(Expressed in Renminbi)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 ("Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Basis of preparation of the financial statements

(i) Notwithstanding that the Company and the Group sustained loss and had net current liabilities at 31 December 2004, including short-term bank loans of RMB133 million (note 20), 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 as and when they fall due having regard to the following:

– the successful renewal of short-term bank loans;

– continuing financial support received from Mr. Sun Tian Gang, a director and controlling shareholder of the Company; and

– the favourable outcome of impending litigation (note 28).

The directors believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, it is appropriate that these financial statements should be 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.

(ii) The measurement basis used in the preparation of the financial statements is historical cost.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from their activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

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.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

Where losses attributable to the minority exceed the minority interest in the net assets 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 good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(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.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Jointly controlled entities *(Continued)*

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 acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the venturer, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of the jointly controlled entities for the year.

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 of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. Positive goodwill is stated at cost less any accumulated amortisation and any impairment losses (see note 1(i)). Positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life.

Negative goodwill arising on acquisitions of subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

In respect of any negative goodwill not yet recognised in the consolidated income statement, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Goodwill *(Continued)*

On disposal of a subsidiary during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement is included in the calculation of the profit or loss on disposal.

(f) Fixed assets

(i) Fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(g)) and impairment losses (see note 1(i)).

(ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(g) Amortisation and depreciation

(i) Land use rights are amortised on a straight-line basis over the period of the grant.

(ii) Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:

– buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 50 years from the date of completion, and the unexpired terms of the land use rights; and

– other fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	Over the unexpired term of the lease
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 to 7 years
Motor vehicles	5 to 12 years

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Construction in progress

Construction in progress is stated at cost less accumulated impairment losses (see note 1(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 fixed assets 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.

(i) Impairment of 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 an impairment loss previously recognised no longer exists or may have decreased:

– fixed assets;

– construction in progress

– interests in subsidiaries and jointly controlled entity (except for those accounted for at fair value under notes 1(c) and (d); and

– positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) 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).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(ii) Reversals of impairment losses (Continued)

A reversal of impairment loss 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 the 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, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) 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 cash flow statement.

(l) Employee benefits

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

(Expressed in Renminbi)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Employee benefits *(Continued)*

(ii) The Group's employees in the People's Republic of China (the "PRC") are members of the state-sponsored retirement benefit scheme organised by the PRC government. The subsidiaries are required to contribute, based on a certain percentage of the basic payroll, to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme. Such contributions are charged to the income statement when incurred.

(iii) Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance in respect of employees in Hong Kong are charged to the income statement when incurred.

(iv) When the Group grants employees options to acquire shares of the Company, no employee benefit cost or obligation is recognsied at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(m) Income tax

(i) 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 recognsied in the income statement except to the extent that they relate to items recognsied directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the 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.

(iii) 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.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Income tax *(Continued)*

(iii) *(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 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 differences 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 it, 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 deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of 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 recognsied 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 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 recognsied when the liability to pay the related dividends is recognised.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Income tax *(Continued)*

(iv) 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 settled simultaneously.

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when 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 expenditures 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.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) 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 goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales tax and is after deduction of any trade discounts.

(ii) Transportation 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) 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.

(iv) Gas connection fee income

Gas connection fee is recognised on connection of the natural gas pipeline to the users' premises.

(v) Interest income

Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(p) 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 currencies other than Renminbi are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of foreign enterprises are translated into Renminbi at the average exchange rates for the year; balance sheet items are translated into Renminbi at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

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

(Expressed in Renminbi)

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the 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 the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(r) Borrowing costs

Borrowing costs are expensed in the 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.

(s) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(t) 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, the Group has chosen business segment information as the primary reporting format. No analysis of the Group's turnover and contribution to results from operations by geographical segment has been presented as all the Group's operating activities are carried out in the PRC.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Segment reporting *(Continued)*

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 fixed assets. 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 enterprises 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, corporate and financing expenses and minority interests.

