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

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

Stock Code: 1265

2011
Annual Report

CONTENTS

COMPANY INFORMATION

DIRECTORS

Executive Directors

Jin Jian Ping *(Chairman)*
Dong Hui Qiang
Bai Shao Liang
Tang Jie
Zhang Tian Hua

Non-executive Director

Gong Jing

Independent Non-executive Directors

Zhang Yu Li
Luo Wei Kun
Chan Shun Kuen, Eric
Tam Tak Kei, Raymond

INDEPENDENT SUPERVISORS

Qi Yin Feng
Sha Jin Cheng

SUPERVISORS

Cao Shu Jing
Sun Xue Gang
Hao Li

COMPANY SECRETARY

Kwok Shun Tim *CPA ACCA MSC LLM*

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

LEGAL ADDRESS

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PRINCIPAL PLACE OF BUSINESS IN THE PRC

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AUDITORS

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Hong Kong

HONG KONG LEGAL ADVISER

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SHARE REGISTRAR

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PRINCIPAL BANKER

Agricultural Bank of China
Tianjin He Xi Sub-branch
PRC

STOCK CODE

01265

FINANCIAL SUMMARY

	2011	2010
	RMB'000	RMB'000
Revenue	**1,058,017**	383,631
Gross profit	**138,449**	107,977
Profit for the year and total comprehensive income for the year attributable to owners of the Company	**90,907**	76,707
Shareholders' interest	**1,396,178**	715,269
Total assets	**1,651,037**	801,986

	2011	2010
	RMB (cents)	RMB (cents)
Earnings per share	**5.5**	6.7

CHAIRMAN'S STATEMENT

To all the shareholders:

The performance of Tianjin Tianlian Public Utilities Company Limited (the "Company") and its subsidiaries (collectively the "Group") attained a good business development and gained a higher market share. We believe that the Group will achieve a satisfactory result for our shareholders (the "Shareholders") in year 2012.

DEVELOPMENT OF THE PRC GAS SECTOR

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 2011. 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.

In the Twelfth Five-Year Plan Program of National Economy and Social Development for the year 2011-2015, the PRC government has further emphasized the measures on environmental protection including the reduction of the release of pollutants. According to the Twelfth Five-Year Plan, full use of renewable energy shall be utilized and new source of natural gas shall be developed. The network of high-pressure gas pipe in Tianjin shall be developed into a transmission system in a "six-horizontal, four-vertical and seven-ring" manner. The planned heat source shall be mainly thermal power plants, gas, renewable energy and energy-saving and environmentally-friendly boiler rooms. The boiler rooms in the Central District and core area of Binhai New District in Tianjin shall be re-engineered in order to increase the proportion of clean energy and reduce carbon emission.

In the Twelfth Five-Year Plan, natural gas shall be the main source of energy in the future and shall lead the energy market in the future. Natural gas shall mitigate the energy shortage and environmental pollution of the PRC, and is an ideal energy for sustainable development.

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 Pipeline 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 shareholders.

PROSPECTS

At present, the businesses of the Group located in Tianjin and Jining in the PRC. The economic conditions of these cities have been providing the chance of development for the Group's business.

With the full completion of West to East Natural Gas Pipeline Project and the implementation of specific projects like Natural Gas Supply from Sichuan to Eastern Part of China, Shaanxi to Beijing Gas Supply, East Ocean Gas Supply Onshore, Importation of Liquefied Natural Gas for Southern China, and the construction work of Russia Gas Supply to China to commence, natural gas market will develop rapidly all over the PRC.

It can be expected that the Group will continue to strengthen its piped gas 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 2012 for our shareholders.

Jin Jian Ping
Chairman

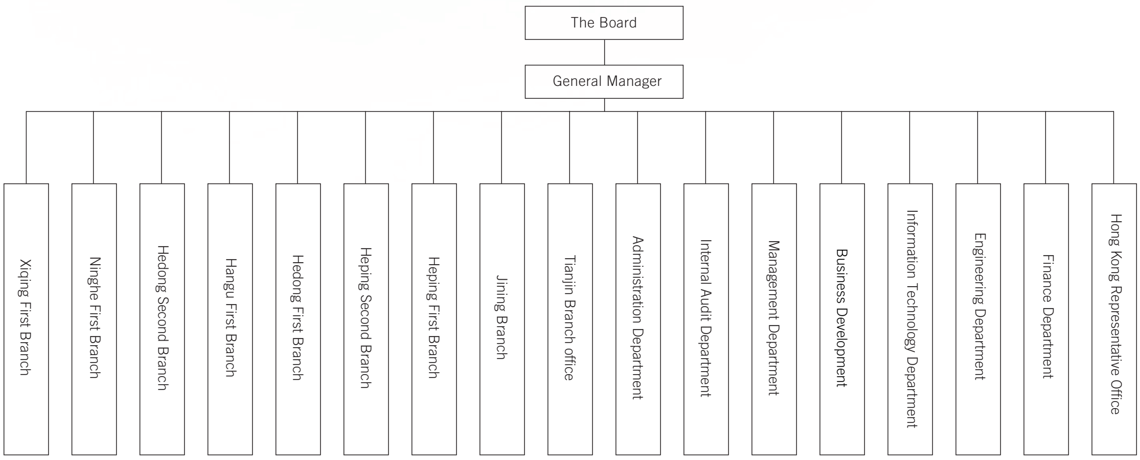
The PRC, 29 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

The performance of Tianjin Tianlian Public Utilities Company Limited (the "Company") and its subsidiaries (collectively the "Group") attained a good business development and gained a higher market share. We believe that the Group will achieve a satisfactory result for our shareholders in year 2012.

MANAGEMENT STRUCTURE

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



Since the listing of the H shares ("H Shares") of the Company on the Stock Exchange on 9 January 2004, the Group has been growing rapidly in terms of the business scope and market coverage of its products and services.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2011, the Group reported a revenue of approximately RMB1,058,017,000, representing an increase of approximately 175.79% as compared with the previous year. The gross profit margin decreased from approximately 28.14% for the year ended 31 December 2010 to approximately 13.08% for the year ended 31 December 2011 mainly attributable to the increase in the proportion of revenue generated from sales of piped gas from approximately 68.52% for the year ended 31 December 2010 to approximately 84.64% for the year ended 31 December 2011. The profit for the year and total comprehensive income for the year attributable to owners of the Company for the year ended 31 December 2011 amounted to approximately RMB90,907,000 (2010: approximately RMB76,707,000) representing an increase of approximately 18.51%.

SEGMENTAL INFORMATION ANALYSIS

During the year, the Group has continued to implement 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. Sales of gas is the major source of income for the Group, which is followed by gas connection revenue, sales of gas appliances and gas transportation. The Group further expanded the operation in these four areas, in order to attain its strategic objectives for this year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2011, the Group had no bank borrowings. The Group mostly uses Renminbi in its operation and it has 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 gearing ratio (total liabilities to total asset rate) as at 31 December 2011 was approximately 0.15 (2010: approximately 0.11).

As at 31 December 2011, approximately 100% of the total amount of cash and cash equivalents of the Group was in Renminbi (31 December 2010: 100%).

CONTINGENT LIABILITIES

As at 31 December 2011, the Group had no material contingent liabilities or guarantees.

MANAGEMENT DISCUSSION AND ANALYSIS

STAFF AND EMOLUMENT POLICY

As at 31 December 2011, the Group had a workforce of 1001 full-time employees.

Emoluments of employees were determined pursuant to the common practice of the industry as well as individual performance. In addition to regular salaries, the Group also paid discretionary bonus to eligible employees subject to the Group's operating results and individual performance. The Group also made contributions to medical welfare and retirement funds as well as provided other benefits to all employees.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is the comparison of the actual business progress to the information provided under the section headed "Statement of Business Objective" in the circular of the Company dated 31 December 2010 in relation to the Assets Acquisition Agreement (the "Circular"). The Company was treated as a deemed new listing applicant as result of the acquisition, which was completed on 11 April 2011.

For the period from 1 January 2011 to 31 December 2011

	Business objectives stated in the Circular	Actual business progress
Expansion in existing Operational Locations	• To expand gas pipeline connections in the Group's existing Operational Locations • Estimated number of new connections of approximately 11,000 users	The number of new connections in Xiao Hai Di of Hexi District, part of Jinnan District, Xiqing District, Hangu District and Ninghe District for the year ended 31 December 2011 was approximately 10,005 users.
Expansion of gas pipelines network via acquisitions	• To expand gas pipeline connections in the new operational locations in Hedong District and Heping District in Tianjin City • Estimated number of new connections of approximately 10,500 users	For the year ended 31 December 2011, there were 4 gas pipeline connection projects and 7,890 newly connected users in Hedong and Heping Districts. The growth rate of connected users was slowed down due to the delay of the 2 gas pipeline connection projects to May 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

	Business objectives stated in the Circular	Actual business progress
Development of piped natural gas operations in Jining City	• To make new connections within Jining • Estimated number of new connections of approximately 3,000 users	For the year ended 31 December 2011, there were approximately 3,788 newly connected users in Jining City.
Gas transportation via Gangnan Pipeline and Beihuan Pipeline	• Transmit gas of approximately 1,240 million cubic meters	For the year ended 31 December 2011, gas transmission volume was approximately 214 million cubic meters, which was lower than expected. It was mainly attributable to (1) the delay in the construction of Beihuan Pipeline as a result of the change in road planning by the PRC government that directly affected the gas transmission volume for the year ended 31 December 2011, and the construction was finally completed in September 2011; and (2) the gas transmission to Tianjin Gas through the Gangnan Pipeline was lower than expected.
Expansion in Binhai New District	• Invest further capital of approximately RMB 40 million in Binhai Gas	The Company is still in negotiation with Tianjin Gas for the expansion in the Binhai New District.
Transfer of Listing	• Completed	The Company has successfully listed on the Main Board on 18 October 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

On 16 September 2009, the Company entered into an assets acquisition agreement (the "Assets Acquisition Agreement") with Tianjin Gas, pursuant to which the Company has agreed to acquire from Tianjin Gas (the "Assets Transfer") the assets (which consist of part of the tangible assets and gas ancillary facilities held by the Hedong District Sales Offices and the Heping District Sales Offices of both Transmission Branch and First Sales Branch of Tianjin Gas, including outdoor pipelines of over 1,400 kilometres, domestic pipelines connected to approximately 360,000 users as at 30 June 2010, and the related machinery and electronic equipment and 40 vehicles) (the "Transferred Assets").

The Company has received the formal approval from the relevant Industry and Commerce Administrative Bureau on 11 April 2011 by the issuance of the business licence in relation to the allotment of consideration shares (the "Consideration Shares") of 689,707,800 domestic shares of the Company (the "Domestic Shares") and the amendment to the articles of association of the Company for the increase of the registered capital of the Company which was dated 7 April 2011. Although the said business licence from the relevant Industry and Commerce Administrative Bureau was dated 7 April 2011, the Company only received the business licence on 11 April 2011. In this regard, all conditions under the Assets Acquisition Agreement were fulfilled and accordingly the completion of the Assets Transfer took place on 11 April 2011. Upon completion of the Assets Transfer, the Transferred Assets are owned by the Group and the Group has started to provide piped gas to the users connected by the Transferred Assets.

The Directors consider that the Group will benefit from the Assets Transfer. In particular, (i) the Assets Transfer will significantly increase the operation scale of the Group in terms of number of users and areas of operation; (ii) the Assets Transfer will broaden and diversify the Group's client base; (iii) the Assets Transfer will increase the market share of the gas business of the Group in Tianjin; (iv) the Transferred Assets are located in urban districts, where the local pipeline networks and other pipeline-related facilities have been fully developed, thus the Company does not have to inject additional capital to develop the relevant facilities; and (v) the Transferred Assets are profitable assets.

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

Benefiting from the reformation of gas companies across China and the considerable demands, the Group expects to further increase its market share in its existing operational locations. The directors and management of the Company will try their best to bring satisfactory returns to the shareholders of the Company (the "Shareholders").

MANAGEMENT DISCUSSION AND ANALYSIS

The principal objectives of the Group are to expand its supply of natural gas business through expansion of its gas pipelines network and to maximize the returns for Shareholders. To achieve these objectives, the Group will pursue the strategies set out below.

- The Group will continue to supply piped natural gas to its existing operational locations in Tianjin City and will aim at expansion by constructing new pipelines and connecting to more users in its existing operational locations.

- The Group will seek to expand its gas pipelines network by mergers and acquisitions, if suitable assets or suitable targets are identified.

- Apart from its natural gas operation in Tianjin City, the Group will also continue to explore and develop its natural gas operation in Jining City.

- The Company will continue its expansion in Binhai New District.

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.

TRANSFER OF LISTING

The Directors announced that the Company had submitted a formal application form to the Stock Exchange on 1 August 2011 for the proposed transfer of listing of the H Shares from GEM to the Main Board (the "Main Board") of the Stock Exchange (the "Transfer of Listing").

MANAGEMENT DISCUSSION AND ANALYSIS

The Company was granted an approval-in-principle from the Stock Exchange for the H Shares to be listed on the Main Board and de-listed from GEM according to Rule 9A.09(6) of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules").

The approval-in-principle was granted by the Stock Exchange on 3 October 2011 for the H Shares to be listed on the Main Board and de-listed from GEM according to Rule 9A.09(6) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company also obtained the approval from the China Securities Regulatory Commission in connection with the implementation of the Transfer of Listing on 10 November 2010.

The last day of dealings in the H Shares on GEM was 17 October 2011. Dealings in the H Shares on the Main Board commenced at 9:00 a.m. on 18 October 2011. The H Shares was then on the Main Board under the new stock code "01265".

For details, please refer to the announcement of the Company dated 4 October 2011.

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

On 28 October 2011, Tianjin Gas and the Company entered into three conditional gas supply contracts (the "New Gas Supply Contracts") in respect of the supply of natural gas by Tianjin Gas to the Company for the 12 months ending 31 December 2012, 2013 and 2014, respectively.

On 28 October 2011, Tianjin Gas and the Company entered into the conditional natural gas transportation contract (the "2012 Gas Transportation Contract") in respect of the renewal of provision of gas transportation services through the gas pipelines owned and managed by the Company for natural gas transmission by Tianjin Gas for the period from 1 January 2012 to 31 December 2014.

As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rule for the annual caps for the New Gas Supply Contracts for the year ending 31 December 2012, 31 December 2013 and 31 December 2014, and the annual caps for the 2012 Gas Transportation Contract for the year ending 31 December 2012, 31 December 2013 and 31 December 2014 exceed 5%, the New Gas Supply Contracts and 2012 Gas Transportation Contract will be subject to, inter alia, the independent Shareholders' approval, reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

The New Gas Supply Contracts have been duly approved by the Independent Shareholders in an extraordinary general meeting on 30 December 2011.

