

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

1 Significant accounting policies

Basis of presentation

The unaudited interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), including compliance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The financial information relating to the financial year ended 31 December 2003 included in the interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2003 are available from the Stock Exchange’s website. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 April 2004.

The same accounting policies adopted in the 2003 annual financial statements have been applied to the interim financial report.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2003 annual financial statements.

2 Segmental reporting

Business segments

Segmental 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.

The Group comprises the following main business segments:

- Crude oil transportation : The operation of crude oil transportation, storage and unloading facilities.
- Natural gas : The operation of a natural gas pipeline network and refilling stations supplying natural gas and Liquefied Petroleum gas (“LPG”) for vehicle use and sale of canned LPG.



2 Segmental reporting (Continued)

An analysis of the Group's revenue and segment result for the financial period is as follows:

	Six months ended 30 June	
	2004 (Unaudited) RMB'000	2003 (Unaudited) RMB'000
Revenue from external customers		
– Crude oil transportation	20,186	72,023
– Natural gas		
Sale of piped natural gas	4,720	17,227
Sale of natural gas and LPG at refilling stations	3,592	5,201
Sale of canned LPG	3,627	6,301
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Total revenue from external customers	32,125	100,752
Other revenue-unallocated (Note)	2,589	581
	<hr/>	<hr/>
Total revenue	<u>34,714</u>	<u>101,333</u>
 <i>Segment result</i>		
	Six months ended 30 June	
	2004 (Unaudited) RMB'000	2003 (Unaudited) RMB'000
Profit/(loss) from operations		
– Crude oil transportation	(1,892)	47,901
– Natural gas	(1,911)	3,111
– Unallocated expenses (Note)	(6,006)	(7,497)
	<hr/>	<hr/>
Total profit/(loss) from operations	(9,809)	43,515
Finance costs	(15,166)	(14,521)
Share of profits of associates	–	2,131
	<hr/>	<hr/>
Profit/(loss) from ordinary activities before taxation	(24,975)	31,125
Taxation	(253)	(6,009)
	<hr/>	<hr/>
Profit/(loss) from ordinary activities after taxation	(25,228)	25,116
Minority interests	3,856	(6,345)
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Profit/(loss) attributable to shareholders	<u>(21,372)</u>	<u>18,771</u>

Note: The "Unallocated" segment mainly comprises financial income and corporate expenses.



3 Profit/(loss) from ordinary activities before taxation

Profit/(loss) from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2004 (Unaudited) RMB'000	2003 (Unaudited) RMB'000
(a) Finance costs:		
Interest on bank borrowings	15,166	14,519
Other borrowings costs	-	2
	<u>15,166</u>	<u>14,521</u>
(b) Other items:		
Cost of inventories	13,957	23,446
Amortisation of negative goodwill as income	(291)	(291)
Depreciation	17,895	14,154
	<u>17,895</u>	<u>14,154</u>

4 Taxation

	Six months ended 30 June	
	2004 (Unaudited) RMB'000	2003 (Unaudited) RMB'000
Provision for PRC income tax for the period	<u>253</u>	<u>6,009</u>

No provision for Hong Kong profits tax has been made in the financial statement as the Group did not derive any income subject to Hong Kong profits tax during the period.

Pursuant to relevant PRC laws and regulations applicable to the Sino-foreign equity joint venture enterprises, the Company's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the subsequent three years. Provision for PRC income tax for the period represents income tax payable by Lejion Gas Co., Limited ("Lejion Gas") which is subject to income tax at a reduced rate of 18%, being 50% of the standard state tax rate of 30% together with 3% local income tax. No provision for PRC income tax has been made in respect of the results of Xinjiang Xingmei Oil Pipeline Co., Limited ("Xinjiang Xingmei") as it did not derive any income subject to PRC income tax during the period.

5 Dividends

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2004 (2003: Nil).

6 Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the loss attributable to shareholders of RMB21,372,000 (2003: profit of RMB18,771,000) and the weighted average of 3,031,583,936 ordinary shares (2003: 3,031,583,936 ordinary shares) in issue during the period.

(b) Diluted earnings/(loss) per share

The calculation of diluted earnings/(loss) per share is based on the loss attributable to shareholders of RMB21,372,000 (2003: profit of RMB18,771,000) and the weighted average number of 3,031,583,936 ordinary shares (2003: 3,031,583,936 ordinary shares) after adjusting for the effects of all potential dilutive ordinary shares.



7 Addition to fixed assets and construction in progress

During the period, the Group spent approximately RMB4,905,000 (31 December 2003: RMB1,569,000) and RMB30,788,000 (31 December 2003: RMB109,340,000) on the acquisition of fixed assets and construction in progress respectively.

8 Goodwill

Positive goodwill is amortised on a straight-line basis over the unexpired terms of the joint venture of 30 years. The amortisation of positive goodwill for the period is included in "administrative expenses" in the consolidated income statement.