2. 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:

	2004	2003
	RMB'000	*RMB'000*
Provision of crude oil transportation, storage and unloading services	**43,689**	112,177
Sales of natural gas and LPG		
– gas connection fee	**–**	1
– sales of piped natural gas	**6,693**	29,520
– sales of natural gas and LPG at refilling stations	**9,648**	8,645
– sales of LPG in cylinder	**9,918**	8,376
	69,948	158,719

3. OTHER REVENUE AND NET INCOME

	2004	2003
	RMB'000	*RMB'000*
Other revenue		
Interest income on bank deposits	**413**	1,962
Interest income on loans	**1,802**	2,311
Others	**38**	280
	2,253	4,553
Other net income		
Gain on exchange	**–**	334

4. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2004	2003
	RMB'000	*RMB'000*
(a) Finance costs:		
Interest on bank advances wholly repayable within five years	**28,501**	25,117
Interest on bank advances wholly repayable after five years	**–**	4,608
Other borrowing costs	**–**	1
	28,501	29,726
(b) Staff costs:		
Contributions to defined contribution plans	**808**	843
Salaries, wages and other benefits	**13,935**	13,888
	14,743	14,731

4 (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION *(Continued)*

	2004	2003
	RMB'000	*RMB'000*
(c) Other items		
Cost of inventories	**16,662**	31,139
Amortisation of positive goodwill	**397**	–
Amortisation of negative goodwill	**(582)**	(583)
Amortisation of negative goodwill included in share of profit of an associate	**–**	(24)
Auditors' remuneration	**583**	583
Depreciation of fixed assets	**41,256**	35,478
Operating lease charges: minimum lease payments		
– hire of plant and machinery	**–**	57
– property rentals	**2,716**	1,954
Bad debt written off	**1,357**	–
Provision for bad debts	**–**	106
Loss/(gain) on disposal of fixed assets	**373**	(9)
Loss on exchange	**17**	–

5. TAXATION

(a) Taxation in the consolidated income statement represents:

	2004	2003
	RMB'000	*RMB'000*
Current tax – Provision for PRC income tax		
Tax for the year	**–**	5,605
Over-provision in respect of prior years	**–**	(1,902)
	–	3,703

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.

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 the first profit-making year, followed by a 50% reduction for the subsequent three years.

5. TAXATION *(Continued)*

(a) *(Continued)*

However, no provision for PRC income tax has been made in the financial statements as Xinjiang Xingmei Oil-Pipeline Co., Ltd. ("Xinjiang Xingmei") and Lejion Gas Co., Ltd. ("Lejion Gas") have no estimated assessable profits for the year (2003: Provision for PRC income tax represented income tax payable by Xinjiang Xingmei calculated at 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, and no provision for PRC income tax has been made in respect of the profit of Lejion Gas as it is exempted from PRC income tax).

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

	2004 ***RMB'000***	2003 *RMB'000*
(Loss)/profit before taxation	**(62,847)**	25,431
Notional tax on (loss)/profit before tax, calculated at the rates applicable to profits in the countries concerned	**(18,353)**	10,034
Tax effect of non-deductible expenses	**5,700**	984
Tax effect of non-taxable revenue	**(417)**	(802)
Tax effect of unused tax losses not recognised	**13,070**	2,502
Tax effect of reduced tax rate	**–**	(7,113)
Over-provision in prior years	**–**	(1,902)
Actual tax expenses	**–**	3,703

6. DIRECTORS' REMUNERATION

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

	2004	2003
	RMB'000	*RMB'000*
Fees	**382**	315
Salaries and other emoluments	**2,926**	3,445
Retirement scheme contributions	**25**	25
	3,333	3,785

Included in the directors' remuneration were fees of RMB382,000 (2003: RMB315,000) payable to the independent non-executive directors during the year.

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 2004 are disclosed in the directors' report.

The remuneration of the directors is within the following bands:

	No. of directors	
	2004	2003
RMBnil – RMB1,060,000 (approximately equivalent to HK$nil – HK$1,000,000)	**7**	5
RMB1,060,001 – RMB1,590,000 (approximately equivalent to HK$1,000,001 – HK$1,500,000)	**1**	2
	8	7

7. INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the year, the five highest paid individuals comprise three (2003: three) directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other two (2003: two) individuals are as follows:

	2004	2003
	RMB'000	*RMB'000*
Salaries and other emoluments	**1,293**	1,698
Retirement scheme contributions	**24**	18
	1,317	1,716

The emoluments of the two (2003: two) individuals with the highest emoluments are within the following band:

	No. of individuals	
	2004	2003
RMBnil – RMB1,060,000 (approximately equivalent to HK$nil – HK$1,000,000)	**2**	2

8. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss (2003: profit) attributable to shareholders includes a loss of RMB6,524,000 (2003: loss of RMB6,178,000) which has been dealt with in the financial statements of the Company.