For details, please refer to the Company's announcement dated 28 October 2011 and Company's circular dated 25 November 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

JOINT VENTURE BETWEEN TIANJIN GAS AND CHINA RESOURCES GAS (HONG KONG) INVESTMENT LIMITED

On 2 November 2011, the Board has been informed by Tianjin Gas, that on 2 November 2011, Tianjin Gas and China Resources Gas Group Limited ("China Resources Gas (HK)") entered into a joint venture agreement (the "Joint Venture Agreement") and a supplemental agreement (the "Supplemental Agreement") relating to, inter alia, the formation of the a joint venture company (the "Proposed JV") in the PRC.

Pursuant to the Joint Venture Agreement, Tianjin Gas and China Resources Gas (HK) will set up the Proposed JV in the PRC. Tianjin Gas and China Resources Gas (HK) will own 51% and 49% respectively of the registered capital of the Proposed JV, which will be RMB5 billion. Tianjin Gas will contribute its share of registered capital of RMB2.55 billion by way of injection of its natural gas-related operational assets (which will not include the Domestic Shares held by Tianjin Gas) and China Resources Gas (HK) will contribute its share of registered capital of RMB2.45 billion by way of cash. The board of directors of the Proposed JV will comprise of seven directors. Tianjin Gas is entitled to appoint four directors while China Resources Gas (HK) is entitled to appoint the remaining three directors. The chairman of the board of directors of the Proposed JV shall be nominated by Tianjin Gas. It was further agreed that Tianjin Gas will inject its remaining natural gas-related assets to the Proposed JV with details to be determined by the parties by separate agreement(s). Each of Tianjin Gas and China Resources Gas (HK) agrees that after incorporation of the Proposed JV, each of them (including its subsidiaries) and the Proposed JV will not compete with each other in the same industry and will not develop the same or competing business in the operational areas of the Proposed JV.

Pursuant to the Supplemental Agreement, it is agreed that after establishment of the Proposed JV, all existing natural gas-related business of Tianjin Gas will be taken over by the Proposed JV, which will include, inter alia, the Domestic Shares held by Tianjin Gas. The acquisition of the Domestic Shares by the Proposed JV from Tianjin Gas will be subject to (i) compliance with all applicable laws, rules and regulations in the PRC and Hong Kong as well as the Listing Rules and the Code on Takeovers and Mergers (the "Takeovers Code"); and (ii) receipt of all necessary approvals or consents from the relevant governmental and regulatory authorities in the PRC and Hong Kong, including (without limitation) the Securities and Futures Commission. The detailed terms and timetable regarding the disposal of the Domestic Shares by Tianjin Gas will be subject to further agreement between Tianjin Gas and the Proposed JV.

MANAGEMENT DISCUSSION AND ANALYSIS

It is the intention of Tianjin Gas and China Resources Gas (HK) that, subject to (i) compliance with all applicable laws, rules and regulations in the PRC and Hong Kong as well as the Listing Rules and the Takeovers Code; and (ii) receipt of all necessary approvals or consents from the relevant governmental and regulatory authorities in the PRC and Hong Kong, including (without limitation) the Securities and Futures Commission, following the Proposed JV's acquisition of Tianjin Gas's interest in the Company, the Proposed JV would combine and consolidate the respective assets and businesses of the Proposed JV and the Company such that the Company would become the listing vehicle for such assets and business. However, no concrete plan has been discussed or agreed between Tianjin Gas, China Resources Gas (HK) and/or the Company as at the date of this report. The Directors advised that, the Company would only acquire the assets or business of the Proposed JV or of Tianjin Gas in the future if the Directors are of the view that (1) the proposed transaction would be entered into on normal commercial terms; (2) the terms would be fair and reasonable and in the interests of the Company and the Shareholders as a whole; (3) the Company has the resources to settle the relevant consideration; and (4) the transaction would comply with all applicable laws, rules and regulations, including but not limited to the Listing Rules.

For details, please refer to the Company's announcement dated 2 November 2011.

The Directors believe that listing of the H Shares on the Main Board will enhance the profile of the Group and could improve trading liquidity of the H Shares. The Directors also consider that listing of the H Shares on the Main Board will be beneficial to the future growth, financing flexibility and business development of the Group. No material change in the business of the Group is contemplated by the Directors following the Transfer of Listing.

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
Jin Jian Ping
Chairman

The PRC, 29 March 2012

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

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

Executive Directors

Mr. Jin Jian Ping (金建平), aged 53, is an executive Director and the chairman of the Board. Mr. Jin graduated from the School of Architecture of the University of Tianjin (天津大學建築分校) in 1983. Mr. Jin has obtained the qualification of senior engineer in 2002. He joined Tianjin Gas in August 1983. He is also the party secretary and chairman of the board of directors of Tianjin Gas. Mr. Jin was appointed as an executive Director on 4 January 2006 and is responsible for management of operation and safety management of the Company.

Mr. Dong Hui Qiang (董惠強), aged 58, is an executive Director. Mr. Dong is a graduate of the postgraduate course for investment management organized by Chinese Academy of Social Sciences in 2000. Mr. Dong worked in Tianjin Water Works Group Company Limited (天津自來水集團有限公司) from 1975 to 2003 and has acted as, among others, the deputy general manager and chief economist. Mr. Dong joined Tianjin Gas in June 2004 and is currently working as the chief economist. Mr. Dong is also a director of Tianlian Investment Company Limited (天津天聯投資有限公司), a subsidiary of the Company. Mr. Dong was appointed as an executive Director on 4 January 2006 and is responsible for designing yearly and medium-to-long term investment plan of the Company.

Mr. Bai Shao Liang (白少良), aged 52, is an executive Director. Mr. Bai has obtained a master degree in business administration from Nan Kai University (南開大學) in 2005. Mr. Bai has been the chairman of the board of directors and general manager of Wanshun Real Estate, a substantial shareholder of the Company, since 1993. Mr. Bai Shao Liang holds 76% interests in Wanshun Real Estate Company Limited (天津市萬順置業有限公司) ("Wanshun Real Estate"). Under the Securities and Future Ordinance (the "SFO"), Mr. Bai Shao Liang is taken to be interested in all the Shares held by Wanshun Real Estate. Mr. Bai was appointed as an executive Director on 26 May 2006. Mr. Bai is responsible for making material decisions of the Company.

Ms. Tang Jie (唐潔), aged 44, is an executive Director. Ms. Tang graduated from the Tianjin Institute of Finance (天津財經學院) (now known as the Tianjin University of Finance and Economics (天津財經大學)), majoring in accounting, in 1991. Ms. Tang is one of the promoters of the Company and had been working for the Company as an accountant and deputy general manager in the account department since December 1998. She had been appointed as a deputy general manager of the Company in 2001. Ms. Tang was appointed as an executive Director on 28 December 2001 and is responsible for making material decisions of the Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Zhang Tiian Hua (張天華), aged 48, is an executive Director. He is a senior engineer, graduated from the Faculty of Energy and Chemical of Huadong Chemical College (華東化工學院) in 1984 and obtained a master's degree in Business Administration for Senior Management from Nankai University (南開大學) in 2009. From 1994 to 2000, he had been the deputy head of First Coal Gas Factory of Tianjin (天津市第一煤氣廠) and First Coal Gas Factory of Tianjin Coal Gas Group (天津市煤氣集團第一煤氣廠). Prior to joining Tianjin Gas as a deputy chief engineer and the head of technology and equipment department in 2001, Mr. Zhang had been the manager of Tianjin Shanjin Mass Transit of Natural Gas Company Limited (天津市陝津天然氣集輸有限公司) from 2000 to 2001. From 2002 to 2011, he had been the chief engineer and the deputy general manager of Tianjin Gas. In 2007, Mr. Zhang was awarded special subsidy by the State Council. Mr. Zhang is also the general manager of Tianjin Gas. Mr. Zhang was appointed as an executive Director on 23 September 2011.

Non-executive Director

Mr. Gong Jing (宮靖), aged 47, is a non-executive Director. Mr. Gong is a graduate of the University of Tianjin (天津大學) in 2009 with a Doctor of technology economics and management degree (技術經濟及管理博士學位). He has been the general manager of the investment development department of both Tianjin Beacon Coatings Co., Ltd (天津燈塔塗料有限公司) and Tsinlien Group Co., Ltd. (津聯集團有限公司) since 2001. Mr. Gong had been an executive director of Tianjin Development Holdings Limited, whose shares are listed on the Main Board (Stock Code: 882), since April 2009. Mr. Gong was appointed as a non-executive Director on 28 December 2001. Mr. Gong participates in the decision making process for major policy making of the Company.

Independent Non-executive Directors

Professor Zhang Yu Li (張玉利), aged 46, was appointed as an independent non-executive Director on 25 June 2007. Professor Zhang is a graduate of the Nan Kai University (南開大學) in the PRC. He received a bachelor's degree in economic management in 1987, a master's degree in corporate management in 1990, and was awarded a doctorate in economics, majoring in corporate management in 1996. Professor Zhang had been the associate dean of the School of Business of Nan Kai University (南開大學), the PRC. He has been the head of the Entrepreneurship Management Studies Centre (創業管理研究中心) of the School of Business of Nan Kai University (南開大學), the PRC since 2008.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Luo Wei Kun（羅維崑）, aged 72, was appointed as an independent non-executive Director on 28 October 2002. Mr. Luo graduated from the Tsinghua University（清華大學）in the PRC with a bachelor's degree in civil architecture in 1964. He started his postgraduate studies in civil engineering in the same year and was subsequently awarded a postgraduate diploma in 1967. He was a technician in the Wuhan Branch of the China National Pharmaceutical Industry Corporation（中國醫藥工業公司武漢分公司）(now known as China National Pharmaceutical Industry Corporation Limited)（中國醫藥工業有限公司））in 1968. He worked in the State Ministry of Medicine-Hubei Medical Manufactory Branch（國家醫葯總局湖北製藥製劑分廠）from 1969 to 1985 and successively held various positions, including deputy chief engineer. He worked as an engineer, section head and assistant to factory manager in Tianjin Second Coal Gas Factory（天津市第二煤氣廠）from 1986 to 1992. He was the deputy chief engineer in Tianjin Public Utility Bureau（天津市公用局）since 1992 and up to his retirement in March 2000. Mr. Luo acted as a consultant in Tianjin City Gas Administrative Office（天津市燃氣管理處）since 2000, and had been a committee member of Urban Coal Gas Association of Civil Engineering Association in China（中國土木工程學會城市煤氣學會理事會）, a member of the technical consultant committee in the Planning Office of Tianjin City（天津市建設管理委員會技術顧問委員會）. Mr. Luo is currently an independent non-executive director of China Leason Investment Group Co., Limited（中國聯盛投資集團有限公司）, whose shares are listed on GEM (Stock Code: 8270).

Mr. Chan Shun Kuen, Eric（陳舜權）, aged 50, was appointed as an independent non-executive Director on 12 November 2004. Mr. Chan is an external consultant of Development Principles Group (Hong Kong) Limited. Mr. Chan holds a Master of Commerce degree and a Bachelor of Laws degree and is an associate member of Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). Mr. Chan is currently a non-executive director of China Au Group Holdings Limited (formerly known as "Blu Spa Holdings Limited"), whose shares are listed on GEM (Stock Code: 8176). On 3 December 2008, the SFC issued a press release regarding a decision of the Securities and Futures Appeal Tribunal (the "SFAT"). It stated that the SFAT confirmed the SFC's disciplinary sanction to fine Mr. Chan HK$200,000 for his lapse in duties when acting on behalf of his former employer as a sponsor for a listing application in 2003. Full particulars surrounding this matter are available on the SFC's website. The Company has published an announcement in relation to the same on 25 October 2010.

Mr. Tam Tak Kei, Raymond（譚德機）, aged 49, was appointed as an independent non-executive Director on 15 February 2011. Mr. Tam holds a Bachelor of Arts Degree in Accounting with Computing from University of Kent at Canterbury, England and is a an associate member of the Institute of Chartered Accountants in England and Wales. He is also an associate member of the Hong Kong Institute of Certified Public Accountants. Currently, Mr. Tam is the financial controller of an international law firm and has over 20 years of professional accounting experience. He is also an independent non-executive director of Sun Innovation Holdings Limited (Stock Code: 547) and Vision Fame International Holding (Stock Code: 1315), whose shares are listed on the Main Board.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

The Company has established a supervisory committee ("Supervisory Committee") whose primary duty is to supervise the discharge of the duties of the senior management of the Company, including the Board, managers and senior officers. The function of the Supervisory Committee 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 laws or the Articles of Association. The Supervisory Committee reports to the shareholders in general meetings. The Articles of Association provides the Supervisory Committee 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 corrected, 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 Supervisory Committee exercise its power. The Supervisory Committee currently comprises of five members, two of whom are representatives of the employees. The members of the Supervisory Committee currently are:

Mr. Cao Shu Jing (曹書經), aged 60, was appointed as a Supervisor on 4 January 2006. Mr. Cao graduated from the Management Institute of Tianjin City (天津市管理幹部學院), majoring in corporate ideological and political work in 1985, and subsequently in administration of commerce and industry management in 1990. Mr. Cao joined Tianjin Gas in March 1973. Mr. Cao is a qualified senior political officer, and is currently the deputy general manager of Tianjin Gas.

Independent Supervisors

Professor Qi Yin Feng (齊寅峰), aged 74, was appointed as an independent Supervisor on 28 October 2002. He graduated from Nan Kai University (南開大學), the PRC, with a bachelor's degree in mathematics. Since his graduation in 1962, Professor Qi taught in Nan Kai University (南開大學), the PRC, He was awarded the Third Prize of the Technology Advance Award (科學技術進步獎三等獎) by the State Educational Commission (國家教育委員會), the PRC. Since 1988, Professor Qi had been a vice president in the Society of System Engineering of Tianjin (天津市系統工程學會). He acted as a consultant for Kunming National High & New Tech Industry Development Zone (昆明高新技術產業開發區) from 1993 to 1996. In 2002, Professor Qi completed a training course for independent directors of listed companies jointly organized by the China Securities Regulatory Commission and School of Economics and Management of the Tsinghua University (清華大學), the PRC.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Sha Jin Cheng（沙錦程）, aged 67, was appointed as an independent Supervisor on 25 June 2007. He graduated from Shanghai Chemical College（上海化工學院）, the PRC, majoring in basic organic chemical engineering. Mr. Sha then worked for the Long-Term Planning Department of Tianjin Chemical Bureau（天津市化工局長遠規劃處）the PRC and the Department of Foreign Investment of Tianjin City（天津市外經貿委外資處）from 1992 to 1996. He was the deputy general manager in the group investment department of Tsinlien Group Co., Ltd.（津聯集團有限公司）from 1996 to 2006. Mr. Sha has being working as a deputy general manager in Suryamas Daily Chemical (Tianjin) Co., Ltd.（源達日化（天津）有限公司）since November 2006.

