Notes to the Financial Statements

(Expressed in Renminbi)

1. GENERAL INFORMATION

Genesis Energy Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in Bermuda on 2 November 1999 under the Companies Act 1981 of Bermuda and its shares were listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 February 2000. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The principal activities of the Company is investment holding and of its subsidiaries (the Company and its subsidiaries are hereafter collectively referred as the "Group") are provision of crude oil transportation, storage and unloading services, operation of natural gas pipeline network and refilling stations supplying natural gas and liquefied petroleum gas ("LPG") for vehicle use and sale of LPG in cylinder.

2. BASIS OF PRESENTATION

Notwithstanding that:

– the Company and the Group sustained losses;

– as at 31 December 2006, the Group had net current liabilities, including the bank loans of RMB257,900,000 which were overdue;

– as at the date of authorisation for issue of these financial statements, the overdue bank loans of RMB257,900,000 remain outstanding without renewal; and

– there are contingent liabilities for payment of the alleged bank loans amounting to approximately RMB240 million and the alleged interest thereon amounting to approximately RMB24 million as more detailed in note 36,

the directors of the Company are of the opinion that the Company and the Group are able to continue as a going concern and to meet their obligations in full as and when they fall due having regard to the following:

(i) the Group is able to attain profitable and positive cash flow in operations in the future;

(ii) the successful renewal of short-term bank loans;

(iii) continuing financial support received from Ms. Xing Xiao Jing, a director and controlling shareholder of the Company;

(iv) the availability of additional external funding; and

(v) the favourable outcome for the payment of the alleged bank loans accounting to RMB240 million and alleged interest thereon amounting to RMB24 million as more detailed in note 36.

2. BASIS OF PRESENTATION *(Continued)*

The directors believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, these financial statements have been prepared on a going concern basis and do not include any adjustments that would be required should the Company and the Group fail to continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collectively term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant policies adopted by the Group is set out below.

The HKICPA has issued the following new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company.

HKFRS 6	Exploration for and Evaluation of Mineral Resources
Amendment to HKAS 19	Employee Benefits – Actual Gains and Losses, Group Plans and Disclosures
Amendment to HKAS 21	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
Amendment to HKAS 39	Financial Instruments: Recognition and Measurement • "Cash Flow Hedge Accounting of Forecast Intragroup Transactions" • "The Fair Value Option"
Amendments to HKAS 39 and HKFRS 4	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HK(IFRIC) – Int 4	Determining whether an Arrangement Contains a Lease
HK(IFRIC) – Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective for annual periods beginning on or after 1 December 2005)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

a) Statement of compliance *(Continued)*

The adoption of these new and revised HKFRSs did not result in significant change to the Group's accounting policies applied on these financial statements for the pervious accounting periods presented and had no significant impact on the results or the financial position of the Group and the Company for current and previous accounting periods. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

b) Basis of preparation of the financial statements

The financial statements are in Renminbi, rounded to the nearest thousand. The measurement basis used in the preparation of the financial statements is the historical cost basis.

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries and the Group's interest in a jointly controlled entity.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 5.

c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements, from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Subsidiaries and minority interests *(Continued)*

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority interests in the equity of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently report profits, all such profits are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 3(l) or (s) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 3(i)).

d) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the jointly controlled entity's net assets, unless it is held for sale. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the jointly controlled entities for the year, including any impairment loss on goodwill relating to investment in jointly controlled entities recognised for the year (see notes 3(e) and (i)).

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of future losses is discontinued except to the extent has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. For this purpose, the Group's interest in the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) Jointly controlled entities *(Continued)*

Unrealised profits and losses resulting from transactions between the Group and jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3(i)). In respect of jointly controlled entities, the carrying amount of goodwill, where applicable, is included in the carrying amount of the interest in the jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in a jointly controlled entity is recognised immediately in the income statement.

On disposal of a cash generating unit, a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

f) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 3(i)).

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 3(h)); and

– other items of plant and equipment.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) Property, plant and equipment *(Continued)*

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives of no more than 50 years after the date of completion.

– Leasehold improvements	Over the remaining term of the leases
– Oil pipeline and ancillary facilities	Over the unexpired term of the joint venture
– Natural gas pipeline network and ancillary facilities	Over the unexpired term of the joint venture
– Refilling stations	10 years
– Furniture, fixtures and office equipment	5 – 7 years
– Motor vehicles	5 – 12 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

g) Construction in progress

Construction in progress is stated at cost less accumulated impairment losses (see note 3(i). Cost comprises direct costs of construction as well as interest expenses capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress.

h) Operating lease charges

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Operating lease charges *(Continued)*

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

i) Impairment of assets

(i) Impairment of receivables

Receivables are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised. For financial assets carried at amortised cost, the impairment loss is measured as 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 (i.e. effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or expect in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- construction in progress;
- land lease prepayments classified as being held under an operating lease;
- investments in subsidiaries and jointly controlled entity; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

i) Impairment of assets *(Continued)*

(ii) Impairment of other assets *(Continued)*

– Recognition of impairment losses

An impairment loss is recognised in income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then , to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to income statement in the year in which the reversals are recognised.

j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 3(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 3(i)).

l) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 3(p)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

n) Employee benefits

(i) Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and mandatory central pension schemes organised by the PRC government are recognised as an expense in the income statement as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

n) Employee benefits *(Continued)*

(iii) The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the share option reserve within equity. The fair value is measured at grant date using Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged / credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iv) Termination benefits are recognised when, and only when the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) Income tax *(Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

p) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (ie. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognized in income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognized as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognized in accordance with note 3(p)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

q) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of natural gas

Revenue from natural gas sales is recognised based on gas consumption derived from meter readings. Revenue from sale of liquefied petroleum gas ("LPG") and natural gas in refilling stations is recognised upon completion of the gas filling transactions. Revenue excludes sales taxes and is after deduction of any trade discounts.

(ii) Transportation, storage and unloading services income

Revenue from provision of crude oil transportation, storage and unloading services is recognised upon performance of the services. Revenue excludes sales taxes and is after deduction of any trade discounts.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximately the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

s) Borrowing costs

Borrowing costs are expensed in income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

t) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) Related parties *(Continued)*

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financial expenses.