9. DIVIDENDS

The directors have not declared nor proposed any dividends in respect of the year ended 31 December 2004 (2003: Nil).

10. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to shareholders of RMB52,742,000 (2003: a profit of RMB14,929,000) and the weighted average of 3,031,384,000 ordinary shares (2003: 3,031,584,000 ordinary shares) in issue during the year.

(b) Diluted (loss)/earnings per share

The diluted (loss)/earnings per share for the years ended 31 December 2004 and 2003 is the same as the basic (loss)/earnings per share as the exercise price of the Company's outstanding share option is higher than the fair price per share of the Company for the years ended 31 December 2004 and 2003.

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

	2004	2003
	RMB'000	*RMB'000*
Revenue from external customers		
– Crude oil transportation	**43,689**	112,177
– Natural gas		
Gas connection fee	**–**	1
Sales of piped natural gas	**6,693**	29,520
Sales of natural gas and LPG at refilling stations	**9,648**	8,645
Sales of LPG in cylinder	**9,918**	8,376
Total revenue from external customers	**69,948**	158,719
Other revenue		
– Crude oil	**351**	–
– Natural gas	**148**	–
– Unallocated	**1,754**	4,887
Total revenue	**72,201**	163,606

11. SEGMENT REPORTING *(Continued)*

	2004	2003
	RMB'000	*RMB'000*
Segment result		
(Loss)/profit from operations		
– Crude oil transportation	**(12,662)**	60,985
– Natural gas	**(6,288)**	4,761
– Unallocated	**(14,852)**	(11,873)
(Loss)/profit from operations	**(33,802)**	53,873
Finance costs	**(28,501)**	(29,726)
Share of loss of a jointly controlled entity		
– Natural gas	**(544)**	–
Share of profit of an associate		
– Natural gas	**–**	2,131
Loss on disposal of an associate		
– Natural gas	**–**	(847)
(Loss)/profit from ordinary activities before taxation	**(62,847)**	25,431
Taxation	**–**	(3,703)
(Loss)/profit from ordinary activities after taxation	**(62,847)**	21,728
Minority interests	**10,105**	(6,799)
(Loss)/profit attributable to shareholders	**(52,742)**	14,929
Depreciation and amortisation for the year		
– Crude oil transportation	**32,547**	28,249
– Natural gas	**8,581**	6,728
– Unallocated	**(57)**	(82)
	41,071	34,895
Bad debts written off		
– Natural gas	**1,357**	–

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

(Expressed in Renminbi)

11. SEGMENT REPORTING *(Continued)*

	2004	2003
	RMB'000	*RMB'000*
Segment assets		
– Crude oil transportation	**589,480**	585,895
– Natural gas	**199,863**	204,237
Unallocated assets	**105,713**	225,071
Total assets	**895,056**	1,015,203
Segment liabilities		
– Crude oil transportation	**10,141**	16,412
– Natural gas	**1,597**	1,775
Interest in a jointly controlled entity		
– Natural gas	**544**	–
Unallocated liabilities	**479,493**	530,887
Total liabilities	**491,775**	549,074
Capital expenditure incurred during the year		
– Crude oil transportation	**38,968**	106,743
– Natural gas	**14,461**	3,408
– Unallocated	**268**	758
	53,697	110,909