Staff Representative Supervisors

Mr. Sun Xue Gang（孫學剛）, aged 36, is a Supervisor and a deputy general manager of the Company. Mr. Sun graduated from the Tianjin Institute of Finance（天津財經學院）(now known as the Tianjin University of Finance and Economics（天津財經大學）), the PRC, majoring in economic information management, in 1997. Between 1997 and 2006, he worked for Tianjin Water Works Group Company Limited（天津市自來水集團有限公司）and had successively been a management cadre in the human resources department and a vice party secretary, and had been a deputy manager of Tianjin Water Works Group Company Limited（天津市自來水集團有限公司）retail branch in the northern part of Tianjin. He was appointed as a deputy general manager of the Company in 2006 and has been appointed as a Supervisor on 25 June 2007. Mr. Sun is responsible for corporate investment and financing, investor relationship and internal audit of the Company. He is also responsible for organising feasibility study and application for approval in relation to the investment projects of the Company and managing the Jining Branch.

Ms. Hao Li（郝力）, aged 42, is a Supervisor. Ms. Hao graduated from the School of Tianjin Committee of the Communist Party（中共天津市委黨校）, majoring in economics and management, in 2005. She worked in the planning department of Tianjin Gas from 1988 to 2005, and subsequently joined the Company and worked in the management department. She was appointed as a Supervisor on 25 June 2007.

COMPANY SECRETARY

Mr. Kwok Shun Tim（郭純恬）, aged 38, graduated from the Hong Kong University of Science and Technology in 1999 and obtained a bachelor degree (business administration in accounting) and he also obtained a master degree in China Business Studies from the Hong Kong Polytechnic University in 2004 and a master degree in International Economic Law from the City University of Hong Kong in 2008. He is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Zheng Tai Qi (鄭太琪), aged 59, is a graduate of the Tianjin Institute of Financial (天津財經學院) (now known as the Tianjin University of Finance and Economics (天津財經大學), the PRC, in 1987. Mr. Zheng is a senior engineer. He joined Tianjin Gas in August 1974. Mr. Zheng was a deputy manager of the First Sales Branch of Tianjin Gas, and has been the general manager of the Company since December 2004. Mr. Zheng is responsible for the management of the production and operation of the Company, formulating and implementing annual operation plan of the Company, formulating internal control procedures and organising on-the-job training of employees of the Company.

Ms. Zhang Zhi Hua (張芷華), aged 52, graduated from the School of Architecture of the University of Tianjin (天津大學建築分校), the PRC, in 1984. She is a senior engineer. She joined Tianjin Gas in August 1983. She was the section head of the measurement technical section of the First Sales Branch of Tianjin Gas, and the chief engineer of Heping District Sales Offices. She has been the chief engineer of the Company since April 2008.

Mr. Sun Xue Gang (孫學剛), aged 36, is a deputy general manager of the Company. His biographical details are set out above under the paragraph headed "Staff Representative Supervisors" above.

Ms. Wang Li Ping (王莉萍), aged 46, graduated from Tianjin Institute of Finance (天津財經學院) (now known as the Tianjin University of Finance and Economics (天津財經大學)), the PRC in 1985. She is an accountant. She was the deputy head of the Financial Department of Tianjin Gas from 2004 to 2005, and has been the manager of the Finance Department of the Company thereafter.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CODE

The Company has complied with all the code provisions in the Code on Corporate Governance Practices ("the GEM Code") set out in Appendix 15 to the GEM Listing Rules for the period from 1 January 2011 to 17 October 2011 (the last date of the dealings in the H Shares on GEM) and the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules from 18 October 2011 to 31 December 2011.

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 10 members, comprising 5 executive Directors namely Mr. Jin Jian Ping (Chairman), Mr. Dong Hui Qiang, Mr. Bai Shao Liang, Ms. Tang Jie and Mr. Zhang Tian Hua, 1 non-executive Director namely Mr. Gong Jing, and 4 independent non-executive Directors namely Mr. Zhang Yu Li, Mr. Luo Wei Kun, Mr. Chan Shun Kuen, Eric and Mr. Tam Tak Kei, Raymond. Two of the independent non-executive Directors, Mr. Chan Shun Kuen, Eric and Mr. Tam Tak Kei Raymond are qualified accountant with substantial experience in accounting and financial matters. Biographical details of the Directors are set out in the section headed "Directors, Supervisors and Senior Management" on page 15 to page 20 of this report.

CORPORATE GOVERNANCE REPORT

Although the Company does not set up a Nomination Committee as at the date of this report, the Board is mandated to assess annually the independence of all non-executive Directors. The Company has received from each of the independent non-executive Directors their respective confirmation of independence pursuant to the Listing Rules and considers that they remain independent and affirms that all independent non-executive Directors satisfy the criteria of independence, as set out in the Listing Rules. Board members are totally unrelated in every aspect including financial, business, or family.

Appointment and Re-election of Directors

The Company does not have a Nomination Committee as at the date of this report. The Board as a whole is responsible for the procedure of approving 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 director, and selection of candidate as an addition to the existing Directors in the year 2011.

Chairman and Chief Executive Officer

As at the date of this report, Mr. Jin Jian Ping 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. Four Board meetings were held in 2011 and the average attendance rate was 100%. Individual attendance records are set out below.

CORPORATE GOVERNANCE REPORT

Board Attendance

No. of meetings held during the year	4
Executive Directors	
Jin Jian Ping *(Chairman)*	4
Dong Hui Qiang	
Bai Shao Liang	4
Tang Jie	4
Sun Bo Quan (Note 1)	3
Zhang Tian Hua (Note 2)	1
Non-executive Director	
Gong Jing	4
Independent Non-executive Directors	
Zhang Yu Li	4
Luo Wei Kun	4
Chan Shun Kuen	4
Tam Tak Kei, Raymond	4
Average attendance rate	100%

Note 1: Mr. Sun retired from office as a non-executive Director on 23 September 2011. Prior to that date, 3 Board meetings had been held and Mr. Sun had attended all Board meetings.

Note 2: Mr. Zhang has been appointed as an executive Director with effect from 23 September 2011. Thereafter, one Board meeting had been held for the year ended 31 December 2011 and Mr. Zhang had attended one Board meeting.

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.

CORPORATE GOVERNANCE REPORT

Directors' Duties

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

- A comprehensive director's handbook is issued to every Director, which sets out guidelines on conduct by making reference to the relevant sections of the statutes or the 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 and supervisors ("Supervisors") of the Company on terms no less exacting than the required standard of dealings as referred to in of the Listing Rules. The Company, having made specific enquiries to its Directors and Supervisors, confirms that, throughout the financial year ended 31 December 2011, all Directors and Supervisors met the criteria laid down in the said code for securities transactions by directors and supervisors.

Board Committees

The Board is supported by two committees as at the date of this report, 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.

CORPORATE GOVERNANCE REPORT

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 2011	Attendance in 2011
Audit Committee	• To serve as a focal point for communication between Directors, the external auditors and internal auditors	Zhang Yu Li *(Chairman)*	100%
		Luo Wei Kun	100%
		Chan Shun Kuen, Eric	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 2011: 4			
Remuneration Committee	• To formulate remuneration policy and make recommendations on the annual remuneration review	Mr. Sun Bo Quan (Note)	100%
		Jin Jian Ping *(Chairman)*	100%
		Luo Wei Kun	100%
		Chan Shun Kuen, Eric	100%
	• To determine the remuneration of executive Directors and members of the Senior Management		
Total number of meetings held in 2011: 2			

Note: Mr. Sun retired from office as a non-executive Director on 23 September 2011. Prior to that date, one meeting had been held and Mr. Sun had attended one meeting.

CORPORATE GOVERNANCE REPORT

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 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 executive Directors and Senior Management. It also makes recommendations to the Board on the annual salary adjustment and provision of the performance bonus, if any.

The Remuneration Committee has held 2 meetings during 2011 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 8 and 32 of this 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 2011, 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 49 to page 50.

CORPORATE GOVERNANCE REPORT

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 2011. 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 2011, fully complied with the code provisions on internal controls as set forth in the GEM Code and the Code (as appropriate).

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 2011, the fees paid to the Company's external auditors for audit services amounted to approximately RMB1,100,000 and for non-audit related activities (which are account review fees and ad hoc projects fees) amounted to approximately RMB800,000.

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

Audit Committee

The Board has formed an audit committee in compliance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting and internal control of the Company. The committee members currently comprises three independent non-executive Directors, namely Mr. Zhang Yu Li (Chairman), Mr. Luo Wei Kun and Mr. Chan Shun Kuen, Eric. 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 two times a year for review of the draft annual and interim reports of the Company.

CORPORATE GOVERNANCE REPORT

During 2011, the Audit Committee met four times to discuss the annual results of 2010 and the first quarterly, interim and third quarterly results of 2011. 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.

APPOINTMENT OF DIRECTOR

The Company has not established a Nomination Committee during the year. All members of the Board are responsible for formulating the procedures for appointing Directors, nominating suitable candidates for approval at the annual general meeting so as to fill vacancies due to the resignation of Directors or appoint additional Directors.

When selecting candidates for appointment as Directors, the Board will consider the candidates' integrity, achievements and experience in the relevant industry, expertise, educational background and whether they have sufficient time to assume the post of Directors.

Mr. Zhang Tian Hua was appointed as an executive Director at an extraordinary general meeting of the Company held on 23 September 2011 and has entered into a service contract with the Company for a fixed term of three years from the date of the extraordinary general meeting.

DIRECTORS' REPORT

The Board of Directors is pleased to present the audited consolidated financial statements of the Group for the year ended 31 December 2011.

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. One of the subsidiaries, 烏盟乾生天聯公用事業有限責任公司 (Kin Sang Tianlian Public Utilities Company Limited) is dormant. The other subsidiary 天津天聯投資有限公司 (Tianjin Tianlian Gas Company Limited) is engaged in investment activities.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement on page 51 of this annual report.

No dividend was proposed during 2011, nor has any dividend been proposed since the end of the reporting period (2010: Nil).

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 27 to the consolidated financial statements.

RESERVES

The reserve available for distribution to shareholders is the amount which is the lesser of the accumulated profits carried forward at the balance sheet date after deduction of the current year's appropriations to the statutory surplus reserve determined under PRC accounting standards and that determined under general accepted accounting principles of Hong Kong.

The Company's reserves available for distribution to shareholders as at 31 December 2011, comprised the retained profits determined under PRC accounting standards of approximately RMB370 million (2010: RMB289 million).

DIRECTORS' REPORT

TRANSFERS TO RESERVES

Profits attributable to shareholders before dividends of RMB11,540 million (2010: RMB9,943 million) have been transferred to reserves. Other movements in the reserves are set out in note 28 to the financial statements.

MANAGEMENT CONTRACTS

On 6 October 2008, the Company entered into an entrustment construction agreement (the "Entrusted Construction Agreement") with Tianjin Gas, pursuant to which the Company entrusted Tianjin Gas and Tianjin Gas agreed to undertake the construction of the two construction projects, namely the Beihuan Pipeline Project and the Gangnan Distribution Project. Pursuant to the Entrusted Construction Agreement, Tianjin Gas is only responsible for the construction of the Beihuan Pipeline and the Gangnan Pipeline, the ownership of these pipelines remains with the Company.

Pursuant to the Entrusted Construction Agreement, the construction fees were estimated to be amounted to approximately RMB217,962,000 and the entrustment fees would not exceed RMB6,538,700. For the financial year ended 31 December 2011, a total of approximately RMB23,232,000 was paid to Tianjin Gas by the Company in connection with the Entrusted Construction Agreement (of which approximately RMB22,829,000 were construction fees and approximately RMB494,000 were entrustment fees). The Gangnan Distribution Project was completed in May 2009 while the Beihuan Pipeline Project was completed in September 2011.

Save as disclosed above, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

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.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company for the last five financial years is set out on page 112.

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 *(Chairman)*
Mr. Dong Hui Qiang
Mr. Bai Shao Liang
Ms. Tang Jie
Mr. Sun Bo Quan (Note 1)
Mr. Zhang Tian Hua (Note 2)

Non-executive Director:

Mr. Gong Jing

Independent Non-executive Directors:

Professor Zhang Yu Li
Mr. Luo Wei Kun
Mr. Chan Shun Kuen
Mr. Tam Tak Kei, Raymond (Note 3)

Supervisors:

Mr. Cao Shu Jing
Mr. Sun Xue Gang
Ms. Hao Li

Independent Supervisors:

Professor Qi Yin Feng
Mr. Sha Jin Cheng

Note:

1. Mr. Sun retired from office as a non-executive Director on 23 September 2011.

2. Mr. Zhang has been appointed as an executive Director with effect from 23 September 2011.

3. Mr. Tam has been appointed as an independent non-executive Director on 15 February 2011.

DIRECTORS' REPORT

In accordance with the provisions of the Company's Articles of Association, the Directors (except Mr. Tam Tak Kei, Raymond) and Supervisors are appointed for a term of three years and, being eligible, may offer themselves for re-election in the annual general meeting upon expiry of the terms of office. Mr. Tam Tak Kei, Raymond is appointed for a term from the date of the extraordinary general meeting approving his appointment (15 February 2011) and ending on the conclusion of the annual general meeting of the Company to be held in 2012.

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors, except Mr. Tam Tak Kei, Raymond, has entered into a service agreement with the Company for an initial term of three years. Mr. Tam Tak Kei, Raymond has entered into a service contract with the Company for a fixed term from the date of the extraordinary general meeting approving his appointment (15 February 2011) and ending on the conclusion of the annual general meeting of the Company to be held in 2012.

Each of the Supervisors has entered into a service agreement with the Company for a term of three years.

Save as disclosed above, none of the Directors nor Supervisors has a service contract with the Company or its subsidiaries 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, except Mr. Tam Tak Kei, Raymond, who is appointed for a term from the date of the extraordinary general meeting approving his appointment (15 February 2011) and ending on the conclusion of the annual general meeting of the Company to be held in 2012.

POLICY FOR DIRECTORS' REMUNERATION

The remuneration of the Directors is determined by the Remuneration Committee with reference to the directors' respective qualifications and experiences. During the year, there was no arrangement in which Directors waived their remuneration.

