



REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group during the year are the operation of transportation and storage facilities for crude oil and the operation of a natural gas pipeline network and refilling stations supplying natural gas and liquefied petroleum gas for vehicle use.

FINANCIAL STATEMENTS

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the accompanying financial statements on pages 26 to 70.

The Board has resolved not to recommend the payment of a dividend for the year ended 31 December 2003 (2002: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	47%	
Five largest customers in aggregate	77%	
The largest supplier		55%
Five largest suppliers in aggregate		83%

The largest customer of the Group is the minority shareholder of the Company's subsidiary, Xinjiang Xingmei Oil-Pipeline Co. Limited ("Xingmei"). Please refer to the heading "Connected Transactions" for details.

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.



FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 13 to the financial statements.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates are set out in notes 16 and 17 to the financial statements respectively.

BORROWINGS

Details of the Group's borrowings at the balance sheet date are set out in note 22 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year, together with reasons therefor, are set out in note 27 to the financial statements.

RETAINED PROFITS AND RESERVES

Profits attributable to shareholders of RMB14,929,000 for the year ended 31 December 2003 (2002: RMB57,881,000) have been transferred to reserves. Details of movements in retained profits and reserves of the Company and the Group during the year are set out in note 28 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2003, the Company's reserves available for distribution amounted to approximately RMB66,614,000 (2002: RMB72,792,000). In accordance with the Companies Act 1981 of Bermuda (as amended), the contributed surplus may only be distributed in certain circumstances.

FIVE YEAR FINANCIAL SUMMARY

The results, assets and liabilities of the Group for the last five financial years are summarised on page 3.



REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year were:

Executive Directors

Mr. Zhu Jia Zhen (*Chairman*)

Mr. Sun Tian Gang (*Deputy Chairman*)

Mr. Guo Ting

Non-executive Directors

Mr. Zhao Xin Xian

Independent non-executive Directors

Mr. Yu En Guang

Mr. Zhang Xue Min

Mr. Yip Ching Shan (appointed on 10 July 2003)

In accordance with the Company's bye-law 86(2), Mr. Yip Ching Shan shall hold office until the forthcoming annual general meeting and will retire and, being eligible, will offer himself for re-election. Messrs. Sun Tian Gang, Guo Ting and Zhang Xue Min will retire by rotation in accordance with the Company's bye-law 87 and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. All other remaining directors continue in office.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting had a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.



DIRECTORS' INTERESTS IN SHARES

As at 31 December 2003, the interests and short positions of the Directors of the Company (the "Directors") in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance (the "SFO")) or which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follow:

Name of Director	Capacity/ Nature of interest	Number of shares held	Percentage of holding (%)	Name of Company
Sun Tian Gang	Corporate	1,662,795,650 <i>(Note)</i>	54.85	the Company
	Personal	108,363,936	3.57	the Company
Guo Ting	Personal	3,000,000	0.10	the Company

Note: 1,662,795,650 shares were owned by China GeoMaxima Co. Ltd., a company wholly owned by Mr. Sun Tian Gang.

Save as disclosed above, as at 31 December 2003, none of the Directors nor any of their associates had any interests in the securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

The Company's share option scheme ("the Scheme") was adopted pursuant to an ordinary resolution passed by the shareholders of the Company on 6 March 2002. The Scheme is in full compliance with the relevant requirements of Chapter 17 of the Rules Governing the Listing of Securities on Stock Exchange.

The purpose of the Scheme is to enable the Company to grant options to the eligible participants of the Group in recognition of their contribution to the Group. Eligible participants of the Scheme include any full-time employee and executive and non-executive directors of the Company or its subsidiaries and any suppliers, consultants, agents and advisers. The Scheme became effective on 6 March 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. For the year ended 31 December 2003, no options have been granted under the Scheme.

The maximum number of shares in respect of which options may be granted under the Scheme shall not in aggregate exceed 10% of the shares of the Company in issue as at the date of approval of the limit. As at 31 December 2003, the total number of shares of the Company that may be issued upon exercise of all share options granted and yet to be exercised under the Scheme was 116,000,000, which represented 3.83% of the issued share capital of the Company as at that date. The maximum entitlement for any eligible person (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) is that the total number of shares issued and to be issued upon exercise of all options granted and to be granted in any 12-month period up to and including the date of the latest grant does not exceed 1% of the shares of the Company in issue at the relevant time. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting.

The period within which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised later than 10 years from the date of grant of the option.



The exercise price in relation to each option shall be determined by the Board in its absolute discretion, but in any event shall not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of such option; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of such option; and (iii) the nominal value of a share on the date of grant of such option.

At 31 December 2003, the directors and employees of the Company had the following personal interests in options to subscribe for shares of the Company granted at nominal consideration under the Company's share option scheme. Each option gives the holder the right to subscribe for one share.

Directors	Number of options outstanding as at 1 January 2003	Number of options exercised during the year	Number of options outstanding as at 31 December 2003	Date granted	Exercise period	Exercise price HK\$	Share price*	
							At grant date of options HK\$	At exercise date of options HK\$
Zhu Jia Zhen	28,000,000	Nil	28,000,000	29 July 2002	2 September 2002 to 31 August 2007	0.698	0.680	N/A
Sun Tian Gang	28,000,000	Nil	28,000,000	29 July 2002	2 September 2002 to 31 August 2007	0.698	0.680	N/A
Guo Ting	20,000,000	Nil	20,000,000	29 July 2002	2 September 2002 to 31 August 2007	0.698	0.680	N/A
Aggregate total of employees	40,000,000	Nil	40,000,000	29 July 2002	2 September 2002 to 31 August 2007	0.698	0.680	N/A

* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.