(Expressed in Renminbi)

4. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2006

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

Amendment to HKAS 1	Capital Disclosures[1]
HKFRS 7	Financial instruments: disclosures[1]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	HKFRS2-Group and Treasury Share Transactions[6]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 March 2006
3 Effective for annual periods beginning on or after 1 May 2006
4 Effective for annual periods beginning on or after 1 June 2006
5 Effective for annual periods beginning on or after 1 November 2006
6 Effective for annual periods beginning on or after 1 May 2007

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made the following judgments that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Impairment of property, plant and equipment and land lease prepayments

The Group's property, plant and equipment comprise a significant portion of the Group's total assets. Changes in industry conditions may cause the estimated period of use or the value of these assets to change. Long-lived assets including property, plant and equipment are reviewed for impairment at least annually or whenever events or changes in circumstances have indicated that their carrying amounts may not be recoverable. If any such indication exists, the recoverable amount is estimated.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Impairment of property, plant and equipment and land lease prepayments *(Continued)*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

Impairment of receivables

The Group maintains impairment loss for doubtful accounts based upon evaluation of the recoverability of the accounts receivable and other receivables at each balance sheet date. The estimates are based on the ageing of the accounts receivable and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment may be required.

6. TURNOVER

The principal activity of the Company is investment holding. The principal activities of the Group are provision of crude oil transportation, storage and unloading services, operation of natural gas pipeline network and refilling stations supplying natural gas and LPG for vehicle use and sale of LPG in cylinder.

Turnover represents the aggregate of revenue from provision of crude oil transportation, storage and unloading services less business tax, and sales of natural gas and LPG. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2006 **RMB'000**	2005 RMB'000
Provision of crude oil transportation, storage and unloading services	**44,710**	44,990
Sales of natural gas and LPG		
– sales of natural gas and LPG at refilling stations	**24,206**	19,432
– sales of LPG in cylinder	**3,032**	3,829
– others	**252**	15
	72,200	68,266

7. OTHER REVENUE

	2006 RMB'000	2005 RMB'000
Interest income on bank deposits	**253**	29
Others	**585**	233
	838	262

8. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

		2006 RMB'000	2005 RMB'000
a)	**Finance costs**		
	Interest on bank loans wholly repayable within five years	**34,454**	34,648
	Interest on other loan wholly repayable within five years	**235**	6
		34,689	34,654
b)	**Staff costs (including directors' remuneration)**		
	Salaries, wages and other benefits	**18,961**	13,957
	Equity-settled share-based payment expenses	**3,822**	2,332
	Contributions to defined contribution retirement plan	**856**	898
		23,639	17,187
c)	**Other items**		
	Cost of inventories	**30,090**	27,235
	Cost of services	**46,745**	50,720
	Auditors' remuneration	**600**	624
	Depreciation of property, plant and equipment	**50,577**	54,249
	Amortisation of land lease prepayments	**106**	300
	Operating lease charges: minimum lease payments		
	– property rentals	**977**	1,454
	Impairment losses		
	– property, plant and equipment	**–**	107,747
	– land lease prepayments	**–**	1,182
	– positive goodwill	**–**	10,195
	– interest in jointly controlled entity	**–**	58,887
	– other receivables	**29,950**	5,000
	– trade receivables	**9,123**	20,757
	Loss on disposals of property, plant and equipment	**77**	207
	Net loss/(gain) on exchange difference	**2,794**	(97)

9. TAXATION

a) Taxation in the consolidated income statement represents:

	2006	2005
	RMB'000	RMB'000
Current tax – PRC income tax		
Provision for the year	**412**	335
Under-provision in prior years	**408**	–
	820	335

No provision for Hong Kong profits tax has been made in the financial statements as the Group did not derive any income subject to Hong Kong profits tax during the year. Taxes on profits assessable in PRC have been calculated at the applicable rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during the year.

No provision for PRC income tax has been made in the financial statements of Xinjiang Xingmei Oil-Pipeline Co., Ltd. ("Xinjiang Xingmei"), a Company's subsidiary established in the PRC, as Xinjiang Xingmei has no estimated assessable profits for the years ended 31 December 2006 and 2005.

Lejion Gas Co., Ltd. ("Lejion Gas"), a Company's subsidiary established in the PRC, is entitled to a reduced tax rate of 15%, being 50% of the standard state income tax rate of 30% and full exemption of 3% local income tax. Accordingly, Lejion Gas is subject to PRC income tax at a rate of 15% for the years ended 31 December 2006 and 31 December 2005.

b) Reconciliation between tax expenses and accounting loss at applicable tax rates:

	2006	2005
	RMB'000	RMB'000
Loss before taxation	**(104,230)**	(273,118)
Notional tax on loss before tax, calculated at the applicable rates	**(35,472)**	(77,339)
Tax effect of non-deductible expenses	**23,925**	50,326
Tax effect of non-taxable revenue	**(418)**	(205)
Tax effect of unused tax losses not recognised	**12,377**	27,553
Under-provision in prior years	**408**	–
Actual tax expenses	**820**	335

10. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2006	2005
	RMB'000	RMB'000
Fees	**329**	364
Salaries and other benefits	**3,840**	2,585
Equity-settled share-based payment expenses	**1,002**	367
Contributions to defined contribution retirement plan	**24**	26
	5,195	3,342

In addition, certain directors were granted options to subscribe for shares in the Company. Details of the share options granted and outstanding in respect of each director as at 31 December 2006 are disclosed in the directors' report.

	Fees	**Salaries and other benefits**	**Equity-settled share-based payment expenses**	**Contribution to defined contribution retirement plan**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Xing Xiao Jing (appointed on 9 September 2005)	–	1,400	376	12	1,788
Ma Ji	–	1,340	313	–	1,653
Kong Siu Tim	–	1,100	313	12	1,425
	–	3,840	1,002	24	4,866
Independent non-executive directors					
Yip Ching Shan	120	–	–	–	120
Ni Zhenwei (appointed on 1 November 2005)	120	–	–	–	120
Wong Kowk Chuen (appointed on 4 April 2006)	89	–	–	–	89
Yu En Guang (resigned on 4 April 2006)	–	–	–	–	–
	329	–	–	–	329
Total in 2006	329	3,840	1,002	24	5,195

10. DIRECTORS' REMUNERATION *(Continued)*

	Fees RMB'000	Salaries and other benefits RMB'000	Equity-settled share-based payment expenses RMB'000	Contribution to defined contribution retirement plan RMB'000	Total RMB'000
Executive directors					
Xing Xiao Jing (appointed on 9 September 2005)	–	263	37	3	303
Ma Ji	–	–	165	–	165
Kong Siu Tim	–	148	165	2	315
Wan Tze Fan Terence (appointed on 22 August 2005 and resigned on 1 November 2005)	–	158	–	2	160
Guo Ting (resigned on 1 November 2005)	–	789	–	10	799
Sun Tian Gang (resigned on 22 August 2005)	–	930	–	8	938
Zhu Jia Zhen (resigned on 8 March 2005)	–	235	–	–	235
	–	2,523	367	25	2,915
Non-executive directors					
Ma Ji	–	–	–	–	–
Kong Siu Tim	–	62	–	1	63
Zhao Xin Xian (retired on 21 June 2005)	–	–	–	–	–
	–	62	–	1	63
Independent non-executive directors					
Yip Ching Shan	125	–	–	–	125
Ni Zhenwei (appointed on 1 November 2005)	21	–	–	–	21
Yu En Guang (resigned on 4 April 2006)	114	–	–	–	114
Zhang Xue Min (resigned on 1 November 2005)	104	–	–	–	104
Wong Kowk Chuen (appointed on 4 April 2006)	–	–	–	–	–
	364	–	–	–	364
Total in 2005	364	2,585	367	26	3,342