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

As at 31 December 2011, 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 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 the 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	2.27%/3.11%
Mr. Bai Shao Liang (please see Note 3 under the section "Substantial Shareholders")	Held by controlled corporation	235,925,000	12.83%/17.62%

Save as disclosed above, as at 31 December 2011, 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 Supervisors as referred to in the Listing Rules to be notified to the Company and the Stock Exchange.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS AND OTHER SHAREHOLDERS

So far as known to the Directors, as at 31 December 2011, 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:

SUBSTANTIAL SHAREHOLDERS

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 天津燈塔塗料有限公司 (Note 1)	Beneficial owner	118,105,313	6.42%/8.82%
Tianjin Gas Group Company Limited 天津市燃氣集團有限公司 ("Tianjin Gas")	Beneficial owner	943,517,487 (Note 2)	51.30%/70.45%
Tianjin Wanshun Real Estate Company Limited 天津市萬順置業有限公司	Beneficial owner	235,925,000	12.83%/17.62%
Ms. Li Sha (Note 3)	Family	235,925,000	12.83%/17.62%

Note 1: 天津燈塔塗料有限公司 (Tianjin Beacon Coatings Co., Ltd), formerly known as Tianjin Tsinlien Investment & Trade Company Limited（天津津聯投資貿易有限公司）, is wholly owned by Tianjin Taida Investment Holdings Company Limited（天津泰達投資控股有限公司）, which is State-owned company wholly owned by Tianjin Municipal People's Government（天津市人民政府）.

Note 2: Out of 943,517,487 Domestic Shares, the interest in 689,707,800 Domestic Shares derived from the Consideration Shares (as defined in the paragraph headed "Prospects" of this report).

Note 3: As at 30 September 2011, Mr. Bai Shao Liang held 76% interests in 天津市萬順置業有限公司 (Tianjin Wanshun Real Estate Company Limited) and is a director of such company. Ms. Li Sha is the wife of Mr. Bai Shao Liang. Under the SFO, Mr. Bai Shao Liang and Ms. Li Sha are taken to be interested in all the Domestic Shares held by Tianjin Wanshun Real Estate Company Limited.

OTHER SHAREHOLDERS

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
Liu Hei Wan	Interests held jointly with another person (note 1)	14,500,000	0.79%/2.90%
	Held by controlled corporation (note 2)	30,000,000	1.63%/6.00%
Law Suet Yi	Interests held jointly with another person (note 1)	14,500,000	0.79%/2.90%
	Interest of spouse (note 3)	30,000,000	1.63%/6.00%
The Waterfront Development Group Limited	Beneficial owner (note 2)	30,000,000	1.63%/6.00%

Notes:

1. Mr. Liu Hei Wan and Ms. Law Suet Yi jointly held the 14,500,000 H shares of the Company.

2. The Waterfront Development Group Limited is wholly owned by Mr. Liu Hei Wan and thus a controlled corporation by Mr. Liu Hei Wan. Mr. Liu Hei Wan is deemed, or taken to be, interested in the 30,000,000 shares which are beneficially owned by The Waterfront Development Group Limited for the purpose of the SFO.

3. Ms. Law Suet Yi is the spouse of Mr. Liu Hei Wan and therefore, Ms. Law Suet Yi is deemed, or taken to be, interested in all the shares in which Mr. Liu Hei Wan is interested for the purpose of SFO.

DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2011, 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 under review or at any time during the year.

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

During the year ended 31 December 2011, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

During the year ended 31 December 2011, the Company had complied with the board practices and procedures as set out in the GEM Listing Rules or the Listing Rules (as appropriate) during the period of review.

During the year ended 31 December 2011, the Company had complied with the GEM Code or the Code (as appropriate).

COMPLIANCE WITH NON-COMPETE UNDERTAKING

On 9 December 2003, Tianjin Gas has entered into a non-competition agreement with the Company. Under the non-competition agreement, save for Tianjin Gas's then existing piped gas operations in Tianjin City, which is outside the scope of operation of the Group in Tianjin at that time (the "Previous Operational Locations"), Tianjin Gas has irrevocably undertaken and covenanted with the Company that, except with the Company's prior written consent, it would not and would procure that its subsidiaries should not, carry on for their own accounts or for any other persons to carry on and/or have an interest in, any business of which is or may be in competition with the Group's business within the Previous Operational Locations or outside its existing operating district in Tianjin City.

DIRECTORS' REPORT

On 28 December 2010, Tianjin Gas further enters into the supplemental non-competition agreement (the "Supplemental Non-Competition Agreement") to supplement certain terms of the non-competition agreement dated 9 December 2003, pursuant to which the meaning of "subsidiary(ies)" as mentioned in the above-mentioned undertaking has been amended to include "associates" under the definition of the GEM Listing Rules and the Previous Operational Locations have been amended to cover the operational locations of the Group (i.e. Xiao Hai Di (小海地) of Hexi District (河西區), part of Jinnan District (津南區), Xiqing District (西青區), Hangu District (漢沽區) and Ninghe County (寧河縣)) which have been served by the Group's pipelines as well as Hedong District (河東區) and Heping District (和平區) after completion of the Proposed Assets Transfer which are served by the Transferred Assets.

Furthermore, pursuant to the Supplemental Non-Competition Agreement, Tianjin Gas further undertakes that (A) where business opportunities which may compete with the business of the Group arises, or if Tianjin Gas desires to sell any of its existing piped gas business or the underlying assets for the piped gas business in Tianjin, Tianjin Gas shall give the Company's notice in writing and the Company shall have a right of first refusal to take up such business opportunities. The Company shall only exercise the right of first refusal upon the approval of all the independent non-executive Directors (who do not have any interest in such proposed transactions); and (B) regarding the assets which have not yet been transferred to the Company by Tianjin Gas in Hedong District, Heping District, Xiqing District, Hangu District and Ninghe County, the Company has the right to require Tianjin Gas to sell these assets to the Company at any time, subject to compliance with the applicable requirements under the relevant PRC laws as well as the Listing Rules, at a price that is fair and reasonable, and acceptable to the independent non-executive Directors (who do not have any interest in such proposed transaction).

Pursuant to the non-competition agreement and the Supplemental Non-Competition Agreement (together, the "Non-compete Undertaking"), the independent non-executive Directors are responsible for reviewing and considering whether or not to exercise such rights and are entitled, on behalf of the Company, to review the information provided by Tianjin Gas in respect of the compliance and enforcement of the Non-compete Undertaking at least on an annual basis. During the year, the independent non-executive Directors have reviewed the implementation of the Non-compete Undertaking and have confirmed that Tianjin Gas has been in full compliance with the Non-compete Undertaking and there was no breach by Tianjin Gas.

Also, the Company has received from Tianjin Gas an annual declaration on compliance with the Non-compete Undertaking and considers Tianjin Gas has complied with the Non-compete Undertaking.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' REPORT

COMPETING INTERESTS

Mr. Jin Jian Ping (an executive Director and the chairman of the Company) and Mr. Zhang Tian Hua and Mr. Dong Hui Qiang (both of whom are executive Directors) holds positions with Tianjin Gas. They do not have any equity interest in Tianjin Gas nor the Company. Save as their positions with Tianjin Gas, each of the Directors and their respective associates has confirmed that he/she does not have any interest in a business which competes or may compete with the business of the Group.

In the wholesale distribution of natural gas, no competition between Tianjin Gas and the Group exists given the fact that the Group only supplies natural gas to end users but is not engaged in wholesale distribution business. In the provision of piped natural gas to end users, Tianjin Gas and the Group are not competing with each other due to the nature of the piped gas supply business, which required fixed pipelines be installed and connected to the customers' pipelines, it is practically infeasible for more than one set of pipelines connecting to the same customer's pipeline. Besides, pursuant to the Non-Compete Undertaking, Tianjin Gas undertakes not to compete with the Group. Given the terms of the Non-Compete Undertaking given by Tianjin Gas and the inherent nature of pipe gas supply business, the Directors are of the view that Tianjin Gas does not compete with the Group's operations in the provision of piped natural gas. For details of the Non-Compete Undertaking, please refer to the paragraph headed "Compliance with Non-Compete Undertaking" above.

Save as disclosed above, as at 31 December 2011, the Directors are not aware of any business or interest of the Directors, the controlling 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 2011, 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 the Listing Rules. The Company had also made specific enquiry with all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

CONNECTED TRANSACTIONS

During the year, the Group has the following continuing connected transactions (the "Connected Transactions") and the Company has fully complied with the announcement, reporting and/or independent shareholders' approval requirements under the GEM Listing Rules or the Listing Rules (where applicable):

(1) Gas Transportation Transaction

On 2 July 2009, Tianjin Gas and the Company entered into a conditional gas transportation agreement (the "2009 Gas Transportation Contract"). Pursuant to the 2009 Gas Transportation Contract, the Company agreed to allow Tianjin Gas to transmit natural gas to end users via the gas pipelines owned and managed by the Company. In return, Tianjin Gas paid to the Company the gas transportation fees (the "2009 Gas Transportation Fees"). The annual caps for the gas transportation fees in respect of the three years ending 31 December 2011 were RMB18 million, RMB40 million and RMB55 million respectively (the "2009 Annual Caps").

Tianjin Gas is one of the promoters of the Company and as at the date of this report held 943,517,487 domestic shares of the Company, representing approximately 51.30% shareholding of the Company. Therefore, Tianjin Gas is a controlling shareholder of the Company and a connected person of the Company.

The entering into the 2009 Gas Transportation Contract constituted a continuing connected transaction of the Company. The annual caps did not fall under the exemption in the GEM Listing Rules and was subject to the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules. This transaction was approved by the independent shareholders of the Company in September 2009.

For details, please refer to the Company's announcement dated 3 July 2009 and the Company's circular dated 24 July 2009.

During the year, the amount of transactions made between Tianjin Gas and the Company in respect of gas transportation amounted to approximately RMB3,883,000 (excluding tax), and which were within the relevant annual cap approved by the Shareholders.

(2) Renewal of Gas Purchase Contracts and Pipeline Design Agreement

On 27 October 2009, Tianjin Gas and the Company entered into the 2010 Gas Purchase Contract, 2011 Gas Purchase Contract and 2012 Gas Purchase Contract (all as defined in the Company's announcement dated 27 October 2009) in respect of renewal of the supply of natural gas by Tianjin Gas to the Group for the period from 1 January 2010 to 31 December 2012.

DIRECTORS' REPORT

On 27 October 2009, the Company and Design Institute entered into the 2010 Pipeline Design Agreement (as defined in the Company's announcement dated 27 October 2009) in respect of renewal of provision of pipeline design service by Design Institute to the Company for the period from 1 January 2010 to 31 December 2012, with an annual cap of RMB4,400,000, RMB5,280,000 and RMB6,330,000 respectively.

Tianjin Gas is one of the promoters of the Company and as at the date of this report held 253,809,687 domestic shares of the Company, representing approximately 22.08% shareholding of the Company. Therefore, Tianjin Gas is a substantial shareholder of the Company (as defined in the GEM Listing Rules). Pursuant to Rule 20.11(1) of the GEM Listing Rules, Tianjin Gas is also a connected person of the Company. 天津市煤氣工程設計院 (Tianjin Gas Engineering Design Institute) is a wholly owned subsidiary of Tianjin Gas and thus also a connected person of the Company.

As each of the percentage ratios (other than the profits ratio) for the aggregate caps of the transactions contemplated under the 2010 Gas Purchase Contract, the 2011 Gas Purchase Contract and the 2012 Gas Purchase Contract for each of the 12 months ending 31 December 2010, 31 December 2011 and 31 December 2012 of RMB290,000,000, RMB348,000,000 and RMB416,000,000 was on an annual basis more than 2.5%, the transactions contemplated under the 2010 Gas Purchase Contract, the 2011 Gas Purchase Contract and the 2012 Gas Purchase Contract did not fall under the exemption in the GEM Listing Rules and were subject to the reporting, announcement and independent shareholders' approval requirements to approve the 2010 Gas Purchase Contract, the 2011 Gas Purchase Contract and the 2012 Gas Purchase Contract and the respective annual caps abovementioned under the GEM Listing Rules. These transactions were approved by the independent Shareholders on 28 December 2009.

As each of the percentage ratios (other than the profits ratio) for the caps of the transactions contemplated under the 2010 Pipeline Design Agreement were on an annual basis more than 2.5% but less than 25% and the annual consideration was less than HK$10,000,000, the 2010 Pipeline Design Agreement was exempt from the independent shareholders' approval requirement and was only subject to the reporting and announcement requirements under the GEM Listing Rules.

For details, please refers to the Company's announcements dated 27 October 2009 and 18 December 2009 and the Company's circular dated 11 November 2009.

During the year, the Company had purchased natural gas of approximately RMB749,774,000 (excluding tax) from Tianjin Gas and paid a design fee of approximately RMB1,116,000 to the Design Institute which transaction amounts were within the relevant annual caps approved by the Shareholders.

In accordance with the provisions of the Listing Rules, the independent non-executive directors have reviewed the Connected Transactions. In their opinion, the Connected Transactions 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 Company and the shareholders of the Company as a whole.

In addition, the Company's auditors have also confirmed in writing to the Board, the above Connected Transactions:

(1) have received the approval of the Company's board of directors;

(2) nothing had come to their attention which caused them to believe that:

- the Connected Transactions had not been entered into in accordance with the relevant agreements governing the transactions; and
- the Connected Transactions had not been entered into in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group; and
- the transaction amount occurred in 2011 for each of the Connected Transactions was not within the respective cap amount for the financial year ended 31 December 2011 as disclosed in the Company's announcement on 3 July 2009 and 27 October 2009.

DIRECTORS' REPORT

ENTRUSTED CONSTRUCTION AGREEMENT

On 6 October 2008, the Company entered into an entrustment construction agreement (the "Entrusted Construction Agreement") with Tianjin Gas, pursuant to which the Company entrusted Tianjin Gas and Tianjin Gas agreed to undertake the construction of the two construction projects, namely the Beihuan Pipeline Project and the Gangnan Distribution Project. Pursuant to the Entrusted Construction Agreement, Tianjin Gas is only responsible for the construction of the Beihuan Pipeline and the Gangnan Pipeline, the ownership of these pipelines remains with the Company.

Pursuant to the Entrusted Construction Agreement, the construction fees were estimated to be amounted to approximately RMB217,962,000 and the entrustment fees would not exceed RMB6,538,700. For the financial year ended 31 December 2011, a total of approximately RMB23,323,000 was paid to Tianjin Gas by the Company in connection with the Entrusted Construction Agreement (of which approximately RMB22,829,000 were construction fees and approximately RMB494,000 were entrustment fees).The Gangnan Distribution Project was completed in May 2009 while the Beihuan Pipeline Project was completed in September 2011.

The Entrusted Construction Agreement has been duly approved by the independent Shareholders in an extraordinary general meeting held on 23 March 2009.

ACQUISITION OF ASSETS

On 16 September 2009, the Company entered into an assets acquisition agreement (the "Assets Acquisition Agreement") with Tianjin Gas, pursuant to which the Company has agreed to acquire from Tianjin Gas (the "Assets Transfer") the assets (which consist of part of the tangible assets and gas ancillary facilities held by the Hedong District Sales Offices and the Heping District Sales Offices of both Transmission Branch and First Sales Branch of Tianjin Gas, including outdoor pipelines of over 1,400 kilometres, domestic pipelines connected to approximately 360,000 users as at 30 June 2010, and the related machinery and electronic equipment and 40 vehicles) (the "Transferred Assets").