12. FIXED ASSETS

The Group

	Land use rights and buildings	Leasehold improvements	Oil pipeline and ancillary facilities	Natural gas pipeline network and ancillary facilities	Refilling stations	Furniture, fixtures and office equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:								
At 1 January 2004	22,795	1,147	481,579	96,625	22,752	2,099	3,572	630,569
Additions	1,338	181	140	–	962	198	126	2,945
Transfer from construction in progress *(note 13)*	2,212	–	62,069	58,539	–	–	–	122,820
Disposals	–	(1,184)	–	–	(114)	(30)	–	(1,328)
At 31 December 2004	26,345	144	543,788	155,164	23,600	2,267	3,698	755,006
Aggregate depreciation:								
At 1 January 2004	1,521	604	74,202	11,293	3,184	824	664	92,292
Charge for the year	1,176	220	31,305	5,665	2,100	424	366	41,256
Written back on disposal	–	(820)	–	–	–	(21)	–	(841)
At 31 December 2004	2,697	4	105,507	16,958	5,284	1,227	1,030	132,707
Net book value:								
At 31 December 2004	23,648	140	438,281	138,206	18,316	1,040	2,668	622,299
At 31 December 2003	21,274	543	407,377	85,332	19,568	1,275	2,908	538,277

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.

12. FIXED ASSETS *(Continued)*

The natural gas pipeline network and ancillary facilities and refilling stations are situated in Korla of Xinjiang Autonomous Region.

As at 31 December 2004, certain of the oil pipeline and ancillary facilities with a total approximate carrying value of RMB271 million (2003: RMB285 million) have been pledged to a bank for bank loans of RMB200 million (2003: RMB210 million) granted to the Group.

13. CONSTRUCTION IN PROGRESS

	The Group	
	2004	2003
	RMB'000	*RMB'000*
At 1 January	**173,740**	75,297
Additions	**40,160**	109,340
Transfer to fixed assets *(note 12)*	**(122,820)**	(10,897)
At 31 December	**91,080**	173,740

The transfer to fixed assets during the year represents ancillary facilities constructed along the oil pipeline and the extension of natural gas pipeline network.

As at 31 December 2004, construction in progress comprises mainly improvement works of oil pipeline facilities.

14. GOODWILL

		The Group	
	Positive goodwill	**Negative goodwill**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 1 January 2004	–	(10,541)	(10,541)
Addition through acquisition of a subsidiary	10,592	–	10,592
At 31 December 2004	10,592	(10,541)	51
Accumulated amortisation:			
At 1 January 2004	–	1,535	1,535
Amortisation for the year	(397)	582	185
At 31 December 2004	(397)	2,117	1,720
Carrying amount:			
At 31 December 2004	10,195	(8,424)	1,771
At 31 December 2003	–	(9,006)	(9,006)

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 year is included in "general and administrative expenses" in the consolidated income statement.

Positive goodwill is recognised as expense on a straight-line basis over the estimated useful life of 20 years. The amortisation of positive goodwill for the year is included in "general and administrative expenses" in the consolidated income statement.

15. INTERESTS IN SUBSIDIARIES

	The Company	
	2004	2003
	RMB'000	*RMB'000*
Unlisted shares, at cost	**86,823**	86,823
Amounts due from subsidiaries	**184,093**	188,108
	270,916	274,931

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

The following list contains only the particulars of subsidiaries which principally affected the result, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated. All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated in the Group's financial statements.

			Proportion of ownership interest			
Name of company	**Place of incorporation and operation**	**Issued and paid up/ registered capital**	**Group's effective holding**	**held by the Company**	**held by subsidiary**	**Principal activity**
Elite Ascend Holdings Limited	British Virgin Islands/ Hong Kong	US$690	100	100	–	Investment holding
GeoMaxima Management Services Limited	Hong Kong	HK$2	100	100	–	Provision of management services to group companies
Brilliant Creation Limited	Hong Kong	HK$2	100	–	100	Provision of administrative services to group companies
Excellent Century Limited	British Virgin Islands/ Hong Kong	US$100	100	–	100	Investment holding

15. INTERESTS IN SUBSIDIARIES *(Continued)*

			Proportion of ownership interest			
Name of company	**Place of incorporation and operation**	**Issued and paid up/ registered capital**	**Group's effective holding**	**held by the Company**	**held by subsidiary**	**Principal activity**
Oriental Energy Ltd.	British Virgin Islands/ Hong Kong	US$1,000	90	–	90	Investment holding
Bamber Resources Limited	British Virgin Islands/ Hong Kong	US$50,000	100	–	100	Investment holding
Ordifen Limited	British Virgin Islands/ Hong Kong	US$1,000	100	–	100	Investment holding
Xinjiang Xingmei Oil-Pipeline Co., Ltd. (sino-foreign equity joint venture)	PRC	RMB321,000,000	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 refilling stations

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

	The Group	
	2004	2003
	RMB'000	*RMB'000*
Share of net liabilities	**(544)**	–
Loan to a jointly controlled entity	**60,000**	–
	59,456	–

Loan to the jointly controlled entity is unsecured, interest free and has no fixed terms of repayment.

16. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

Details of the Group's interest in the jointly controlled entity are as follows:

Name of joint venture	Place of incorporation and operation	Registered Capital	Proportion of ownership interest: 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 bsuiness

17. INVENTORIES

	The Group 2004 RMB'000	2003 RMB'000
Spare parts, consumables and others	**1,021**	571

All inventories are stated at cost.

18. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade debtors *(note (i))*	**40,111**	30,355	**–**	–
Amount due from minority shareholder *(note (ii))*	**–**	4,041	**–**	–
Investment deposits *(note (iii))*	**39,900**	115,900	**–**	–
Rental and utility deposits	**451**	791	**429**	–
Loans receivable	**–**	4,628	**–**	–
Prepayments and other receivables	**5,703**	2,822	**139**	245
	86,165	158,537	**568**	245

18. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

(i) All the trade debtors and other receivables (net of specific provisions for bad and doubtful debts), other than investment deposits and rental and utility deposits, are expected to be recovered within one year. Ageing analysis of trade debtors is as follows:

	2004	2003
	RMB'000	*RMB'000*
Current (within 6 months)	**23,923**	30,355
More than 6 months overdue but less than 12 months overdue	**16,188**	–
	40,111	30,355

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) The amount due from minority shareholder is unsecured, interest free and has no fixed terms of repayment.

(iii) Included in investment deposits are the following balances:

An investment deposit of RMB55,900,000 was paid to 寧夏豐友化工有限公司 ("Ningxia Fengyou") in November 2002. A sino-foreign equity joint venture would be established in which the Group would own 15% equity interest. During the year, the Group decided to withdraw the investment and Ningxia Fengyou refunded an amount of RMB16,000,000 to the Group. As at 31 December 2004, the remaining balance of RMB39,900,000 is unsecured, interest free and repayable on or before 31 July 2006.

An investment deposit of RMB60,000,000 was paid to Faith Honour International Limited, an independent third party, in July 2003 for acquisition of 51% equity interest in a joint venture in Ningxia, the PRC. This transaction has been completed during the year.

19. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash at bank	**2,846**	69,605	**3**	1,597
Cash in hand	**83**	6	**–**	–
	2,929	69,611	**3**	1,597

20. BANK LOANS

At 31 December 2004, the bank loans of the Group were repayable as follows:

	The Group	
	2004	2003
	RMB'000	*RMB'000*
Within 1 year or on demand	**133,000**	176,800
After 1 year but within 2 years	**110,000**	60,000
After 2 years but within 5 years	**230,000**	240,000
After 5 years	**–**	50,000
	340,000	350,000
	473,000	526,800

20. BANK LOANS *(Continued)*

At 31 December 2004, the bank loans of the Group were secured as follows:

	The Group	
	2004	2003
	RMB'000	*RMB'000*
Bank loans secured by		
– fixed deposits	**–**	46,800
– corporate guarantee put up by a subsidiary	**3,000**	–
– corporate guarantee put up by related companies *(note (i))*	**150,000**	150,000
– corporate guarantee put up by an independent third party	**120,000**	120,000
– fixed assets *(note (ii))*	**200,000**	210,000
	473,000	526,800

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 (a director and controlling shareholder of the Company), for bank loans of RMB70,000,000 (2003: RMB70,000,000) and RMB80,000,000 (2003: RMB80,000,000) respectively granted to the Group.

(ii) Certain of the oil pipeline and ancillary facilities with a total approximate carrying value of RMB271 million (2003: RMB285 million) have been pledged to a bank for bank loans of RMB200 million (2003: RMB210 million) granted to the Group.

21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade creditors	**50**	436	**–**	–
Accrued expenses and other payables	**16,997**	20,180	**2,638**	1,400
Amounts due to minority shareholders	**1,728**	38	**–**	–
Amount due to ultimate holding company	**–**	705	**–**	–
	18,775	21,359	**2,638**	1,400

21. TRADE AND OTHER PAYABLES *(Continued)*

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

The amounts due to minority shareholders and ultimate holding company are unsecured, interest free and have no fixed terms of repayment.