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest paid emoluments, three (2005: two) are directors whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the other two (2005: three) individuals are as follows:

	2006 RMB'000	2005 RMB'000
Salaries and other emoluments	**2,782**	1,509
Equity-settled share-based expenses	**627**	148
Retirement benefits scheme contributions	**12**	31
	3,421	1,688

The emoluments of the two (2005: three) individuals with the highest emoluments are within the following band:

	No. of individuals	
	2006	2005
RMB1,000,000 – RMB2,000,000	**2**	3

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes a loss of RMB57,189,000 (2005: RMB201,151,000) which has been dealt with in the financial statements of the Company.

13. DIVIDENDS

The directors have not declared nor proposed any dividends in respect of the year ended 31 December 2006 (2005: Nil).

14. LOSS PER SHARE

a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of RMB85,187,000 (2005: RMB262,955,000) and the weighted average of 3,164,845,000 ordinary shares (2005: 3,032,844,000 ordinary shares) in issue during the year.

Weighted average number of ordinary shares

	Number of shares	
	2006	2005
	'000	'000
Issued ordinary share at 1 January	**3,051,584**	3,031,584
Effect of shares issued by the placements	**62,838**	–
Effect of share options exercised	**50,423**	1,260
Weighted average number of ordinary shares at 31 December	**3,164,845**	3,032,844

b) Diluted loss per share

No disclosure of diluted loss per share for the years ended 31 December 2006 and 31 December 2005 is shown as the Company's outstanding share options have antidilutive effect.

15. SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments. As all of the Group's revenue and results were substantially derived from the PRC, no geographical segment information is presented.

Business segments

The Group comprises the following main business segments:

Crude oil transportation, storage and unloading services:	The operation of crude oil transportation, storage and unloading facilities.
Natural gas and LPG:	The operation of natural gas pipeline network and refilling stations supplying natural gas and LPG for vehicle use and sale of LPG in cylinder.

	2006 **RMB'000**	2005 RMB'000
Revenue from external customers		
– Crude oil transportation, storage and unloading services	**44,710**	44,990
– Natural gas and LPG		
Sales of natural gas and LPG at refilling stations	**24,206**	19,432
Sales of LPG in cylinder	**3,032**	3,829
Others	**252**	15
Total revenue from external customers	**72,200**	68,266
Other revenue		
– Crude oil transportation, storage and unloading services	**601**	214
– Natural gas and LPG	**75**	19
– Unallocated	**162**	29
Total revenue	**73,038**	68,528
Segment result		
Loss from operations		
– Crude oil transportation, storage and unloading services	**(16,573)**	(167,945)
– Natural gas and LPG	**(10,413)**	(57,112)
– Unallocated	**(43,387)**	(12,838)
Loss from operations	**(70,373)**	(237,895)
Finance costs	**(34,689)**	(34,654)
Gain on disposal of a subsidiary	**832**	–
Share of loss of a jointly controlled entity		
– Natural gas and LPG	**–**	(569)
Loss before taxation	**(104,230)**	(273,118)
Taxation	**(820)**	(335)
Loss for the year	**(105,050)**	(273,453)

15. SEGMENT REPORTING *(Continued)*

	2006 RMB'000	2005 RMB'000
Depreciation and amortisation for the year		
– Crude oil transportation, storage and unloading services	**35,533**	40,393
– Natural gas and LPG	**14,938**	13,556
– Unallocated	**106**	300
	50,577	54,249
Impairment for bad and doubtful debts		
– Crude oil transportation, storage and unloading services	**9,123**	20,757
Impairment for interest in jointly controlled entity		
– Natural gas and LPG	**–**	58,887
Impairment for positive goodwill		
– Natural gas and LPG	**–**	10,195
Impairment for property, plant and equipment		
– Crude oil transportation, storage and unloading services	**–**	67,624
– Natural gas and LPG	**–**	40,123
	–	107,747
Impairment for land lease prepayments		
– Natural gas and LPG	**–**	1,182

There were no significant non-cash expenses other than bad debts written off, impairments, depreciation and amortisation.

	2006 RMB'000	2005 RMB'000
Segment assets		
– Crude oil transportation, storage and unloading services	**437,180**	477,490
– Natural gas and LPG	**132,379**	144,448
Unallocated corporate assets	**58,145**	34,137
Total assets	**627,704**	656,075
Segment liabilities		
– Crude oil transportation, storage and unloading services	**4,006**	14,322
– Natural gas and LPG	**1,704**	716
Interest in a jointly controlled entity		
– Natural gas and LPG	**–**	569
Unallocated corporate liabilities	**517,882**	499,156
Total liabilities	**523,592**	514,763
Capital expenditure incurred during the year		
– Crude oil transportation, storage and unloading services	**998**	19,315
– Natural gas and LPG	**4,242**	5,228
– Unallocated	**205**	51
	5,445	24,594

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold buildings RMB'000	Leasehold improvements RMB'000	Oil pipeline and ancillary facilities RMB'000	Natural gas pipeline network and ancillary facilities RMB'000	Refilling stations RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost								
At 1 January 2005	20,772	144	543,788	155,164	23,600	2,347	3,698	749,513
Additions	289	7	191	30,000	25	99	–	30,611
Transfer from construction in progress (note 17)	–	–	109,872	290	–	–	–	110,162
Disposals	–	(24)	–	–	(198)	(323)	(45)	(590)
At 31 December 2005 and 1 January 2006	21,061	127	653,851	185,454	23,427	2,123	3,653	889,696
Additions	1,629	140	1,650	–	865	1,161	–	5,445
Transfer from construction in progress (note 17)	–	–	–	–	3,713	–	–	3,713
Disposals	–	(127)	(217)	–	(20)	(22)	(22)	(408)
At 31 December 2006	22,690	140	655,284	185,454	27,985	3,262	3,631	898,446
Accumulated depreciation and impairment								
At 1 January 2005	2,022	4	105,507	16,958	5,284	1,227	1,030	132,032
Charge for the year	944	28	39,168	11,233	2,108	408	360	54,249
Impairment loss	2,564	–	65,316	35,827	3,659	101	280	107,747
Written back on disposals	–	(8)	–	–	(24)	(305)	(12)	(349)
At 31 December 2005 and 1 January 2006	5,530	24	209,991	64,018	11,027	1,431	1,658	293,679
Charge for the year	1,094	27	34,253	12,035	2,519	293	356	50,577
Written back on disposals	–	(46)	–	–	–	(17)	(12)	(75)
At 31 December 2006	6,624	5	244,244	76,053	13,546	1,707	2,002	344,181
Net book value								
At 31 December 2006	16,066	135	411,040	109,401	14,439	1,555	1,629	554,265
At 31 December 2005	15,531	103	443,860	121,436	12,400	692	1,995	596,017