The Company has received the formal approval from the relevant Industry and Commerce Administrative Bureau on 11 April 2011 by the issuance of the business licence in relation to the allotment of consideration shares (the "Consideration Shares") of 689,707,800 domestic shares of the Company (the "Domestic Shares") and the amendment to the articles of association of the Company for the increase of the registered capital of the Company which was dated 7 April 2011. Although the said business licence from the relevant Industry and Commerce Administrative Bureau was dated 7 April 2011, the Company only received the business licence on 11 April 2011. In this regard, all conditions under the Assets Acquisition Agreement were fulfilled and accordingly the completion of the Assets Transfer took place on 11 April 2011. Upon completion of the Assets Transfer, the Transferred Assets are owned by the Group and the Group has started to provide piped gas to the users connected by the Transferred Assets.

The Proposed Assets Transfer has not been completed as at the date of this report.

For details, please refer to the Company's announcements dated 5 October 2009 and 11 April 2011 and the Company's circular 31 December 2010.

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

On 28 October 2011, Tianjin Gas and the Company entered into three conditional gas supply contracts (the "New Gas Supply Contracts") in respect of the supply of natural gas by Tianjin Gas to the Company for the 12 months ending 31 December 2012, 2013 and 2014, respectively.

On 28 October 2011, Tianjin Gas and the Company entered into the conditional natural gas transportation contract (the "2012 Gas Transportation Contract") in respect of the renewal of provision of gas transportation services through the gas pipelines owned and managed by the Company for natural gas transmission by Tianjin Gas for the period from 1 January 2012 to 31 December 2014.

As one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules for the annual caps for the New Gas Supply Contracts for the year ending 31 December 2012, 31 December 2013 and 31 December 2014, and the annual caps for the 2012 Gas Transportation Contract for the year ending 31 December 2012, 31 December 2013 and 31 December 2014 exceed 5%, the New Gas Supply Contracts and 2012 Gas Transportation Contract will be subject to, inter alia, the independent Shareholders' approval, reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

The New Gas Supply Contracts have been duly approved by the independent Shareholders in an extraordinary general meeting on 30 December 2011.

For details, please refer to the Company's announcement dated 28 October 2011 and Company's circular dated 25 November 2011.

STAFF AND EMOLUMENT POLICY

As at 31 December 2011, the Group had a workforce of 1001 full-time employees, among which 99.9% were working in mainland China.

Emoluments of employees were determined pursuant to the common practice of the industry as well as individual performance. In addition to regular salaries, the Group also paid discretionary bonus to eligible employees subject to the Group's operating results and individual performance. The Group also made contributions to medical welfare and retirement funds as well as provided other benefits to all employees.

DIRECTORS' REPORT

DIVIDENDS

No dividend was proposed during 2011, nor has any dividend been proposed since the end of the reporting period (2010: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group together accounted for approximately 41% of the Group's total turnover for the year, with the largest customer accounted for approximately 14%. The five largest suppliers of the Group together accounted for approximately 100% of the Group's total purchases for the year, with the largest supplier accounted for 99%.

Except Tianjin Gas, a controlling shareholder of the Company, is a major supplier of the Group, at no time during the year did a director, an associate of a director or a shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest customers or suppliers.

AUDIT COMMITTEE

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of 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.

AUDITOR

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

MATERIAL CONTRACTS

Save as disclosed in this report, no contract of significance has been entered into during the reporting period between the Company or any of its subsidiaries and the controlling shareholder or its subsidiaries.

CHANGE OF CHAIRMAN OF THE BOARD AND RESIGNATION OF DIRECTOR

On 25 July 2011, Mr. Sun Bo Quan ("Mr. Sun") tendered his resignation as the chairman of the Board and a non-executive Director as he has reached the age of retirement. The Board has unanimously decided that Mr. Jin Jian Ping, an executive Director, shall replace Mr. Sun to act as the chairman of Board with immediate effect. The resignation of Mr. Sun as a non-executive Director was subject to approval of appointment of the new Director by the Shareholders at the extraordinary general meeting of the Company (the "General Meeting"), which was held on 23 September 2011.

On 25 July 2011, Mr. Sun Bo Quan resigned as the chairman of the board of directors of Tianjin Gas. On the same date, Mr. Jin Jian Ping resigned as the general manager, vice party secretary and vice chairman of the board of directors of Tianjin Gas and was appointed as the party secretary and chairman of the board of directors of Tianjin Gas.

APPOINTMENT OF NEW DIRECTOR

The proposed appointment of Mr. Zhang Tian Hua to be an executive Director has been approved by the Shareholders at the General Meeting on 23 September 2011.

DIRECTORS' REPORT

SUBSEQUENT EVENTS

Change of chairman of Remuneration Committee and establishment of a Nomination Committee

Mr. Jin Jian Ping ceased to be the chairman of the Remuneration Committee and Mr. Luo Wei Kun has been appointed as chairman of the Remuneration Committee with effect from 29 March 2012. The members of the Remuneration Committee remain unchanged.

On 29 March 2012, the nomination committee of the Company ("Nomination Committee") has been established. As at the date of this report, the chairman of the Nomination Committee is Mr. Jin Jian Ping (executive Director and Chairman) and other members include Mr. Zhang Yu Li (independent non-executive Director) and Mr. Luo Wei Kun (independent non-executive Director). The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, identifying individual suitably qualified to become Board members, selecting or making recommendation to the Board on selection of individuals nominated for directorship, assessing the independence of independent non-executive Director and making recommendation to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

Supplemental agreement in relation to the 2009 Gas Transportation Contract and the 2012 Gas Transportation Contract

In light of the lower than expected volume of gas transmitted through the high pressure gas pipeline extending from the cross point of Dong Jin Road（東金路）and Yang Bei Road（楊北公路）in Dongli District（東麗區）, Tianjin to the cross point of Xin Gang No. 8 Road（新港八號路）and Yue Jin Road（躍進路）in Tanggu District（塘沽區）, Tianjin (the "Beihuan Pipeline"), and hence a lower than expected gas transportation fee generated from the Beihuan Pipeline since 1 October 2011, the Company has entered into a supplemental agreement with Tianjin Gas on 27 March 2012, pursuant to which the Company and Tianjin Gas have agreed that (i) the natural gas transportation fees payable by Tianjin Gas for the Beihuan Pipeline for a particular month will be fixed at RMB500,000 (the "Fixed Minimum Amount") in the event that the actual gas transportation fees payable by Tianjin Gas for the Beihuan Pipeline under the 2012 Gas Transportation Contract calculated based on the formula where the 2009 Gas Transportation Fees were calculated, i.e. based on the actual volume of natural gas and actual distance transmitted at RMB0.8 per 1,000 cubic metres per kilometer (the "Formula") for that month is lower than RMB500,000. However, if the actual gas transportation fees payable by Tianjin Gas for the Beihuan Pipeline for a particular month is equal to or more than RMB500,000, the fee payable by Tianjin Gas to the Company shall remain unchanged under the 2012 Gas Transportation Contact (i.e. calculated based on the Formula); (ii) Tianjin Gas will pay to the Company the shortfall (the "Shortfall") between the monthly actual gas transportation fees for the Beihuan Pipeline and the Fixed Minimum Amount for the period commencing from 1 October 2011 to 27

DIRECTORS' REPORT

March 2012 within five business days after 27 March 2012. Besides, the 2009 Gas Transportation Fees payable by Tianjin Gas to the Company for the high pressure gas pipelines extending from Dazhangtuo (大張坨) underground gas storage exit in Dagang District (大港區), Tianjin connected to the cross point of Hangang Highway (漢港公路) and Jingu Highway (津沽公路) of Bin Hai Zhong You Gas Pipeline (濱海中油輸氣管線) in Jinnan District (津南區), Tianjin (the "Gangnan Pipeline") and the Beihuan Pipeline for the three years ended 31 December 2011, counting in the Shortfall for the period commencing from 1 October 2011 to 31 December 2011, shall not exceed the relevant 2009 Annual Caps and the aggregate natural gas transportation fees payable by Tianjin Gas to the Company under the 2012 Gas Transportation Contract (the "2012 Gas Transportation Fees") for the Gangnan Pipeline and the Beihuan Pipeline for the three years ending 31 December 2014, counting in the Shortfall for the period commencing from 1 January 2012 to 27 March 2012, shall not exceed the annual caps for the 2012 Gas Transportation Fees for the years ending 31 December 2012, 31 December 2013 and 31 December 2014, respectively.

Save for the aforesaid amendments, no other changes will be made to the terms of the 2009 Gas Transportation Contract and the 2012 Gas Transportation Contract, including the time for payment of the gas transportation fees.

On behalf of the Board
Tianjin Tianlian Public Utilities Company Limited
Jin Jian Ping
Chairman

29 March 2012

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 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 of the Company, 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 Directors' Report, the audited financial statements and the proposed profit appropriation plan to be submitted by the Board 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 power. 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 2012, the Supervisory Committee will continue faithfully to perform its duties and work diligently to safeguard the interests of all of the Company's investors.

By order of the Supervisory Committee
Cao Shu Jing
Chairman of the Supervisory Committee
The PRC

29 March 2012

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 subsidiaries (collectively referred to as the "Group") set out on pages 51 to 111, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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, in accordance with our agreed terms of engagement, 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 about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

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 of consolidated financial statements that give a true and fair view 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 Company and of the Group as at 31 December 2011, 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
29 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTES	Year ended 31/12/2011 RMB'000	Year ended 31/12/2010 RMB'000
Revenue	5	**1,058,017**	383,631
Cost of sales		**(919,568)**	(275,654)
Gross profit		**138,449**	107,977
Other income	7a	**10,243**	6,154
Other gains and losses	7b	**(1,106)**	565
Selling expenses		**(135)**	(26)
Administrative expenses		**(31,153)**	(15,497)
Finance costs	8	**(168)**	(2,166)
Share of profit of associates		**4,453**	4,382
Profit before tax		**120,583**	101,389
Income tax expense	9	**(29,676)**	(24,682)
Profit for the year and total comprehensive income for the year	10	**90,907**	76,707
Profit for the year and total comprehensive income for the year attributable to owners of the Company		**90,907**	76,707
Earnings per share – basic (RMB cents)	12	**5.5**	6.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

		The Group		The Company	
	NOTES	**31 December 2011 RMB'000**	31 December 2010 RMB'000	**31 December 2011 RMB'000**	31 December 2010 RMB'000
Non-current assets					
Property, plant and equipment	14	**306,194**	259,007	**306,157**	258,960
Prepaid lease payments	15	**8,024**	8,226	**8,024**	8,226
Intangible assets	16	**738,582**	203,619	**738,582**	203,619
Investments in subsidiaries	17	**–**	–	**20,000**	20,000
Interests in associates	18	**26,167**	21,714	**8,778**	8,778
Prepayment		**110**	136	**110**	136
Deferred tax assets	29	**3,271**	2,811	**3,271**	2,811
Deposit for acquisition of additional interest in an associate	22	**5,000**	–	**–**	–
		1,087,348	495,513	**1,084,922**	502,530
Current assets					
Inventories	19	**922**	823	**922**	823
Trade receivables	20	**266,554**	48,546	**266,004**	48,546
Prepayment and other receivables	20	**20,646**	11,636	**20,646**	11,636
Amount due from a shareholder	21	**–**	12,024	**–**	12,024
Amount due from an associate	21	**1,490**	–	**–**	–
Held for trading investments	23	**2,046**	2,460	**–**	–
Short-term bank deposits with original maturity more than three months		**–**	2,060	**–**	–
Bank balances and cash	24	**272,031**	228,924	**268,771**	220,302
		563,689	306,473	**556,343**	293,331
Current liabilities					
Trade and other payables	25	**143,216**	30,383	**143,003**	30,170
Dividend payable		**9,118**	9,743	**9,118**	9,743
Income tax payable		**9,238**	4,476	**9,125**	4,350
Borrowings	26	**–**	40,000	**–**	40,000
Amount due to a shareholder	21	**83,861**	–	**83,861**	–
Amount due to a related party	21	**1,116**	1,298	**1,116**	1,298
		246,549	85,900	**246,223**	85,561
Net current assets		**317,140**	220,573	**310,120**	207,770
Total assets less current liabilities		**1,404,488**	716,086	**1,395,042**	710,300

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

		The Group		The Company	
	NOTES	**31 December 2011 RMB'000**	31 December 2010 RMB'000	**31 December 2011 RMB'000**	31 December 2010 RMB'000
Capital and reserves					
Share capital	27	**183,931**	114,960	**183,931**	114,960
Share premium and reserves	28	**1,212,247**	600,309	**1,202,801**	594,523
Equity attributable to owners of the Company		**1,396,178**	715,269	**1,386,732**	709,483
Non-current liability					
Amount due to a shareholder	21	**7,428**	–	**7,428**	–
Deferred tax liabilities	29	**882**	817	**882**	817
		1,404,488	716,086	**1,395,042**	710,300

The consolidated financial statements on pages 51 to 111 were approved and authorised for issue by the Board of Directors on 29 March 2012 and are signed on its behalf by:

Dong Hui Qiang	**Jin Jian Ping**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the Company					
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserves RMB'000 (note i)	Enterprise expansion fund RMB'000 (note i)	Accumulated profits RMB'000	Total RMB'000
At 1 January 2010	114,960	267,672	23,012	6,087	226,831	638,562
Profit for the year and total comprehensive income for the year	–	–	–	–	76,707	76,707
Appropriation	–	–	6,628	3,315	(9,943)	–
At 31 December 2010	114,960	267,672	29,640	9,402	293,595	715,269
Profit for the year and total comprehensive income for the year	–	–	–	–	90,907	90,907
Issue of Domestic Shares (note ii)	68,971	521,031	–	–	–	590,002
Appropriation	–	–	7,693	3,847	(11,540)	–
At 31 December 2011	183,931	788,703	37,333	13,249	372,962	1,396,178

Notes:

(i) Basis of appropriations reserves

Prior to August 2007, each of the Company's and its subsidiaries' Articles of Association requires the appropriation of 10% its profit after tax determined under the People's Republic of China ("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 tax stated in the financial statements prepared under the PRC accounting standards at the discretion of the board of directors.

As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the PRC subsidiaries are required to maintain an enterprise expansion fund. Enterprise expansion fund are non-distributable. Appropriations to such reserves are made out of net profit after tax annually of the PRC subsidiaries at the discretion of its board of directors. The enterprise expansion fund is used for expanding the capital base of the PRC companies by means of capitalisation issue.