The balance of the trade creditors is due within 3 months or on demand.

22. 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 HK$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 contributions charged to consolidated income statement for the year ended 31 December 2004 amounting to approximately RMB808,000 (2003: RMB843,000).

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

23. EQUITY COMPENSATION BENEFITS

The Company adopted a share option scheme on 6 March 2002 for a period of 10 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 the Stock Exchange of Hong Kong Limited ("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.

23. EQUITY COMPENSATION BENEFITS *(Continued)*

(a) Movements in share options

	Number of options	
	2004	2003
	'000	*'000*
At 1 January and at 31 December	**116,000**	116,000
Options vested at 31 December	**116,000**	116,000

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

	Exercise	Exercise	Number of options	
Date granted	**period**	**price**	**2004**	2003
		HK$	***'000***	*'000*
29 July 2002	2 September 2002 to 31 August 2007	0.698	**116,000**	116,000

24. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2004	2003
	RMB'000	*RMB'000*
Tax payable at 1 January	**(915)**	(10,045)
Provision for PRC income tax	**–**	(5,605)
Over-provision in respect of prior year	**–**	1,902
Provisional PRC income tax paid	**1,250**	12,833
Tax recoverable/(payable) at 31 December	**335**	(915)

(b) Deferred tax liabilities/assets not recognised

At the balance sheet date and for the year, no deferred tax assets has been recognised in relation to tax losses as it is not probable that taxable profit will be available against which tax losses can be utilised. The Group's tax losses of approximately RMB9,338,000 (2003: RMB7,658,000) and RMB11,379,000 (2003: Nil) do not expire and expire in five years respectively under the relevant current tax legislation. The Company's tax losses of approximately RMB9,338,000 (2003: RMB3,952,000) do not expire under current tax legislation.

The Group had no significant potential deferred tax liabilities for the year and at the balance sheet date.

25. SHARE CAPITAL

	The Group and The Company			
	2004		**2003**	
	No. of shares	**Amount**	No. of shares	Amount
	'000	***RMB'000***	*'000*	*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	**3,031,584**	**32,385**	3,031,584	32,385

There was no movement in the share capital of the Company during the years ended 31 December 2004 and 2003.

26. RESERVES

(a) The Group

	Share premium	**Contributed surplus**	**Retained profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2003	176,374	86,716	115,258	378,348
Net profit for the year	–	–	14,929	14,929
At 31 December2003	176,374	86,716	130,187	393,277
At 1 January 2004	176,374	86,716	130,187	393,277
Net loss for the year	–	–	(52,742)	(52,742)
At 31 December 2004	176,374	86,716	77,445	340,535

(Expressed in Renminbi)

26. RESERVES *(Continued)*

(b) The Company

	Share premium *RMB'000*	**Contributed surplus** *RMB'000*	**Accumulated losses** *RMB'000*	**Total** *RMB'000*
At 1 January 2003	176,374	86,716	(13,924)	249,166
Net loss for the year	–	–	(6,178)	(6,178)
At 31 December 2003	176,374	86,716	(20,102)	242,988
At 1 January 2004	176,374	86,716	(20,102)	242,988
Net loss for the year	–	–	(6,524)	(6,524)
At 31 December 2004	176,374	86,716	(26,626)	236,464

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.

(c) At 31 December 2004, the aggregate amount of reserves available for distribution to shareholders of the Company was as follows:–

	2004 ***RMB'000***	2003 *RMB'000*
Contribution surplus	**86,716**	86,716
Accumulated losses	**(26,626)**	(20,102)
	60,090	66,614

27. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2004 not provided for in the financial statements of the Group were as follows:

	The Group	
	2004	2003
	RMB'000	*RMB'000*
Contracted for		
– acquisition of fixed assets	**13,550**	16,015
– injection of registered capital of a PRC subsidiary	**113,027**	113,027
– injection of registered capital of a jointly controlled entity	**81,600**	–
	208,177	129,042

In addition, at 31 December 2004, the jointly controlled entity is itself committed to incur capital expenditure of approximately RMB123,373,000 (2003: Nil), which are contracted for.