Notes:

(i) During the year ended 31 December 2006, due to shortage of working capital, Lejion Gas Natural Gas Co., Ltd. ("Lejion Gas"), a Company's subsidiary established in the PRC, which principal activities are operations of natural gas pipeline network and natural gas refilling stations, has entered into a written agreement with its PRC joint venture partner (the "Venture Partner"), which holds 20% of the equity interest in Lejion Gas. Pursuant to the agreement, the operation of the natural gas pipelines network (the "Assets") has been transferred to the Venture Partner for a period from 1 January 2005 to 30 June 2006 (the "Operation Period"). During the Operation Period, Lejion Gas does not share any income or expenses of the operation and thereafter can run the operation by itself if it is financially capable to do so. In the opinion of the directors, Lejion Gas is financially capable to run the operation by itself after the expiry of Operation Period.

Upon expiry of the Operation Period, Lejion Gas and the Venture Partner entered into another agreement that the Venture Partner is responsible to manage and operate certain natural gas pipelines network of Lejion Gas and Lejion Gas is entitled to receive sub-contracting fee from the Venture Partner for a period from 1 October 2006 to 31 March 2008.

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group *(Continued)*

(ii) The oil pipeline and ancillary facilities consist of an oil pipeline of approximately 70 kilometers, connecting the Tahe Oilfield and Lun Tai railway station in Xinjiang Autonomous Region and ancillary facilities including oil tanks and loading bays to facilitate the operation of the oil pipeline. The Group has obtained the preliminary approval of the Xinjiang Government to use the land for construction of the oil pipeline. In the opinion of the directors, no land premium will be payable for the grant of the land use rights.

(iii) The natural gas pipeline network and ancillary facilities and refilling stations are situated in Korla of Xinjiang Autonomous Region, PRC.

(iv) As at 31 December 2006, certain of the oil pipeline and ancillary facilities at an aggregate carrying value of approximately RMB311 million (2005: RMB343 million) have been pledged to a bank for bank loans of RMB191.4 million (2005: RMB198 million) granted to the Group.

(v) As at 31 December 2006, certain of the refill stations and land at an aggregate carrying value of approximately RMB4,009,000 (2005: RMB4,208,000) have been pledged for other loan of RMB5,000,000 (2005: RMB7,700,000) granted to the Group.

(vi) In 2005, the management of the Group assessed the recoverable amounts of the property, plant and equipment. Based on this assessment, the carrying amount of the property, plant and equipment was written down by RMB107,747,000, which was included in "other operating expenses" in the consolidated income statement. The management determined the recoverable amount on the basis of past performance, management's expectations for the market development and certain key assumptions, and with reference to the valuation reports prepared by an independent valuation firm.

17. CONSTRUCTION IN PROGRESS

	The Group	
	2006	2005
	RMB'000	RMB'000
At 1 January	**3,713**	91,080
Additions	**–**	22,795
Transfer to property, plant and equipment (note 16)	**(3,713)**	(110,162)
At 31 December	**–**	3,713

In 2006, the transfer to property, plant and equipment during the year represents refilling station facilities.

In 2005, the transfer to property, plant and equipment during that year represents ancillary facilities constructed along the oil pipeline and the extension of natural gas pipeline network. As at 31 December 2005, construction in progress comprises mainly refilling station facilities.

18. LAND LEASE PREPAYMENTS

	The Group	
	2006	2005
	RMB'000	RMB'000
Net book value at 1 January	**4,524**	4,898
Additions	**–**	1,108
Amortisation	**(106)**	(300)
Impairment loss	**–**	(1,182)
Net book value at 31 December	**4,418**	4,524
Current portion of non-current assets	**(301)**	(301)
Non-current portion	**4,117**	4,223

The leasehold land is held under operating lease. The leasehold land is held under medium term lease and situated in the PRC. The cost of the leasehold land is RMB6,681,000 (2005: RMB6,681,000).

In 2005, the management of the Group assessed the recoverable amounts of the land lease prepayments. Based on this assessment, the carrying amount of the land lease prepayments was written down by RMB1,182,000, which was included in "other operating expenses" in the consolidated income statement. The management determined the recoverable amount on the basis of past performance, management's expectations for the market development and certain key assumptions and with reference to the valuation reports prepared by an independent valuation firm.

19. GOODWILL

	The Group	
	2006	2005
	RMB'000	RMB'000
Cost		
At 1 January	**10,195**	10,195
Release upon disposal of a subsidiary	**(10,195)**	–
At 31 December	**–**	10,195
Impairment loss		
At 1 January	**(10,195)**	–
Release upon disposal of a subsidiary	**10,195**	–
Impairment loss	**–**	(10,195)
At 31 December	**–**	(10,195)
Carrying amount at 31 December	**–**	–

During the year ended 31 December 2005, the management of the Group assessed the recoverable amounts of the positive goodwill. Based on this assessment, the carrying amount of the positive goodwill was written down by RMB10,195,000, which was included in "other operating expenses" in the consolidated income statement. The recoverable amount has been determined on the basis of past performance, management's expectations for the market development and certain key assumptions.

20. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	**86,824**	86,824
Less: Impairment loss	**(55,375)**	(15,000)
	31,449	71,824

(Expressed in Renminbi)

20. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Details of subsidiaries are listed below. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ operation	Issued and paid up/ registered capital	Proportion of ownership interest: Group's effective holding	Held by the Company	Held by subsidiary	Principal activity
Elite Ascend Holdings Limited	British Virgin Islands	US$690	100	100	–	Investment holding
Chuang Xin Management Services Limited (formerly known as Genesis Energy Holdings Limited)	Hong Kong	HK$2	100	100	–	Provision of management services to group companies
Genesis Energy (Hong Kong) Limited	Hong Kong	HK$2	100	–	100	Provision of administrative services to group companies
Excellent Century Limited	British Virgin Islands	US$100	100	–	100	Investment holding
Oriental Energy Limited	British Virgin Islands	US$1,000	90	–	90	Investment holding
Bamber Resources Limited	British Virgin Islands	US$50,000	100	–	100	Investment holding
Xinjiang Xingmei Oil-Pipeline Co., Ltd. (sino-foreign equity joint venture)	PRC	RMB321,000,000, of which RMB143,773,000 being paid up	80	–	80	Transportation of crude oil
Lejion Gas Co., Ltd. (sino-foreign equity joint venture)	PRC	RMB50,000,000	72	–	80	Operation of natural gas pipeline network and gas refilling stations
Genesis International Petroleum & Chemicals Co., Ltd.	British Virgin Islands	US$100	100	100	–	Dormant

21. INTEREST IN JOINTLY CONTROLLED ENTITY

	The Group	
	2006	2005
	RMB'000	RMB'000
Share of net liabilities	–	(1,113)
Loan to jointly controlled entity	–	60,000
	–	58,887
Less: Impairment loss	–	(58,887)
	–	–

a) Loan to the jointly controlled entity ("JCE") is unsecured, interest free and has no fixed terms of repayment.

b) In March 2004, the Group entered into an agreement to acquire effectively 51% equity interest in the JCE and the JCE was to involve in the project of the building up of a gas pipeline network to supply natural gas for an industrial project. However, during the year ended 31 December 2005, due to the possible termination of the industrial project, the project of the JCE involving the building up of a gas pipeline network was suspended. The Group negotiated with the other JCE venture partners and the local government so as to make a new arrangement under which the Group could recover the loan to the JCE.

During the year ended 31 December 2005, the management of the Group assessed the recoverable amount of the interest in the JCE. Taking into account of the above factors and the study performed by an independent valuation firm, the directors concluded that it is unlikely that the JCE is able to operate as a going concern. In view of that, the Group wrote down the entire carrying amount of the interest in the JCE by an impairment of RMB58,887,000. The impairment is included in "other operating expenses" in the consolidated income statement.

c) During the year ended 31 December 2006, the Group disposed of a subsidiary, which held the JCE, for a consideration of RMB800,000. Further details are set out in note 33 to the financial statements.

d) Details of the Group's interest in the jointly controlled entity at 31 December 2005 are as follows:

			Proportion of ownership interest			
Name of joint venture	**Place of Incorporation/ operation**	**Registered capital**	**Group's effective interest**	**Held by the Company**	**Held by subsidiary**	**Principal activity**
Ningxia Meining Pipeline Co., Ltd. (Sino-foreign equity joint venture)	PRC	RMB160,000,000	51%	–	51%	Operation and management of natural gas pipelines and ancillary business but activity has been temporarily suspended

22. INVENTORIES

	The Group	
	2006	2005
	RMB'000	RMB'000
Spare parts, consumables and others	**982**	724

23. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Due from subsidiaries (note (i))	**–**	–	**–**	–
Trade debtors (note (ii))	**7,150**	16,946	**–**	–
Investment deposits (note (iii))	**–**	29,950	**–**	–
Consideration receivable (note (iv))	**800**	–	**–**	–
Rental and utility deposits	**6**	263	**197**	257
Prepayments and other receivables (note (v))	**3,666**	339	**162**	–
Deposit (note (vi))	**5,148**	–	**5,148**	–
	16,770	47,498	**5,507**	257

All the trade debtors and other receivables, other than rental and utility deposits, are expected to be recovered within one year.

Notes:

(i) An analysis of the accounts due from subsidiaries is listed below:

	The Company	
	2006	2005
	RMB'000	RMB'000
Due from subsidiaries	**176,868**	171,197
Less: Impairment for bad and doubtful debts	**(176,868)**	(171,197)
	–	–

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(ii) Ageing analysis of trade debtors (net of impairment RMB29,880,000 (2005: RMB20,757,000)) is as follows:

	2006	2005
	RMB'000	RMB'000
Current or within 6 months	**7,150**	16,946

Debts are generally due within three to six months from the date of billing. The Group may, on a case by case basis and after evaluation of the business relationship and creditworthiness, extend the credit period upon customers' requests.

23. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: *(Continued)*

(iii) An investment deposit of RMB55,900,000 was paid to an independent entity in November 2002. A sino-foreign equity joint venture would be established in which the Group would own 15% equity interest. During the year ended 31 December 2004, the Group decided to withdraw the investment. Up to 31 December 2006, this entity refunded to the Group a sum of RMB25,950,000 (2005: RMB25,950,000). As at 31 December 2006, the remaining balance of RMB29,950,000 (2005: RMB29,950,000) is unsecured, interest free and repayable on or before 31 July 2006. However, the balance was still outstanding as at 31 December 2006 and, after assessment, the directors concluded that the recoverability of the amount was remote and an impairment of RMB29,950,000 was made. The impairment is included in "other operating expenses" in the consolidated income statement.

(iv) In 2006, the Group disposed of a subsidiary for a consideration of RMB800,000. The amount is unsecured, non-interest bearing and repayable on or before May 2007.

(v) Included in the prepayment and other receivables was RMB1,950,000. During the year ended 31 December 2006, incidental to an civil action brought up by one of the banks mentioned in note 36 to the financial statements, a civil judgment was served by the Supreme People's Court of Gansu Province, the PRC, on Xinjiang Xingmei demanding the latter to pay RMB49 million as for the foregery loan, RMB366,000 as for the related loan interest and an unspecified amount of default interest thereon. The total amount paid thereof amounted to RMB1,950,000. Further legal advice was obtained by the directors from legal adviser that the civil judgment served on Xinjiang Xingmei is not effective in the circumstance that the criminal proceeding has not been finalized and that the amount of RMB1,950,000 should be paid back by the bank. The amount of RMB1,950,000 already paid to the bank is classified under "Other Receivable" in the consolidated balance sheet.

(vi) In 2006, the Group paid RMB5,148,000 as deposit for acquisition of the exploitation right together with the ownership title in a piece of oil and gas field. The transaction is expected to be completed in 2007.

24. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at banks	**51,157**	3,064	**48,053**	2
Cash on hand	**112**	344	**–**	–
	51,269	3,408	**48,053**	2

At 31 December 2006, the Group owed to a bank amounting to bank loan principal of RMB457,900,000 (2005: RMB469,700,000) and interest thereon of RMB43,846,000 (2005: RMB11,772,000). This bank has the right to set off the bank deposits of RMB219,000 (2005: RMB777,000) placed by the Group against any indebtedness owing by the Group to the bank in situation when the Group defaults to repay its indebtedness to the bank.