(ii) Pursuant to the announcement of the Company dated 5 October 2009 and the circular of the Company dated 31 December 2010 in relation to the very substantial acquisition, the Company entered into the Assets Acquisition Agreement with 天津市燃氣集團有限公司 ("Tianjin Gas"), pursuant to which the Company conditionally agreed to acquire from Tianjin Gas part of the tangible assets gas ancillary facilities (including outdoor pipelines) and the right for distribution of gas (the "Transferred Assets") held by the Hedong District Sales Offices and the Heping District Sales Offices of both the Transmissions Branch and the First Sales Branch of Tianjin Gas (both branches of Tianjin Gas). To satisfy the consideration, the Company issued, in aggregate, 689,707,800 Domestic Shares to Tianjin Gas on 7 April 2011 and the transaction was completed on 11 April 2011.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
Operating activities		
Profit before tax	**120,583**	101,389
Adjustments for:		
Amortisation of intangible assets	**38,383**	9,567
Amortisation of prepaid lease payments	**202**	147
Depreciation of property, plant and equipment	**8,793**	5,617
Finance costs	**168**	2,166
Interest income	**(2,473)**	(666)
Share of results of associates	**(4,453)**	(4,382)
Loss (gain) on fair value changes of investments held for trading	**1,106**	(565)
Allowance for (reversal of allowances for) bad and doubtful debts	**1,838**	(316)
Loss on disposal of property, plant and equipment	**45**	3
Operating cash flows before movements in working capital	**164,192**	112,960
Increase in inventories	**(99)**	(406)
(Increase) decrease in trade receivables	**(219,846)**	21,355
Increase in deposits, prepayments and other receivables	**(8,984)**	(7,928)
Decrease (increase) in amount due from a shareholder	**15,257**	(11,194)
Increase in held for trading investments	**(692)**	(282)
Increase in amount due to a shareholder	**83,861**	–
Increase (decrease) in trade and other payables	**112,833**	(2,731)
(Decrease) increase in amount due to a related party	**(182)**	473
Net cash generated from operations	**146,340**	112,247
Interest paid	**(168)**	(2,166)
Tax paid	**(25,309)**	(33,000)
Net cash generated from operating activities	**120,863**	77,081

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
Investing activities		
Addition of intangible assets	**(6,029)**	(1,822)
Purchase of property, plant and equipment	**(29,148)**	(30,602)
Increase in prepaid lease payment	**–**	(3,420)
Deposit for acquisition of additional interest in an associate	**(5,000)**	–
Advance to an associate	**(1,490)**	–
Proceeds from disposal of property, plant and equity	**3**	–
Decrease (increase) in short-term bank deposits with original maturity more than three months	**2,060**	(60)
Interest received	**2,473**	666
Net cash used in investing activities	**(37,131)**	(35,238)
Financing activities		
Dividend paid	**(625)**	–
Repayment of borrowings	**(40,000)**	(40,000)
New borrowings raised	**–**	40,000
Net cash used in financing activities	**(40,625)**	–
Net increase in cash and cash equivalents	**43,107**	41,843
Cash and cash equivalents at 1 January 2011	**228,924**	187,081
Cash and cash equivalents at 31 December 2011, represented by Bank balances and cash	**272,031**	228,924

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. GENERAL

The Company was established at Weishan Road, Chang Qing Science, Industry and Trade Park, Jinnan District, Tianjin, the People's Republic of China (the "PRC") as a joint stock limited company. Its ultimate and immediate holding company is 天津市燃氣集團有限公司 ("Tianjin Gas"). 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 transformed to a foreign invested joint stock limited company. The Company's listing was transferred from GEM to the main board of the Stock Exchange since 18 October 2011.

The principal activities of the Company are the operation and management of gas pipeline infrastructure and the sale and distribution of piped gas. The principal activities of its subsidiaries are disclosed in note 36.

The Group's principal operations are conducted in the PRC. The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company.

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

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related party disclosures
Amendments to HKAS 32	Classification of rights issues
Amendments to HK(IFRIC) – Int 14	Prepayments of a minimum funding requirement
HK (IFRIC) – Int 19	Extinguishing financial liabilities with equity instruments

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

HKAS 24 Related Party Disclosures (as revised in 2009)

HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities whilst the previous version of HKAS 24 did not contain specific exemption for government-related entities. The Company and its subsidiaries are PRC government-related entities as defined in HKAS 24 (as revised in 2009). Under HKAS 24 (as revised in 2009), the Group has been exempted from making the disclosures required by paragraph 18 of HKAS 24 (as revised in 2009) in relation to related party transactions and outstanding balances (including commitments) with (a) the PRC government that ultimately has significant influence over the Group and (b) other entities that are controlled, jointly controlled, or significantly influenced by the PRC government. Rather, in respect of these transactions and balances, HKAS 24 (as revised in 2009) requires the Group to disclose (a) the nature and amount of each individually significant transaction, and (b) a qualitative or quantitative indication of the extent of transactions that are collectively, but not individually, significant.

HKAS 24 (as revised in 2009) requires retrospective application. The application of HKAS 24 (as revised in 2009) has had no impact on the Group's financial performance and positions for the current and prior years. Related party disclosure have been set out in note 35.

The Group and the Company has not early applied the following new or revised HKFRSs that have been issued but are not yet effective:

Amendments HKFRS 7	Disclosures – Transfers of Financial Assets[1]
(Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosure[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

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

HKAS 24 Related Party Disclosures (as revised in 2009) *(continued)*

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 January 2012.
[5] Effective for annual periods beginning on or after 1 July 2012.
[6] Effective for annual periods beginning on or after 1 January 2014.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements and HK (SIC) – Int 12 "Consolidation – Special purpose entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

The directors anticipate that the application of other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES

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 Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinances.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates *(continued)*

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Gas connection contracts

When the outcome of a fixed price gas connection contract can be estimated reliably and the stage of completion at the end of the reporting date can be measured reliably, construction contract revenue from gas connection contracts is recognised based on the percentage of completion method, as measured by reference to the proportion that the cost of work carried out during the year bear to the estimated total contract costs.

When the outcome of a gas connection contract cannot be estimated reliably, revenue is only recognised to the extent of contract cost incurred that it is probable to be recoverable. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Revenue from construction of gas pipeline infrastructure under gas supply service concession arrangements

Revenue from providing construction services under the gas supply service concession arrangements are recognised by reference to the stage of completion of the construction work under concession arrangements at the end of reporting date, as measured by contract cost incurred for work performed to date bear to the estimated total contract cost. Operation or service revenue is recognised in the year in which the services are provided by the Group.

Others

Sales of gas and gas distribution income are recognised when gas is supplied to customers while sales of gas appliances are recognised when goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipt through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Properties in the course of construction for production, supply or administrative purpose are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets one ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets and is recognised in profit or loss.

Leasing

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 leasee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing *(continued)*

Leasehold land and building *(continued)*

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (RMB) are recorded in the respective 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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are include in profit or loss for the period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are recognised 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 statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extend that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the assets is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effective of any changes in estimates being accounted for on a prospective basis. (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

The Group as a gas supply operator has access to operate the gas pipeline infrastructure to provide public service on behalf of the grantor in accordance with the terms specified in the service concession arrangement. When the Group has a right to charge for usage of concession infrastructure (as a consideration for providing construction service in a service concession arrangement), it recognises an intangible asset at fair value upon initial recognition. The intangible asset is carried at cost less accumulated amortisation and any accumulated impairment losses.

Gains and losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in period when the asset is derecognised.

Impairment loss on tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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 immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sales.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the statements of financial position when the group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss (financial assets held for trading) and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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 estimated future cash receipts (including all fees 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 to the net carring amount on initial recognition.

Interest income is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets at fair value through profit or loss ("FVTPL")

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "other gains and losses" line item in the consolidated statement of comprehensive income. Fair value is determined in the manner described in note 23.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amount due from a shareholder, amount due from an associate, short-term bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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 estimate future cash flows of the financial assets have been affected.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets *(continued)*

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; 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, in addition, 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, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables 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 receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written-off are credited to profit or loss.

For financial assets measure 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 is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Impairment of financial assets *(continued)*

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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 estimate future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discount) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, dividend payable, amount due to a related party and a shareholder and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment transactions

Shares issued in exchange for goods or services are measured at the fair values of the goods or services received, unless the fair value cannot be measured reliably, in which case the goods or services received are measured by reference to the fair value of the shares issued. The fair values of goods or services received are recognised as expenses, with a corresponding increase in equity when the Group obtains the goods or services, unless the goods or services qualify for recognition as assets.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application the Group's accounting policies, which are described in note 3, the directors of the Company are required to makes 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

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 period.

The key source of estimation uncertainty at the end of the reporting period that has a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year is declosed below.

Recognition of sales 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. Notwithstanding that the directors review and revise the estimate, the actual consumption may be higher or lower than the estimates and this will affect the revenue recognised.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, 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 the 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 2011, the carrying amount of trade receivable is RMB115,494,000 (net of allowance for doubtful debts of RMB14,512,000) (31 December 2010: carrying amount of RMB48,546,000, net of allowance for doubtful debts of RMB12,674,000).

Estimated impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2011, the carrying amount of intangible assets is RMB738,582,000 (2010: RMB203,619,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. REVENUE

Revenue represents construction contract revenue from gas connection contracts, revenue from sales of piped gas and gas appliances, construction contract revenue from construction of gas pipeline infrastructure and gas transportation revenue, net of discount, during the year.

6. SEGMENT INFORMATION

For management purposes, the Group is divided into four divisions, namely gas connection, gas transportation, sales of piped gas and sales of gas appliances. The construction of gas pipeline infrastructure operation is not reported to the board of directors of the Company (being the chief operating decision maker). These divisions are the basis on which the Group reported its segment information, based on the financial information prepared on the PRC generally accepted accounting principles (which is consistent with the accounting policies set out in note 3) reported to the chief operating decision maker. The Group's operating segments based on information reported to the chief operating decision maker for the purposes of resource allocation and performance assessment are as follow:

1. Gas connection – provision of piped gas connection services

2. Gas transportation – transportation of gas to Tianjin Gas

3. Sales of piped gas – sales of piped gas to industrial and residential users

4. Sales of gas appliances

Information regarding the above segments is reported below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. SEGMENT INFORMATION *(continued)*

The following is an analysis of the Group's revenue and results by operating segment for the year under review:

Year ended 31 December 2011

	Gas connection RMB'000	Gas transportation RMB'000	Sales of piped gas RMB'000	Sales of gas appliances RMB'000	Consolidated RMB'000
Segment revenue from external customers	153,208	3,763	890,472	4,545	1,051,988
Segment profit	104,337	1,239	31,478	836	137,890

Reconciliation of segment revenue

	RMB'000
Total segment revenue	1,051,988
Revenue from construction of gas pipeline infrastructure	6,029
Revenue	1,058,017

Reconciliation of segment profit

	RMB'000
Total segment profit	137,890
Profit from construction of gas pipeline infrastructure	559
Share of result of associates	4,453
Other income	10,243
Other gains and losses	(1,106)
Corporate expenses	(31,288)
Finance costs	(168)
Profit before tax	120,583

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. SEGMENT INFORMATION *(continued)*

Year ended 31 December 2010

	Gas connection RMB'000	Gas transportation RMB'000	Sales of piped gas RMB'000	Sales of gas appliances RMB'000	Consolidated RMB'000
Segment revenue from external customers	110,430	3,883	261,624	5,872	381,809
Segment profit	75,216	1,157	30,210	1,228	107,811

Reconciliation of segment revenue

	RMB'000
Total segment revenue	381,809
Revenue from construction of gas pipeline infrastructure	1,822
Revenue	383,631

Reconciliation of segment profit

	RMB'000
Total segment profit	107,811
Profit from construction of gas pipeline infrastructure	166
Share of result of associates	4,382
Other income	6,154
Other gains and losses	565
Corporate expenses	(15,523)
Finance costs	(2,166)
Profit before tax	101,389

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of other income, other gains and losses, share of result of associates, corporate expenses and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

6. SEGMENT INFORMATION *(continued)*

Other segment information

	Gas connection		Gas transportation		Sales of piped gas		Total for all segments		Adjustments		Total	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000	**2011 RMB'000**	2010 RMB'000	**2011 RMB'000**	2010 RMB'000	**2011 RMB'000**	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Amounts included in the measure of segment profit:												
Depreciation of property, plant and equipment	**–**	–	**2,400**	2,598	**2,938**	1,355	**5,338**	3,953	**3,455**	1,664	**8,793**	5,617
Amortisation of intangible assets	**–**	–	**–**	–	**38,383**	9,567	**38,383**	9,567	**–**	–	**38,383**	9,567

Note 1: Adjustments represent corporate expenses not allocated to the measurement of segment profit.

During the current year, the Group had carried out gas connection contract work with revenue of approximately RMB6,983,000 (2010: RMB27,431,000) in certain areas in Tianjin, in which the gas supply is being separately provided by Tianjin Gas, a substantial shareholder of the Company, to its own customers.

No analysis of the Group's assets and liabilities by operating segment is disclosed as they are not regularly provided to the board of directors of the Company for review.

Geographical information

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 information is presented.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2011 RMB'000	2010 RMB'000
Customer A[1]	**152,477**	N/A[2]
Customer B[1]	**109,985**	99,949
Customer C[1]	**N/A[3]**	45,030

1 Revenue from sales of piped gas.

2 New customer from sales of piped gas in 2011.

3 The corresponding revenue did not contribute over 10% of the total sales of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7A. OTHER INCOME

	2011 RMB'000	2010 RMB'000
Value added tax refund	**7,220**	5,461
Bank interest income	**2,473**	666
Others	**550**	27
	10,243	6,154

7B. OTHER GAINS AND LOSSES

	2011 RMB'000	2010 RMB'000
Net (losses) gain on fair value change of held for trading investments	**(1,106)**	565

8. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Interest on bank borrowing wholly repayable within five years	**168**	2,166

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

9. INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000
The charge comprises:		
PRC Enterprise Income Tax	**30,071**	24,600
Deferred tax (note 29)	**(395)**	82
	29,676	24,682

The Company and its subsidiaries are subject to PRC Enterprise Income Tax rate of 25% for the year (2010: 25%).