REPORT OF THE DIRECTORS

Concerning the share option granted during the year as detailed above, the directors do not consider it is appropriate to present a theoretical valuation of the options as the exercise prices of all the share options which were vested as at 31 December 2003 were above the market price of the shares of the Company as at 31 December 2003. The intrinsic value of the share option is zero and the valuation of the share option will be based on its speculative appeal, which therefore does not necessarily provide a reliable measure of the fair value of the share option. Some further disclosures relating to the Company's share option scheme are set out in note 25 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' Interests in Shares" and "Share Option Scheme", at no time during the year was the Company or any of its associated corporations a party to any arrangement to enable the directors of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2003, the following persons, not being a Director, chief executive of the Company had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Number of shares held	Percentage of holding (%)	Name of Company
China GeoMaxima Co., Ltd.	1,662,795,650	54.85	the Company



OTHER PERSONS' INTERESTS

As at 31 December 2003, the following persons, not being a Director, chief executive of the Company had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Number of shares held	Percentage of holding (%)	Name of Company
Hong Kong San Jiu Enterprises Limited	237,500,000 (L) 210,000,000 (S) <i>(Note 1)</i>	7.83 6.93	the Company the Company
Shenzhen Venture Capital (BVI) Company Limited	210,000,000 (L) <i>(Note 2)</i>	6.93	the Company
Mei Jian	210,000,000 (L) <i>(Note 2)</i>	6.93	the Company
Zhang Minlong	210,000,000 (L) <i>(Note 2)</i>	6.93	the Company

L: Long Position
S: Short Position

Notes:

- 237,500,000 shares were owned by Hong Kong San Jiu Enterprises Limited. Hong Kong San Jiu Enterprises Limited had granted a security interest over 210,000,000 shares to Shenzhen Venture Capital (BVI) Company Limited.
- Shenzhen Venture Capital (BVI) Company Limited had a security interest over 210,000,000 shares. The issued share capital of Shenzhen Venture Capital (BVI) Company Limited was owned as to 50% by Mr. Mei Jian and as to 50% by Mr. Zhang Minlong.

Saved as disclosed above in this section and the previous section headed "Substantial Shareholders' Interests", as at 31 December 2003, the Company has not been notified of any other persons (other than the directors or chief executive of the Company) who had any interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.



REPORT OF THE DIRECTORS

RETIREMENT SCHEMES

The employees of the Group's subsidiaries in the PRC are members of retirement schemes operated by local authorities in the PRC. The Group also operates a defined contribution scheme covering full time employees in Hong Kong. Details of employee retirement benefits are set out in note 24 to the financial statements.

DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

Particulars of the directors' remuneration and highest paid individuals' emoluments are set out in note 6 and note 7 to the financial statements respectively.

CONNECTED TRANSACTIONS

Ongoing Connected Transactions

In November 1999, the Company's subsidiary, Xingmei, entered into an agreement with its minority shareholder, for the provision of crude oil transportation, storage and unloading services for a period of 20 years.

During the year ended 31 December 2003, revenue from the provision of crude oil transportation, storage and unloading services to the minority shareholder amounted to RMB74,946,000 (2002: RMB79,401,000). The amount due from minority shareholder as at 31 December 2003 amounted to RMB27,792,000 (2002: RMB5,930,000).

With respect to the above ongoing connected transactions entered into by the Group, the Stock Exchange on application by the Company, granted to the Company a waiver from strict compliance with the connected transaction requirements as set out in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). In the opinion of the independent non-executive directors, the ongoing connected transactions were:

- (i) conducted in the ordinary and usual course of the Group's business;
- (ii) on normal commercial terms or on terms no less favourable than terms available to or from independent third parties;
- (iii) in accordance with relevant agreements on terms that are fair and reasonable so far as the shareholders of the Company are concerned and in the interest of the Company as a whole; and
- (iv) within the relevant annual cap amounts as agreed by the Stock Exchange.



CONNECTED TRANSACTIONS (CONTINUED)

Disposal of 49% equity interest in Sky Global Limited

In April 2003, the Group entered into an agreement for the disposal of its entire 49% equity interest in Sky Global Limited ("Sky Global") and shareholder's loan advanced by the Group to Sky Global in the amount of RMB26,054,000 to Mr Sun Tian Gang, the controlling shareholder of the Group, for a total consideration of RMB135,000,000. The sole asset of Sky Global in its 63% equity interests in Jilin City Jimei Gas Co. Ltd., which is principally engaged in operation of a natural gas pipeline network in Jilin City of Jilin Province, the PRC. Pursuant to the approval of the independent shareholders at a special general meeting of the Company held in June 2003 and full settlement of the consideration by Mr. Sun in July 2003, this transaction has been duly completed.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 32 to the financial statements, no contracts of significance subsisted at any time during the year to which the Company or any of its subsidiaries was a party and in which a director of the Company had material interest, whether directly or indirectly.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws or the laws in Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Board, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by the annual report, except that all non-executive directors of the Company are not appointed for any specific term of office but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-laws of the Company.



REPORT OF THE DIRECTORS

AUDIT COMMITTEE

The Company established an audit committee on 6 January 2000 with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules. The audit committee comprises Messrs. Yu En Guang, Zhang Xue Min and Yip Ching Shan, the three independent non-executive directors of the Company. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

AUDITORS

During the year, the auditors KPMG resigned and Charles Chan, Ip & Fung CPA Limited were appointed auditors of the Company. A resolution for the re-appointment of Charles Chan, Ip & Fung CPA Limited as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board

Zhu Jia Zhen

Chairman

Hong Kong, 23 April 2004