



BUSINESS REVIEW

For the first six months of 2003 the Group recorded a turnover of RMB100.7 million (2002: RMB88.9 million) and profit attributable to shareholders of RMB18.7 million (2002: RMB37.0 million). The turnover has increased by 13% while the profit attributable to shareholders has decreased by 49% respectively, as compared with the corresponding period in 2002.

The significant decrease of profit was mainly due to the lack of contribution of gas connection fee from the business of natural gas pipeline network. Given that the property market in Korla City in Xinjiang has been experiencing a downturn since early this year, there was no growth in number of residential subscribers for the reporting period. As a result, the gas connection fee, which used to account for a significant portion of revenue contribution, has reduced substantially. For the first six months of 2003, the profit from operation generated by the business of natural gas pipeline network in Korla City has decreased to RMB3.1 million (2002: RMB12.0 million). However as a proposed increase of the gas connection fee for residential users in the region is being reviewed by the local authority, the Group is cautiously positive about the gas connection fee income for the second half of 2003.

On the other hand, although the Ta He area in Xinjiang has not fully recovered from damages caused by the floods in last year, the operation of transportation and storage facilities for crude oil exploited from the Ta He Oilfield remained satisfactory during the reporting period. It recorded a turnover amounting to RMB72.0 million (2002: RMB71.4 million) and profit from operation amounting to RMB47.9 million (2002: RMB53.6 million).

In April 2003, the Group entered into an agreement for disposal of its entire interest in the associate (that is the business of natural gas pipeline network in Jilin City in Jilin Province) and a shareholder's loan advanced by the Group to the associate to Mr Sun Tian Gang, the controlling shareholder of the Group, at a total consideration of RMB135 million (Details of the transaction were disclosed in a circular dated 13 May 2003). Pursuant to the approval of the independent shareholders at a special general meeting held in June 2003 and full settlement of the consideration by Mr Sun in July 2003, this transaction has been duly completed. The net proceed of the disposal will allow the Group to benefit from reallocating resources to other energy related business that would yield a higher return and to take advantage of investment opportunities that may arise.