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 before tax per the consolidated statement of comprehensive income as follows:

	2011 RMB'000	2010 RMB'000
Profit before tax	**120,583**	101,389
Tax at the domestic income tax rate of 25%	**30,146**	25,347
Tax effect of share of profit of associates	**(1,113)**	(1,096)
Tax effect of expenses that are not deductible in determining taxable profit	**514**	431
Tax effect of tax losses not recognised	**129**	–
Tax expense for the year	**29,676**	24,682

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

10. PROFIT FOR THE YEAR

	2011	2010
	RMB'000	RMB'000
Profit for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**8,793**	5,617
Amortisation of intangible assets (included in cost of sales)	**38,383**	9,567
Total depreciation and amortisation	**47,176**	15,184
Auditor's remuneration	**1,100**	625
Staff costs including directors' and supervisors' remuneration	**53,209**	4,762
Loss on disposal of property, plant and equipment	**45**	3
Amortisation of prepaid lease payments (included in administrative expenses)	**202**	147
Operating lease rentals in respect of rented premises	**464**	512
Allowance (reversal of allowances) bad and doubtful debts	**1,838**	(316)
Cost of gas purchased	**756,791**	212,320
Net foreign exchange losses	**–**	(9)

11. DIVIDEND

No dividend was declared or proposed during the year ended December 2011 and 2010, nor has any dividend been proposed since the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

12. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Company is based on the following data:

	2011 RMB'000	2010 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share		
Profit for the year attributable to owners of the Company	**90,907**	76,707
Number of shares		
Weighted average number of ordinary shares		
for the purpose of basic earnings per share	**1,657,905**	1,149,600

No diluted earnings per share have been presented as the Company had no potential ordinary shares outstanding during both year.

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:

	2011 RMB'000	2010 RMB'000
Fees	**850**	750
Salaries and other benefits	**169**	121
Retirement benefit scheme contributions	**23**	20
	1,042	891

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

Directors and supervisors *(continued)*

Fees of directors and supervisors analysed into:

Year ended 31 December 2011

	Fees RMB'000	Basic salaries RMB'000	Performance related incentive payment RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Bai Shaoliang	50	–	–	–	50
Cao Shujing	50	–	–	–	50
Chan Shun Kuen Eric	100	–	–	–	100
Tam Tak Kei Raymond (note 1)	100	–	–	–	100
Dong Huiqiang	50	–	–	–	50
Gong Jing	50	–	–	–	50
Hao Li	50	38	13	–	101
Jin Jianping	50	–	–	–	50
Luo Weikun	50	–	–	–	50
Qi Yinfeng	50	–	–	–	50
Sha Jincheng	50	–	–	–	50
Sun Boquan	38	–	–	–	38
Sun Xuegang	50	99	19	23	191
Tang Jie	50	–	–	–	50
Zhang Yuli	50	–	–	–	50
Zhang Tianhua (note 2)	12	–	–	–	12
	850	137	32	23	1,042

Note 1: Mr. Tam Tak Kei Raymond was appointed as an independent non-executive director on 13 February 2011.

Note 2: Mr. Zhang Tian Hua was appointed as an executive director of the Group on 23 September 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

Directors and supervisors *(continued)*

Year ended 31 December 2010

	Fees RMB'000	Basic salaries RMB'000	Performance related incentive payment RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Bai Shaoliang	50	–	–	–	50
Cao Shujing	50	–	–	–	50
Chan Shun Kuen Eric	100	–	–	–	100
Dong Huiqiang	50	–	–	–	50
Gong Jing	50	–	–	–	50
Hao Li	50	36	3	–	89
Jin Jianping	50	–	–	–	50
Luo Weikun	50	–	–	–	50
Qi Yinfeng	50	–	–	–	50
Sha Jincheng	50	–	–	–	50
Sun Boquan	50	–	–	–	50
Sun Xuegang	50	74	8	20	152
Tang Jie	50	–	–	–	50
Zhang Yuli	50	–	–	–	50
	750	110	11	20	891

Performance related incentive payment is determined based on the individual performance of the directors.

No director waived or agreed to waive any emoluments during both years.

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

Employees *(continued)*

The five highest paid employees in the Group for the year ended 31 December 2011 included one supervisor (2010: one supervisor). The details of the remuneration of the remaining highest paid employees for the year are as follows:

	2011 **RMB'000**	2010 RMB'000
Salaries and other benefits	**652**	751
Retirement benefit scheme contributions	**–**	–
	652	751

Their emoluments are within the following band:

	2011	2010
Nil-RMB810,700 (2010: Nil to RMB850,900) (equivalent to HK$1,000,000)	**4**	4

No emoluments were paid by the Group to the directors or supervisors or the five highest paid employees as inducement to join or upon joining the Group or as compensation for loss of office during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	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 2010	36,134	66,606	34,685	2,733	4,819	103,453	248,430
Additions	–	–	1,583	331	128	28,560	30,602
Reclassification	–	–	1,046	–	–	(1,046)	–
Disposal	–	–	–	(32)	–	–	(32)
At 31 December 2010	36,134	66,606	37,314	3,032	4,947	130,967	279,000
Additions	–	–	1,042	737	1,524	30,040	33,343
Acquisition of Transferred Assets	–	–	20,607	177	1,901	–	22,685
Reclassification	1,396	153,026	–	–	–	(154,422)	–
Disposal	–	–	(19)	–	(72)	–	(91)
At 31 December 2011	37,530	219,632	58,944	3,946	8,300	6,585	334,937
DEPRECIATION							
At 1 January 2010	4,541	1,358	4,199	1,372	2,935	–	14,405
Provided for the year	827	2,598	1,354	455	383	–	5,617
Disposal	–	–	–	(29)	–	–	(29)
At 31 December 2010	5,368	3,956	5,553	1,798	3,318	–	19,993
Provided for the year	851	3,777	2,938	485	742	–	8,793
Disposal	–	–	(1)	–	(42)	–	(43)
At 31 December 2011	6,219	7,733	8,490	2,283	4,018	–	28,743
CARRYING VALUES							
At 31 December 2011	31,311	211,899	50,454	1,663	4,282	6,585	306,194
At 31 December 2010	30,766	62,650	31,761	1,234	1,629	130,967	259,007

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For the year ended 31 December 2011

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

The Company

	Buildings	Pipelines	Machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2010	36,134	66,606	34,685	2,687	4,819	103,453	248,384
Additions	–	–	1,583	320	128	28,560	30,591
Reclassification	–	–	1,046	–	–	(1,046)	–
Disposal	–	–	–	(32)	–	–	(32)
At 31 December 2010	36,134	66,606	37,314	2,975	4,947	130,967	278,943
Additions	–	–	1,042	737	1,524	30,040	33,343
Acquisition of Transferred Assets	–	–	20,607	177	1,901	–	22,685
Reclassification	1,396	153,026	–	–	–	(154,422)	–
Disposal	–	–	(19)	–	(72)	–	(91)
At 31 December 2011	37,530	219,632	58,944	3,889	8,300	6,585	334,880
DEPRECIATION							
At 1 January 2010	4,541	1,358	4,199	1,369	2,935	–	14,402
Provided for the year	827	2,598	1,354	448	383	–	5,610
Disposal	–	–	–	(29)	–	–	(29)
At 31 December 2010	5,368	3,956	5,553	1,788	3,318	–	19,983
Provided for the year	851	3,777	2,938	475	742	–	8,783
Disposal	–	–	(1)	–	(42)	–	(43)
At 31 December 2011	6,219	7,733	8,490	2,263	4,018	–	28,723
CARRYING VALUES							
At 31 December 2011	31,311	211,899	50,454	1,626	4,282	6,585	306,157
At 31 December 2010	30,766	62,650	31,761	1,187	1,629	130,967	258,960

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

The above items of property, plant and equipment other than construction in progress are depreciated, after taking into accounts 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 situated on land held under medium-term land use rights.

At 31 December 2011, the Group is in the process of applying title certificates for certain buildings with a carrying value of approximately RMB2,826,000 (31.12.2010: RMB2,510,000).

15. PREPAID LEASE PAYMENTS

The Group's and the Company's prepaid lease payments comprise:

	31 December 2011 RMB'000	31 December 2010 RMB'000
Leasehold land in the PRC:		
Medium-term lease	**8,239**	8,441
Analysed for reporting purpose as:		
Current portion (included in prepayment and other receivables)	**215**	215
Non-current portion	**8,024**	8,226
	8,239	8,441

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

16. INTANGIBLE ASSETS

The Group and the Company

	Right for distribution of gas RMB'000
COST	
At 1 January 2010	249,808
Additions under service concession arrangement	1,822
At 31 December 2010	251,630
Acquisition of Transferred Assets	567,317
Additions under service concession arrangement	6,029
At 31 December 2011	824,976
AMORTISATION	
At 1 January 2010	38,444
Provided for the year	9,567
At 31 December 2010	48,011
Provided for the year	38,383
At 31 December 2011	86,394
CARRYING VALUES	
At 31 December 2011	738,582
At 31 December 2010	203,619

The intangible assets represent the right for distribution of gas (including the service concession arrangement by operating gas pipeline infrastructure) in certain districts in the PRC, and have finite useful lives. Such intangible assets are amortised on a straight-line basis over a period of 25 years. The price of selling the gas is regulated by the PRC Government price bureau.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

17. INVESTMENTS IN SUBSIDIARIES

	The Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000
Unlisted shares, at cost	**20,000**	20,000

18. INTERESTS IN ASSOCIATES

	The Group		The Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000	**31 December 2011 RMB'000**	31 December 2010 RMB'000
Cost of investment in associates – unlisted	**16,483**	16,483	**8,778**	8,778
Share of post-acquisition profits	**9,684**	5,231	**–**	–
	26,167	21,714	**8,778**	8,778

As at 31 December 2011 and 2010, the Group and the Company had interests in the following associates:

The Group

Name of entity	Form of entity	Place of registration/ Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held		Principal activity
				2011	2010	**2011**	2010	
Indirectly-owned associate 貴州津維礦業投資有限公司（"貴州津維"）	Incorporated	PRC	Ordinary	**49%**	49%	**49%**	49%	Mining business
Directly-owned associate 天津市濱海燃氣有限公司	Incorporated	PRC	Ordinary	**30.55%**	30.55%	**30.55%**	30.55%	Gas supply

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

18. INTERESTS IN ASSOCIATES

The Company

Name of entity	Form of entity	Place of registration/ Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group		Proportion of voting power held		Principal activity
				2011	2010	**2011**	2010	
Directly-owned associate								
天津市濱海燃氣有限公司	Incorporated	PRC	Ordinary	**30.55%**	30.55%	**30.55%**	30.55%	Gas supply

Included in the cost of investment in associates is goodwill of RMB3,597,000 (31.12.2010: RMB3,597,000) arising on acquisition of associate during 2009.

The summarised financial information in respect of the Group's associates in set out below:

	31 December 2011 RMB'000	31 December 2010 RMB'000
Total assets	**299,502**	225,357
Total liabilities	**(235,084)**	(175,516)
Net assets	**64,418**	49,841
Group's share of net assets of associates	**22,570**	18,117

	31 December 2011 RMB'000	31 December 2010 RMB'000
Revenue	**162,735**	156,560
Profit for the year	**14,528**	14,344
Group's share of result of associates for the year	**4,453**	4,382

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

19. INVENTORIES

	The Group and the Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000
Gas appliances	**314**	466
Gas	**173**	154
Spare parts and consumables	**435**	203
	922	823

20. TRADE RECEIVABLES/PREPAYMENT AND OTHER RECEIVABLES

	The Group and the Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000
Trade receivables	**130,006**	61,220
Note receivables	**151,060**	–
Less: impairment loss recognised	**(14,512)**	(12,674)
Net trade receivables	**266,554**	48,546
Other receivables	**20,477**	5,494
Less: impairment loss recognised	**(2,655)**	(2,655)
Total other receivables	**17,822**	2,839
Prepayment	**2,824**	8,797
	20,646	11,636

20. TRADE RECEIVABLES/PREPAYMENT AND OTHER RECEIVABLES *(continued)*

Movement in impairment loss recognised:

	The Group and the Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000
Trade receivables:		
Balance at beginning of the year	**12,674**	12,902
Impairment losses recognised on receivables	**4,730**	–
Amounts recovered during the year	**(2,892)**	(228)
Balance at end of the year	**14,512**	12,674
Other receivables:		
Balance at beginning of the year	**2,655**	2,743
Amounts recovered during the year	**–**	(88)
Balance at end of the year	**2,655**	2,655

Included in the carrying amount of trade and other receivables as at 31 December 2011 was accumulated impairment loss of RMB14,512,000 (31.12.2010: RMB12,674,000) and RMB 2,655,000 (31.12.2010: RMB 2,655,000) for trade receivables and other receivables respectively, most of which was past due for over one year as at the end of the reporting date and with no subsequent settlement records.

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. The following is an aged analysis of trade and note receivables presented based on the invoice date at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

20. TRADE RECEIVABLES/PREPAYMENT AND OTHER RECEIVABLES *(continued)*

The aged analysis of trade and note receivables net of allowance based on invoice date is as follows:

	The Group and the Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000
0 – 90 days	**173,138**	18,527
91 – 180 days	**76,909**	6,557
181 – 270 days	**2,341**	1,017
271 – 365 days	**185**	–
Over 365 days	**13,981**	22,445
	266,554	48,546

Before accepting any new customer, the Group will assess credit worthiness by customer in considering the customer's quality and determine the credit terms for that customer. In addition, the Group has reviewed the repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of a trade receivable. In the opinion of the directors, receivables neither past due nor impaired have good settlement records and no default history at the end of the reporting date.

Included in the Group's and the Company's trade receivables balance are debtors with aggregate carrying amount of RMB30 million (2010: RMB23 million) which are past due at the reporting date for which the Group and the Company has not provided for impairment loss because there is no significant change in credit quality of those customers and the amounts are still considered recoverable. The Group and the Company do not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group and the Company to the counterparty.

20. TRADE RECEIVABLES/PREPAYMENT AND OTHER RECEIVABLES *(continued)*

Aging of trade receivables based on invoice date which are past due but not impaired:

	The Group and the Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000
181 – 270 days	**2,341**	1,017
271 – 365 days	**185**	–
Over 365 days	**13,981**	22,445
	16,507	23,462

Aging of trade receivables based on invoice date over one year which are past due but not impaired was mainly from a customer. Pursuant to a repayment schedule signed by the customer on 2 March, 2012, the customer will settle its outstanding balance by instalments. The closing balance amounting to RMB 13,651,000 will be repaid in 2012.

21. AMOUNTS DUE FROM (TO) A SHAREHOLDER/A RELATED PARTY/AN ASSOCIATE

The Group and the Company

The amounts were unsecured, interest-free and repayable on demand except for an amount due to a shareholder of RMB 7,428,000 which will be paid on or before October 2013 as detailed in note 33(2). Details of the balances are set out in note 35 (a). All of the amount due from (to) a shareholder and amount due to a related party and amount due from an associate aged within 90 days at the end of the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

22. DEPOSIT FOR ACQUISITION OF ADDITIONAL INTEREST IN AN ASSOCIATE

The Group

天聯投資有限公司, a subsidiary of the Group entered into an agreement to acquire additional 39% equity interest in 貴州津維 at consideration of RMB8,000,000 from its current equity owners. As at 31 December 2011, RMB5,000,000 has been paid as deposit and this transaction has not been completed as at the issuance date of these consolidated financial statements.