25. BANK LOANS

At 31 December 2006, the bank loans of the Group were repayable as follows:

	The Group	
	2006	2005
	RMB'000	RMB'000
Within 1 year or on demand	**297,900**	269,700
After 1 year but within 2 years	**110,000**	40,000
After 2 years but within 5 years	**50,000**	160,000
	160,000	200,000
	457,900	469,700

At 31 December 2006, the bank loans of the Group were secured as follows:

	The Group	
	2006	2005
	RMB'000	RMB'000
Bank loans secured by		
– corporate guarantee put up by a subsidiary	**–**	2,700
– corporate guarantee put up by companies controlled by an ex-director (note (i))	**146,500**	149,000
– corporate guarantee put up by an independent third party	**120,000**	120,000
– property, plant and equipment (note (ii))	**191,400**	198,000
	457,900	469,700

Notes:

(i) The corporate guarantees are issued by Jilin City Shine Gem Gas Pipeline Co., Ltd. and Jilin City Jimei Gas Co., Ltd., the companies controlled by Mr. Sun Tian Gang, who was a director up to 22 August 2005 and controlling shareholder of the Company during the year ended 31 December 2005, for bank loans of RMB66,500,000 (2005: RMB69,000,000) and RMB80,000,000 (2005: RMB80,000,000) respectively granted to the Group.

(ii) At 31 December 2006, certain of the oil pipeline and ancillary facilities with an aggregate carrying value of approximately RMB311 million (2005: RMB343 million) have been pledged to a bank for bank loans of RMB191.4 million (2005: RMB198 million) granted to the Group.

26. OTHER LOAN, SECURED

In December 2006, a subsidiary of the Company obtained a six-month term loan of RMB5,000,000 (2005: RMB7,700,000) from 庫爾勒市城市信用社. The loan bears interest at 0.837% (2005: 0.783%) per month and is secured by (i) certain of natural gas refilling stations and land with an aggregate carrying value at 31 December 2006 of approximately RMB4,009,000 (2005: RMB4,208,000) and (ii) guarantee put up by 庫爾勒市燃氣公司, the PRC joint venture partner of the Lejion Gas and a minority shareholder of a subsidiary of the Group.

27. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Due to a subsidiary (note (i))	**–**	–	**–**	1
Accrued expenses and other payables	**12,597**	17,418	**3,590**	1,324
Interest payable	**43,846**	11,772	**–**	–
Due to minority shareholder (note (ii))	**3,573**	2,007	**–**	–
Due to a shareholder (note (iii))	**676**	6,166	**–**	–
	60,692	37,363	**3,590**	1,325

Notes:

(i) The amount due to a subsidiary is unsecured, interest free and has no fixed terms of repayment.

(ii) The amount due to minority shareholder, 庫爾勒市燃氣公司, is unsecured, interest free and has no fixed terms of repayment.

(iii) The amount due to a shareholder, Hong Chang Group Limited, is unsecured, interest free and has no fixed terms of repayment. At 31 December 2005, Hong Chang Group Limited was the ultimate holding company of the Company.

(iv) All the trade and other payables are expected to be settled within one year.

28. EMPLOYEE RETIREMENT BENEFITS

a) The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $20,000. Contributions to the scheme vest immediately.

b) As stipulated by the regulations of the PRC, the Group participates in the state-sponsored retirement benefit scheme organised by the PRC government in respect of its PRC employees. The Group is required to make contributions to the retirement benefit scheme which are calculated based on a certain percentage of the basic payroll.

The Group's retirement benefits contribution charged to the consolidated income statement for the year ended 31 December 2006 amounted to approximately RMB856,000 (2005: RMB898,000).

The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the contributions described above.

29. EQUITY COMPENSATION BENEFITS

The Company adopted a share option scheme on 6 March 2002 for a period of ten years commencing from 6 March 2002 whereby the directors of the Company were authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company.

Under the terms of this scheme, the exercise price of options will be determined by the board but in any event, the exercise price of options will be the highest of the closing price of the shares on SEHK on the date of grant, the average closing price of the shares on the SEHK for the five business days immediately preceding the date of grant and the nominal value of the shares on the date of grant. Each option gives the holder the right to subscribe for one share.

a) Movements in share options

	2006		2005	
	Weighted average exercise price HK$	**Number of options '000**	Weighted average exercise price HK$	Number of options '000
At 1 January	0.035	190,000	0.698	116,000
Terminated / forfeited	0.035	(700)	0.698	(116,000)
Granted	0.053	305,000	0.035	210,000
Exercised	0.036	(129,300)	0.035	(20,000)
At 31 December	0.050	365,000	0.035	190,000
Options vested at 31 December	0.050	365,000	0.035	190,000

The weighted average share price at the date of exercise for shares options exercised during the year was HK$0.105 (2005: HK0.045).

The options outstanding at 31 December 2006 had an exercise price of HK$0.035 or HK$0.053 (2005: HK$0.035) and a weighted average remaining contractual life of 4.66 years (2005: 4.84 years).

The following table discloses the details of the share options held by directors and employees and movements in such holdings during the years 2005 and 2006:

	Outstanding 1/1/2005	Terminated/ forfeited during the year	Granted during the year	Exercised during the year	Outstanding 31/12/2005 & 1/1/2006	Terminated/ forfeited during the year	Granted during the year	Exercised during the year	Outstanding 31/12/2006	Exercise price
Option granted to directors										
– 29 July 2002	76,000,000	(76,000,000)	–	–	–	–	–	–	–	0.698
– 2 November 2005	–	–	33,000,000	–	33,000,000	–	–	–	33,000,000	0.035
– 2 November 2006	–	–	–	–	–	–	80,000,000	–	80,000,000	0.053
Option granted to employees										
– 29 July 2002	40,000,000	(40,000,000)	–	–	–	–	–	–	–	0.698
– 2 November 2005	–	–	177,000,000	(20,000,000)	157,000,000	(700,000)	–	(124,300,000)	32,000,000	0.035
– 2 November 2006	–	–	–	–	–	–	225,000,000	(5,000,000)	220,000,000	0.053
	116,000,000	(116,000,000)	210,000,000	(20,000,000)	190,000,000	(700,000)	305,000,000	(129,300,000)	365,000,000	

29. EQUITY COMPENSATION BENEFITS *(Continued)*

b) Terms of unexpired and unexercised share options at balance sheet date

Date granted	Exercise period	Remaining contractual life	Exercise price	Number of options 2006	2005
			HK$	**'000**	'000
2 November 2005	3 November 2005 to 2 November 2010	3.84 years	0.035	**65,000**	190,000
2 November 2006	2 November 2006 to 1 November 2011	4.84 years	0.053	**300,000**	–

c) Fair value of share options and assumptions

For the options granted on 2 November 2006, the fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimated fair values of the options granted on 2 November 2006 are HK$3,821,690, equivalent to approximately RMB3,822,000. The estimate of the fair value of the services received is measured based on Black-Scholes Option Pricing Model as follows:

Fair value of share options and assumptions

Date of grant	2 November 2006
Closing share price at date of grant	HK$0.053
Exercise price	HK$0.053
Expected volatility	85.73%
Expected option life (expressed as weighted average life used in the model)	0.5 years
Risk-free rate (based on the yields to maturity of Hong Kong Exchange Fund Note as at 2 November 2006)	3.6%
Expiration of the options	5 years from 2 November 2006
Expected dividend yield	0%

Expected volatility was determined by using the historical weekly share price changes of the Company of last 3 years annualised for one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the ordinary shares as set out above.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(Expressed in Renminbi)

29. EQUITY COMPENSATION BENEFITS *(Continued)*

c) Fair value of share options and assumptions *(Continued)*

For the options granted on 2 November 2005, the fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimated fair values of the options granted on 2 November 2005 are HK$2,425,280, equivalent to approximately RMB2,332,000. The estimate of the fair value of the services received is measured based on Black-Scholes Option Pricing Model as follows:

Fair value of share options and assumptions

Date of grant	2 November 2005
Closing share price at date of grant	HK$0.035
Exercise price	HK$0.035
Expected volatility	91.42%
Expected option life (expressed as weighted average life used in the model)	0.75 years
Risk-free rate (based on the yields to maturity of Hong Kong Exchange Fund Note as at 2 November 2005)	3.90%
Expiration of the options	5 years from 3 November 2005
Expected dividend yield	0%

Expected volatility was determined by using the historical volatility of the Company's share price annualised for one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the ordinary shares as set out above.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

30. INCOME TAX IN THE BALANCE SHEET

a) Current taxation in the balance sheet represents:

	The Group	
	2006	2005
	RMB'000	RMB'000
Tax recoverable at 1 January	**191**	335
Provision for PRC income tax for the year	**(412)**	(335)
Provisional PRC income tax paid	**629**	191
	408	191
Under-provision in prior years	**(408)**	–
Tax recoverable at 31 December	**–**	191

b) Deferred taxation not recognised

At the balance sheet date and for the year, the Group has not recognised deferred tax asset in respect of tax losses of approximately RMB55 million (2005: RMB16 million) as it is not probable that taxable profit will be available against which tax losses can be utilised.

At 31 December 2006, the Group's tax losses of approximately RMB12 million (2005: RMB5 million) do not expire under the relevant current tax legislation and of approximately RMB43 million (2005: RMB11 million) will expire in five years from the year in which they were incurred.

The Group and the Company had no other significant unprovided deferred taxation not recognised for the year and at the balance sheet date.

31. SHARE CAPITAL

	The Group and the Company			
	2006		2005	
	Number of shares '000	**Amount RMB'000**	Number of shares '000	Amount RMB'000
Authorised:				
Shares of HK$0.01 each	**10,000,000**	**106,000**	10,000,000	106,000
Issued and fully paid:				
Shares of HK$0.01 each				
At 1 January	**3,051,584**	**32,593**	3,031,584	32,385
Shares issued by placements	**404,250**	**4,042**	–	–
Shares issued under share option scheme	**129,300**	**1,293**	20,000	208
At 31 December	**3,585,134**	**37,928**	3,051,584	32,593

32. RESERVES

a) The Group

	Attributable to equity holders of the Company						
	Share premium RMB'000	**Contributed surplus** RMB'000	**Share option reserve** RMB'000	**Retained profits/ (accumulated losses)** RMB'000	**Total** RMB'000	**Minority interests** RMB'000	**Total** RMB'000
At 1 January 2005	176,374	86,716	–	85,869	348,959	30,361	379,320
Loss for the year	–	–	–	(262,955)	(262,955)	(10,498)	(273,453)
Shares issued under employee share option scheme	520	–	–	–	520	–	520
Employee share option benefits	–	–	2,332	–	2,332	–	2,332
Transfer of reserves	222	–	(222)	–	–	–	–
At 31 December 2005 and 1 January 2006	177,116	86,716	2,110	(177,086)	88,856	19,863	108,719
Loss for the year	–	–	–	(85,187)	(85,187)	(19,863)	(105,050)
Issue of ordinary shares	55,371	–	–	–	55,371		55,371
Shares issued under employee share option scheme	3,322	–	–	–	3,322	–	3,322
Employee share option benefits	–	–	3,822	–	3,822	–	3,822
Transfer of reserves	1,390	–	(1,390)	–	–	–	–
At 31 December 2006	237,199	86,716	4,542	(262,273)	66,184	–	66,184

32. RESERVES *(Continued)*

b) The Company

	Share premium RMB'000	Share option reserve RMB'000	Contributed surplus RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2005	176,374	–	86,716	(26,626)	236,464
Loss for the year	–	–	–	(201,151)	(201,151)
Shares issued under employee share option schemes	520	–	–	–	520
Employee share option benefits	–	2,332	–	–	2,332
Transfer of reserves	222	(222)	–	–	–
At 31 December 2005 and 1 January 2006	177,116	2,110	86,716	(227,777)	38,165
Loss for the year	–	–	–	(57,189)	(57,189)
Shares issued under employee share option schemes	55,371	–	–	–	55,371
Issue of shares by placements	3,322	–	–	–	3,322
Employee share option benefits	–	3,822	–	–	3,822
Transfer of reserves	1,390	(1,390)	–	–	–
At 31 December 2006	237,199	4,542	86,716	(284,966)	43,491

c) Share premium represents the excess of consideration over par value of shares issued.

d) The contributed surplus of the Company arose when the Company issued shares in exchange for the shares of subsidiaries being acquired, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the subsidiaries acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders.

e) The share option reserve represents the fair value of the actual or estimate number of unexercised share options granted to employees of the Company recognised in accordance with accounting policy adopted for share based pavements in note 3(n)(iii).

f) At 31 December 2006 and 31 December 2005, the Company had no distributable reserves available for distribution to shareholders of the Company for the Company suffered deficiencies in the aggregate of the contributed surplus and accumulated losses.

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

During the year ended 31 December 2006, the Group disposed of a subsidiary, which held the jointly controlled entity of the Group, to an independent third party for a consideration of RMB800,000, which is receivable on or before May 2007.

	The Group RMB'000
Net assets disposed of	
Goodwill	–
Prepayment	4
Accruals and other payables	(36)
	(32)
Gain on disposal	832
Total consideration receivable	800

There was no contribution from the subsidiary disposed of during the year to the Group's turnover in 2006 and 2005. The subsidiary disposed of during the year had loss from operations of RMB36,000 (2005: RMB60,659,000) up to the date of disposal.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

a) Fair value and cash flow interest rate risks

The Group's exposure to fair value and cash flow interest risks is normal. The Group is exposed to both fair value and cash flow interest rate risk related to its fixed and variable-rates bank borrowings. In order to minimise the risks, management has closely monitored the exposures.