(b) At 31 December 2004, 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	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**1,452**	2,696	**1,452**	891
After 1 year but within 5 years	**678**	774	**678**	774
	2,130	3,470	**2,130**	1,665

The Group and the Company lease a number of properties under operating leases.

28. IMPENDING LITIGATION

On 25 November 1999, Xinjiang Xingmei Oil-Pipeline Co., Ltd. ("Xinjiang Xingmei"), a subsidiary of the Company, entered into an agreement with its minority shareholder for the provision of crude oil transportation services through Xinjiang Xingmei's oil pipeline in Tahe region for a period of 20 years. In the last quarter of year 2003, the minority shareholder completed the construction and commenced operation of its own pipeline. During the year, the minority shareholder reduced the volume of oil transportation through the Xinjiang Xingmei's oil pipeline and also delayed the payment for the crude oil transportation services provided by Xinjiang Xingmei. The Group's revenue from operation of transportation and storage facilities of crude oil exploited from the Tahe Oilfield declined significantly. The minority shareholder has breached the exclusivity transportation agreement by transporting its crude oil through its own oil pipeline system.

28. IMPENDING LITIGATION *(Continued)*

The Company has appointed a PRC lawyer for lodging a legal claim against the minority shareholder for breach of the agreement. The claim calls for (i) compensation for the Group's substantial economic loss and (ii) the recovery of the relevant debts. The PRC lawyer is of the opinion that the outcome of the litigation will likely be in favour of the Group. In the opinion of the Company's directors, no provision in respect thereof has been made in the financial statements.

29. 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 Oil-Pipeline Co., Ltd. ("Xinjiang Xingmei") and its minority shareholder for the provision of crude oil transportation services for a period of 20 years.

During the year, revenue from the provision of crude oil transportation service to the minority shareholder amounted to RMB40,978,000 (2003: RMB74,946,000). The balance due from this minority shareholder as at 31 December 2004, as included in trade debtors in note 18, was RMB40,110,000 (2003: RMB27,792,000).

(ii) Guarantees

(a) At 31 December 2004, Xinjiang Xingmei has given corporate guarantee to a bank to secure a bank loan granted to Lejion Gas Co., Ltd. ("Lejion Gas"), a subsidiary of the Company, in the amount of RMB3,000,000.

(b) At 31 December 2004, Jilin City Shine Gem Gas Pipeline Co. Ltd., a company controlled by Mr. Sun Tian Gang ("Mr. Sun") who is the director and controlling shareholder of the Company, has given corporate guarantee to secure bank loans granted to Xinjiang Xingmei in the amounts of RMB70,000,000 (2003: RMB70,000,000).

(c) At 31 December 2004, corporate guarantee was given by Jilin City Jimei Gas Co., Ltd., a company controlled by Mr. Sun to secure bank loans of RMB80,000,000 (2003: RMB80,000,000) granted to Xinjiang Xingmei.

(iii) Loans

Loans from/to minority shareholders

(a) During the year, the PRC joint venture partner of Lejion Gas, repaid RMB4,041,000 to Lejion Gas which was outstanding balance due from this joint venture partner at 31 December 2003. The loan was unsecured, interest free and had no fixed term of repayment.

29. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(iii) Loans *(Continued)*

Loan from ultimate holding company

(b) During the year ended 31 December 2003, China GeoMaxima Company Limited, the ultimate holding company of the Company, advanced a loan to the Group in the amount of RMB705,000. The loan was unsecured and interest free and had no fixed terms of repayment. The loan was settled during the year ended 31 December 2004.

(iv) Purchase of fixed assets

During the year, Lejion Gas purchased certain fixed assets from its PRC joint venture partner, the minority shareholder of the Group, for a consideration of RMB1,728,925. This transaction, in the opinion of the Company's directors, was conducted on normal commercial terms and in ordinary course of business.

At 31 December 2004, the Group had an amount of approximately RMB1,690,000 due to this minority shareholder, arising from the above transaction. Such amount is unsecured, interest free and has no fixed terms of repayment.

30. COMPARATIVE FIGURES

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

31. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2004 to be China GeoMaxima Company Limited, which is incorporated in the British Virgin Islands.