23. HELD FOR TRADING INVESTMENTS

The Group

Held for trading investments represent investments in equity securities listed in the PRC and stated at quoted market bid price.

24. BANK BALANCES AND CASH

The Group and the Company

Bank balances carry interest at market rate at 0.5% (31.12.2010: 0.36%) per annum.

25. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with an aged analysis based on past due date as follows:

	The Group and the Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000
0 – 90 days	**21,655**	10,912
91 – 180 days	**804**	123
181 – 270 days	**101**	41
271 – 365 days	**40**	–
Over 365 days	**475**	1,101
	23,075	12,177

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

26. BORROWINGS

	The Group and the Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000
Unsecured bank loan	–	40,000

The above loan was unsecured, carried interest at floating rate of 5.31% per annum which is based on rates quoted by the People's Bank of China and had been fully repaid on 28 January 2011.

27. SHARE CAPITAL

	Number of shares		Registered, issued and fully paid Share Capital
	Domestic Shares	H Shares	RMB'000
Shares of RMB0.1 each			
As at 1 January 2010 and 31 December 2010	649,540,000	500,060,000	114,960
Issued as consideration for the acquisition of assets (Note)	689,707,800	–	68,971
As at 31 December 2011	1,339,247,800	500,060,000	183,931

Note: Pursuant to the announcement of the Company dated 5 October 2009 and the circular of the Company dated 31 December 2010 in relation to the very substantial acquisition, the Company entered into the Assets Acquisition Agreement with Tianjin Gas, pursuant to which the Company conditionally agreed to acquire from Tianjin Gas the Transferred Assets with fair value of approximately RMB590,002,000. The fair value of shares was based on the valuation of Transferred Assets performed by Assets Appraisal Limited. To satisfy the consideration, the Company issued, in aggregate, 689,707,800 Domestic Shares to Tianjin Gas on 7 April 2011 and the transaction was completed on 11 April 2011. The H Shares and Domestic Shares rank pari passu in all respects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

28. SHARE PREMIUM AND RESERVES

The Company

	Attributable to owners of the Company				
	Share premium RMB'000	**Statutory surplus reserves** RMB'000	**Enterprise expansion fund** RMB'000	**Accumulated profits** RMB'000	**Total** RMB'000
At 1 January 2010	267,672	23,012	6,087	225,639	522,410
Profit for the year and total comprehensive income for the year	–	–	–	72,113	72,113
Appropriation	–	6,628	3,315	(9,943)	–
At 31 December 2010	267,672	29,640	9,402	287,809	594,523
Profit for the year and total comprehensive income for the year	–	–	–	87,247	87,247
Issue of Domestic Shares	521,031	–	–	–	521,031
Appropriation	–	7,693	3,847	(11,540)	–
At 31 December 2011	788,703	37,333	13,249	363,516	1,202,801

29. DEFERRED TAXATION

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

	The Group and the Company			
	Provision for bad and doubtful debts RMB'000	**Accelerated tax depreciation** RMB'000	**Service concession arrangement** RMB'000	**Total** RMB'000
At 1 January 2010	(2,889)	415	398	(2,076)
Charge (credit) for the year	78	(24)	28	82
At 31 December 2010	(2,811)	391	426	(1,994)
(Credit) charge for the year	(460)	(24)	89	(395)
At 31 December 2011	(3,271)	367	515	(2,389)

29. DEFERRED TAXATION *(continued)*

The following is the analysis of the deferred tax balances for financial reporting purpose:

	The Group and the Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000
Deferred tax assets	**3,271**	2,811
Deferred tax liabilities	**(882)**	(817)
	2,389	1,994

At the end of reporting period, the Group has unused tax losses of RMB516,000 (31 December 2010: Nil) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of the tax losses due to unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB516,000 (31 December 2010: Nil) that will be expired in 2016.

30. OPERATING LEASE COMMITMENTS

The Group and the Company as lessee

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

	The Group and the Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000
Within one year	**403**	449
In the second year	**–**	382
	403	831

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

31. CAPITAL RISK MANAGEMENT

The Group and the Company manage its capital to ensure that entities in 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 and the Company's overall strategy remains unchanged from prior year.

The capital structure of the Group and the Company consist of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

The directors of the Company review 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, new share issues as well as the raise of borrowings.

32. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	The Group		The Company	
	31 December 2011 RMB'000	31 December 2010 RMB'000	**31 December 2011 RMB'000**	31 December 2010 RMB'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	**556,587**	294,999	**552,777**	284,317
Held for trading investments	**2,046**	2,460	**–**	–
Financial liabilities				
Amortised cost	**240,649**	79,731	**240,436**	79,518

b. Financial risk management objectives and policies

The Group's principal financial instruments include trade receivables, other receivables, held for trading investment, trade and other payables, amounts due from/(to) a shareholder, a related party and an associate, short-term bank deposits, bank balances and borrowings. The Company's principal financial instruments include trade and other receivables, trade and other payables, amounts due from/(to) a shareholder, a related party, bank balances and borrowings. 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 directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

32. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk

The Group's activities expose to the financial risks included interest rate risk and other price risk.

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

(i) Interest rate risk

The Group and the Company is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits.

Sensitivity analysis

No sensitivity analyses have been prepared as the management considers that such exposure for variable-rate bank deposits is limited.

(ii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The Group has appointed a team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of the reporting date.

If the prices of the respective equity instruments had been 10% (2010: 10%) higher/lower, post-tax profit for the year ended 31 December 2011 would increase/decrease by RMB154,000 (2010: RMB185,000) as a result of the changes in fair value of the held-for-trading investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

32. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk

The Group's and the Company's credit risk is primarily attributable to its trade and other receivables. In order to minimise the credit risk, the directors of the Company continuously monitor 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 the end of the reporting period 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 and the Company is exposed to some concentration of credit risk on trade receivables. At 31 December 2011, the five largest trade debtor accounted for approximately RMB187,728,000 (70%) (2010: RMB43,383,000 (89%)), of the Group's and the Company's total trade and note receivables. The Group delegate a team for determining the credit limits, 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 table below shows the carrying amount of 5 largest trade debtors of the Group and the Company at the end of reporting date:

Counterparty	**Location**	**31 December 2011 Carrying amount** RMB'000	**31 December 2010 Carrying amount** RMB'000
Company A(note 1)	The PRC	64,279	–
Company B(note 1)	The PRC	32,246	–
Company C(note 1)	The PRC	44,768	–
Company D(note 2)	The PRC	31,369	–
Company E(note 2)	The PRC	15,066	–
Company F(note 2)	The PRC	(note 3)	21,652
Company G(note 2)	The PRC	(note 3)	5,634
Company H(note 2)	The PRC	(note 3)	7,476
Company I (note 2)	The PRC	–	5,040
Company J (note 2)	The PRC	–	3,581

32. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk *(continued)*

Notes:

1. The corresponding carrying amount is balance of note receivable.

2. The corresponding carrying amount is balance of trade receivable.

3. The corresponding carrying amount did not contribute to 5 largest trade debtors of the Group in 2011.

The above debtors were concentrated on entities engaged in the property development business. The balance due from the respective debtors was within the credit limit granted by the Group and the Company and the debtors received good internal credit rating assessed by the Group and the Company.

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 and certain trade receivables, the Group and the Company does not have any other significant concentration of credit risk. The remaining trade receivables consist of a large number of customers which spread across diverse industries.

The Group's and the Company's geographical concentration of credit risk is totally in the PRC as at 31 December 2011 and 2010.

Liquidity risk

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

The Group's holdings of cash and short-term deposits, 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 directors consider that the Group expects to have adequate source of funding to finance the Group and manage the liquidity position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

32. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

The following table details the remaining contractual maturity for the financial liabilities of the Group as at 31 December 2011 and 2010 based on the agreed repayment terms. 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. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

The Group

	Weighted average effective interest rate	On demand or less than 3 months	3 months to 1 year	1 year to 2 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities						
As at 31 December 2011						
Trade and other payables	–	139,126	–	–	139,126	139,126
Dividend payables	–	9,118	–	–	9,118	9,118
Amount due to a shareholder	–	83,861	–	7,428	91,289	91,289
Amount due to a related party	–	1,116	–	–	1,116	1,116
		233,221	–	7,428	240,649	240,649
As at 31 December 2010						
Trade and other payables	–	28,690	–	–	28,690	28,690
Dividend payables	–	9,743	–	–	9,743	9,743
Borrowings	5.31	40,163	–	–	40,163	40,000
Amount due to a related party	–	1,298	–	–	1,298	1,298
		79,894	–	–	79,894	79,731

32. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

The Company

	Weighted average effective interest rate	On demand or less than 3 months	3 months to 1 year	1 year to 2 year	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities						
As at 31 December 2011						
Trade and other payables	–	138,913	–	–	138,913	138,913
Dividend payables	–	9,118	–	–	9,118	9,118
Amount due to a shareholder	–	83,861	–	7,428	91,289	91,289
Amount due to a related party	–	1,116	–	–	1,116	1,116
		233,008	–	7,428	240,436	240,436
As at 31 December 2010						
Trade and other payables	–	28,477	–	–	28,477	28,477
Dividend payables	–	9,743	–	–	9,743	9,743
Borrowings	5.31	40,163	–	–	40,163	40,000
Amount due to a related party	–	1,298	–	–	1,298	1,298
		79,681	–	–	79,681	79,518

32. FINANCIAL INSTRUMENTS *(continued)*

c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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 end of the reporting date.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

32. FINANCIAL INSTRUMENTS *(continued)*

c. Fair value *(continued)*

	31 December 2011			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial assets at FVTPL				
Held for trading investments	**2,046**	**–**	**–**	**2,046**

	31 December 2010			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVTPL				
Held for trading investments	2,460	–	–	2,460

33. CAPITAL COMMITMENTS

(1) At the end of the reporting date, the Group and the Company has the following commitments:

	31 December 2011 RMB'000	31 December 2010 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**–**	2,067
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	**3,501**	15,305
Capital expenditure in respect of the acquisition of additional interest of an associate	**3,000**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

33. CAPITAL COMMITMENTS *(continued)*

(2) Pursuant to the conditional entrusted construction agreement dated 6 October 2008 entered between the Company and Tianjin Gas, in relation to the entrustment of Tianjin Gas for the construction of pipelines projects in Tianjin, with total consideration not exceeding RMB224,500,700 (include entrustment fee RMB6,538,700), this transaction has been approved by the shareholders in March 2009 and the Group has paid construction fee and entrustment fee amounted to RMB23,323,000 (year ended 31.12.2010: RMB26,240,000) to Tianjin Gas during the year ended 31 December 2011. The remaining balance of RMB 7,428,000 which is 5% of the total contract sum and will be paid on the second anniversary of the date of completion of construction. This transaction has been completed in October 2011, and the total construction cost including entrustment fee was RMB 219,632,000.

34. RETIREMENT BENEFIT SCHEME

As stipulated in the rules and regulations in the PRC, the Group contributes to the retirement benefit scheme managed by a local social security bureau in the PRC. The Group contributes a certain percentage of basic salaries of its employees to the retirement plan, and has no further obligation for the actual payment of the previous or post retirement benefit. The retirement benefit scheme is responsible for the entire present obligation to retired employees.

During the year, the retirement benefit scheme contributions amounted to RMB9,926,000 (year ended 31.12.2010: RMB542,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

35. RELATED PARTY TRANSACTIONS/BALANCES

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

			The Group and the Company	
Name of related party	**Relationship**	**Nature of transactions**	**31 December 2011** RMB'000	**31 December 2010** RMB'000
Tianjin Gas	Shareholder	Purchase of gas	749,774	207,918
		Construction fee	22,829	22,276
		Entrustment fee	494	3,964
		Gas distribution income	3,763	3,884
天津市煤氣工程設計院(Note)	Fellow subsidiary	Construction design fee	1,116	1,904

			The Group and the Company	
Name of related party	**Relationship**	**Nature of balances**	**31 December 2011** RMB'000	**31 December 2010** RMB'000
Tianjin Gas	Shareholder	Amount due from (to) a shareholder		
		– current	(83,861)	12,024
		– non-current	(7,428)	–
			(91,289)	12,024
天津市煤氣工程設計院(Note)	Controlled by the same ultimate holding company	Amount due to a related party	1,116	1,298
貴州津維礦業投資有限公司	Associate	Amount due from an associate	1,490	–

Note: Amount due to 天津市煤氣工程設計院 which is a wholly owned subsidiary of Tianjin Gas is of construction design fee nature and is aged within 90 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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

(a) *(continued)*

Other PRC government controlled entities

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled, jointly controlled or significant influenced by the Chinese Mainland government ("government-related entities"). Apart from the transactions with the holding company and its fellow subsidiaries which have been disclosed in other notes to the consolidated financial statements, the Group also conducts business with other government-related entities directly or indirectly controlled, jointly controlled or significant influenced by the Chinese Mainland government in the ordinary course of business. The directors consider those government-related entities are independent third parties so far as the Group's business transactions with them are concerned.

The Group provides gas connection services and sales of piped gas and gas appliance to certain companies which are government-related entities. In addition, the Group has entered into various banking transactions, including deposits placements, borrowings and other general banking facilities which are government-related entities. The Group has also entered into various transactions, including other operating expenses with other government-related which individually and collectively were insignificant during the year.

(b) Compensation of key management personnel

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

	The Group	
	31 December 2011 RMB'000	31 December 2010 RMB'000
Short-term benefit	**1,671**	1,622
Post employment benefit	**23**	20
	1,694	1,642

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

36. SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2011 and 2010 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(note i)	PRC	RMB1,000,000	60%	Dormant
天聯投資有限公司	PRC	RMB20,000,000	100%	Investment

Note:

(i) The subsidiary is dormant and has commenced the procedure of deregistration. Up to the date of this report, the above deregistration has not been finished.

(ii) Both subsidiaries of the Company are limited liability companies established in the PRC.

FIVE YEAR SUMMARY

RESULTS

	For the year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,058,017**	383,631	317,992	217,169	178,871
Profit for the year and total comprehensive income for the year	**90,907**	76,707	66,367	60,340	62,335
Profit for the year and total comprehensive income for the year attributable to owners of the Company	**90,907**	76,707	66,367	60,475	62,335

ASSET AND LIABILITIES

	As at 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	**563,689**	306,473	265,140	377,500	179,596
Non-current assets	**1,087,348**	495,513	470,793	295,997	190,764
Current Liabilities	**246,549**	85,900	96,558	83,341	92,265
Non-current liability	**1,404,488**	716,086	639,375	590,156	278,095
Equity attributable to owners of the Company	**1,396,178**	715,269	638,562	589,439	277,499