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006 and 2005.

The Group has bank borrowings and is exposed to risk arising from changes in market interest rates. The management monitors the exposure closely and will consider hedging interest rate exposure should the need arise.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

b) Foreign exchange risk

Most of the Group's transaction, assets and liabilities are denominated in Renminbi ("RMB"). The Group currently does not have a foreign currency hedging policy. However, the management monitors the related foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

All the Group's loans are denominated in the functional currency of the entity taking out the loan. Given this, management does not expect that there will be any significant currency risk associated with the Group's loans.

c) Credit risk

The Group's maximum exposure to credit risk in the event that counterparties failure to perform their obligations as at 31 December, 2006 is represented by the carrying amount of each financial asset as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team in one of its major subsidiary responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

The credit risk for bank balances exposed is considered minimal as such amounts are placed with banks with good credit ratings.

d) Liquidity risk

The Group will consistently maintain a prudent financial policy and ensure that it maintains sufficient cash to meet its liquidity requirements.

e) Sensitivity analysis

In managing interest rate and foreign currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's loss. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated loss.

At 31 December 2006, its is estimated that a general increase of one percentage point in interest rates would increase the Group's loss before taxation by approximately RMB4 million (2005: RMB4 million) so far as the effect on interest-bearing financial instruments is concerned.

35. COMMITMENTS

a) Capital commitments outstanding at 31 December 2006 not provided for in the financial statements of the Group were as follows:

	The Group	
	2006	2005
	RMB'000	RMB'000
Authorised but not contracted for		
– acquisition of the exploitation rights together with the ownership title in a piece of oil and gas field	**51,480**	–
Contracted for		
– injection of registered capital of a PRC subsidiary	**113,027**	113,027
– injection of registered capital of a jointly controlled entity (the "JCE")	**–**	81,600
	113,027	194,627
Total	**164,507**	194,627

In addition, at 31 December 2005, the JCE is itself committed to incur capital expenditure of approximately RMB123,373,000, which are contracted for the JCE was disposed upon the disposal of a subsidiary by the Group during the year ended 31 December 2006.

b) At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases of the Group and the Company are payable as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**172**	884	**–**	678
After 1 year but within 5 years	**639**	182	**–**	–
	811	1,066	**–**	678

The Group and the Company lease a number of properties under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

36. CONTINGENT LIABILITIES

The contingent liability of the Group as at 31 December 2006 amounted to approximately RMB264 million (2005: RMB248 million).

Based on the information available to the Group, this RMB264 million (2005: RMB248 million) represents two alleged loans amounting to approximately RMB240 million (2005: RMB240 million) in total and interest thereon amounting to approximately RMB24 million (2005: RMB8 million) from two PRC banks borrowed by a former director of the Group, in the name of a subsidiary of the Company, Xinjiang Xingmei Oil-Pipeline Co., Ltd., through alleged fraudulent actions. Legal opinions as to the PRC law as well as Hong Kong law have been sought.

As stated in the Group's PRC legal opinion, the Group's PRC legal adviser has reviewed the copies of the above mentioned loan agreements, interviewed the lawyers of the defendant and obtained advice from the PRC police department. The Company was advised that the former director of the Group has entered into two loan agreements with banks in the name of the PRC subsidiary in 2003 by forgery of board resolution of the subsidiary and forgery of guarantee documents of certain third parties. The loan amounts have never gone to the subsidiary. The PRC police department has tentatively regarded this case as an individual criminal act and the suspect has been arrested. In light of the above information obtained, the Group's PRC legal adviser is of the opinion that, with reference to the relevant PRC laws, the subsidiary, its immediate holding company and any member within the Group will not have any legal and financial obligations relating to these alleged bank loans and alleged interest thereon. The Group's legal adviser to Hong Kong law concurs to this view.

As of the date of this report, none of the operation or business of any companies among the Group have been affected in any material way and adverse way or any existing directors or management personnel has been arrested or detained by the police of the PRC or any other place.

37. MATERIAL RELATED PARTY TRANSACTIONS

a) Provision of crude oil transportation service

There existed (i) an agreement dated 25 November 1999 entered into between the Company's subsidiary, Xinjiang Xingmei Oil-Pipeline Co., Ltd. (the "Xinjiang Xingmei") and its minority shareholder, China National Star Petroleum Corporation ("CNSP"), for the provision of crude oil transportation services for a period of 20 years (the "Transportation Agreement") and (ii) an agreement dated 5 December 2005 entered into between Xinjiang Xingmei and China Petroleum and Chemical Corporation, the holding company of CNSP, ("New Transportation Agreement") for the provision of crude oil transportation services for a period of 3 years. The New Transportation Agreement replaced and terminated the Transportation Agreement. Further details of the agreements are set out in the announcement dated 14 December 2005 issued by the Company.

During the year ended 31 December 2006, revenue from the provision of crude oil transportation service to the minority shareholder amounted to RMB44,710,000 (2005: RMB44,990,000). The balance due from this minority shareholder as at 31 December 2006, as included in trade debtors in note 23 was RMB7,150,000 (2005: RMB16,946,000), of which gross trade receivables and impairment for bad and doubtful debts were RMB37,030,000 (2005: RMB37,703,000) and RMB29,880,000 (2005: RMB20,757,000) respectively.

37. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

b) Guarantees

(i) As at 31 December 2006, Jilin City Shine Gem Gas Pipeline Co. Ltd., a company controlled by Mr. Sun Tian Gang ("Mr. Sun") who was the director of the Company until 22 August 2005 and controlling shareholder of the Company, has given corporate guarantee to secure bank loans of RMB66,500,000 (2005: RMB69,000,000) granted to Xinjiang Xingmei.

(ii) As at 31 December 2006, Jilin City Jimei Gas Co., Ltd., a company controlled by Mr. Sun, has given corporate guarantee to secure bank loans of RMB80,000,000 (2005: RMB80,000,000) granted to Xinjiang Xingmei.

c) Key management personnel remuneration

Remuneration for key management personnel of the company, including amounts paid to the company's directors as disclosed in note 10 is as follows:

	2006 **RMB'000**	2005 RMB'000
Short-term employee benefits	**5,574**	3,512
Post-employment benefits	**36**	30
Equity compensation benefits	**2,130**	491
	7,740	4,033

Total remuneration is included in "staff costs" (see note 8).

38. COMPARATIVE FIGURES

Certain comparative figures have been restated and reclassified to conform with the current year's presentation.