Negative goodwill is recognised as income on a straight-line basis over the unexpired terms of the joint ventures ranging from 18 to 19 years. The amortisation of negative goodwill for the period is included in "administrative expenses" in the consolidated income statement.

9 Trade and other receivables

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
Trade debtors	37,828	30,355
Amount due from minority shareholders (<i>note (ii)</i>)	4,721	4,041
Loans receivable (<i>note (iii)</i>)	–	4,628
Prepayments, deposits and other receivables (<i>note (iv)</i>)	<u>150,301</u>	<u>149,513</u>
	<u>192,850</u>	<u>188,537</u>

Notes:

- (i) All the trade and other receivables (net of specific provisions for bad and doubtful debts) are expected to be recovered within one year. All trade debtors are current and aged less than 12 months.

Debts are due within three to six months from the date of billing. Debtors with balances that are overdue are requested to settle all outstanding balances before any further credit is granted.

- (ii) Amount due from minority shareholders is unsecured, interest free and has no fixed terms of repayment.

- (iii) Loans receivable at 31 December 2003 represented loans advanced to third parties. The loans were unsecured, repayable within one year and interest free except for an amount of RMB 782,000 which borne interest at 3% per annum.

- (iv) Included in prepayments, deposits and other receivables as at 30 June 2004 is an investment deposit of RMB55,900,000 paid to an equity joint venture in November 2002 in which the Group will own 15% equity interest in the joint venture in respect of the capital contributed of RMB 55,900,000. The Group has the option to withdraw the investment within 18 months in which case the capital contributed will be refunded to the Group in full with interest calculated based on the prevailing market rates. The extension of this 18 months period is under negotiation.



10 Bank loans

At 30 June 2004, the bank loans were repayable as follows:

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
Within 1 year or on demand	159,800	176,800
After 1 year but within 2 years	60,000	60,000
After 2 years but within 5 years	290,000	210,000
After 5 years	-	80,000
	<u>350,000</u>	<u>350,000</u>
	<u>509,800</u>	<u>526,800</u>

As at 30 June 2004, the bank loans of the Group were secured as follows:

- (i) Fixed deposits of HK\$2,000,000 (2003: HK\$10,000,000) and US\$5,180,000 (2003: US\$5,180,000) were pledged to a bank for bank loans of RMB39,800,000 (2003: RMB46,800,000) granted to the Group;
- (ii) Certain of the oil pipeline and ancillary facilities with a total estimated carrying value of RMB267,281,000 (2003: RMB286,000,000) were pledged to a bank for bank loans of RMB200,000,000 (2003: RMB210,000,000) granted to the Group; and
- (iii) The corporate guarantees issued by related companies and an unrelated company in respect of bank loans of RMB150,000,000 (2003: RMB150,000,000) and RMB120,000,000 (2003: RMB120,000,000) respectively granted to the Group.



11 Trade and other payables

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
Trade creditors	4	436
Accrued expenses and other payables	16,359	20,180
Amount due to minority shareholder	–	38
Amount due to ultimate holding company	12,543	705
	<u>28,906</u>	<u>21,359</u>

Note:

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

Trade creditors are due within 3 months or on demand.

12 Share capital

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	<u>106,000</u>	<u>106,000</u>
Issued and fully paid:		
3,031,583,936 ordinary shares of HK\$0.01 each	<u>32,385</u>	<u>32,385</u>



13 Commitments

(a) Capital commitments

Capital commitments outstanding not provided for in the financial statements were as follows:

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
Contracted for		
– acquisition of fixed assets	11,272	16,015
– injection of registered capital of PRC subsidiaries	<u>134,627</u>	<u>113,027</u>

(b) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
Within 1 year	1,711	2,696
After 1 year but within 5 years	<u>329</u>	<u>774</u>
	<u>2,040</u>	<u>3,470</u>

14 Material related party transactions

(i) Provision of crude oil transportation service

There exists an agreement dated 25 November 1999 entered into between the Company's subsidiary, Xinjiang Xingmei, and its minority shareholder for the provision of crude oil transportation services for a period of 20 years.

During the period, revenue from the provision of crude oil transportation service to the minority shareholder amounted to RMB18,485,000 (30 June 2003: RMB43,613,000). The balance due from minority shareholder as at 30 June 2004 was RMB36,277,000 (31 December 2003: RMB27,792,000).

(ii) Loans

(a) As at 30 June 2004, Lejion Gas, a subsidiary of the Company, advanced a loan to the PRC joint venture partner of Lejion Gas in the amount of RMB255,000 (31 December 2003: RMB4,041,000). The loan is unsecured, interest free and has no fixed term of repayment.

(b) As at 30 June 2004, the ultimate holding company of the Company, advanced a loan to the Group in the amount of RMB12,543,000 (31 December 2003: RMB705,000). The loan is unsecured, interest free and has no fixed term of repayment.

