and cash of RMB2.7 million to 天津市自來水. 天津市自來水 is controlled by the PRC government (i.e. State-Owned Enterprise as defined below). In addition, during the year ended 31 December 2007, 天津市自來水 had also carried out the project work for the Group of approximately RMB26 million (2006: RMB15 million). The above transactions had been included and disclosed in section (c) (i) "Purchase of service".

(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 天津市燃气集團有限公司 which is controlled by the PRC government (these enterprises other than 天津市燃气集團有限公司 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 rather than all the transactions refer to in 28(a) during the year as follows:

(i) Material transactions

	2007 **RMB'000**	2006 RMB'000
Sales	**4,801**	11,039
Purchase of services	**28,183**	15,021
Interest expenses	**2,406**	1,829

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

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

(ii) Material balances

	2007 RMB'000	2006 RMB'000
Bank balances	**69,949**	31,519
Trade and other receivables	**2,577**	2,350
Trade and other payables	**26,383**	13,217
Bank loans	**30,000**	30,000

(d) Guarantee

At 31 December 2007 and 2006, the bank loan of RMB30,000,000 was guaranteed by 天津市燃气集團有限公司.

(e) Compensation of key management personnel

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

	2007 RMB'000	2006 RMB'000
Short-term benefit	**1,319**	1,358
Post employment benefit	**12**	8
	1,331	1,366

29. SUBSIDIARY

Details of the Company's subsidiary, which is a limited liability company, at 31 December 2007 and 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 is dormant and has commenced the procedure of deregistration during the year ended 31 December 2007.

Five Year Financial Summary

RESULTS

	For the year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**173,063**	93,702	45,975	37,378	43,300
Profit before taxation	**93,787**	43,553	4,822	9,179	26,187
Income tax expense	**(31,848)**	(15,125)	(2,908)	(4,680)	(2,868)
Profit before minority interests	**61,939**	28,428	1,914	4,499	23,319
Minority interests	**—**	—	178	400	—
Profit for the year	**61,939**	28,428	2,092	4,899	23,319

ASSETS AND LIABILITIES

	At 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**369,832**	281,670	253,580	254,537	199,129
Total liabilities	**(92,729)**	(66,506)	(66,844)	(69,893)	(80,651)
Minority interest	**—**	—	—	—	(400)
Shareholders' funds	**277,103**	215,164	186,736	184,644	118,078