Notes to the Financial Statements

(Expressed in Renminbi)

1. Basis of Preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes 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 2004 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial report is unaudited, but has been reviewed by the Company's audit committee.

The financial information relating to the financial year ended 31 December 2004 that is included in the interim financial report as being previously reported information does not constitute the company's statutory financial statements for that financial year but is derived from those financial statements. The auditors have expressed a modified opinion on those financial statements in their report dated 21 April 2005.

2. Changes in Accounting Policies

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs" which term collectively includes HKASs and Interpretations) that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2005, on the basis of HKFRSs currently in issue.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim financial report.

(a) Employee share option scheme (HKFRS 2, Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

2. Changes in Accounting Policies *(continued)*

(a) Employee share option scheme (HKFRS 2, Share-based payment) *(continued)*

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in capital reserve within equity.

Where the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If an employee chooses to exercise options, the related capital reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to retained earnings.

The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

(a) all options granted to employees on or before 7 November 2002; and

(b) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group's options were granted to employees before 7 November 2002, the adoption of HKFRS 2 has no impact on the Group's net assets and results for the current period and prior years.

Details of the employee share option scheme can be found in the Company's annual report for the year ended 31 December 2004 and in this interim financial report.

(b) Leasehold land and buildings held for own use (HKAS 17, Leases)

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and accumulated impairment losses.

With the adoption of HKAS 17 as from 1 January 2005, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be separately identified from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Any prepaid land premiums for acquiring the land and leases, or other lease payments, are amortised on a straight line basis over the lease term. The amortisation charge is recognised in the income statement immediately.

2. Changes in Accounting Policies *(continued)*

(b) Leasehold land and buildings held for own use (HKAS 17, Leases) *(continued)*

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment.

The adoption of this new policy has no impact on the Group's net assets and results for the current period and prior years.

(c) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior years:

- positive goodwill was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairments; and

- negative goodwill was amortised over the weighted average useful life of the depreciable/ amortisable non-monetary assets acquired, except to the extent is related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from 1 January 2005, in accordance with HKFRS 3 and HKAS 36, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the income statement as it arises.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the income statement for the six months ended 30 June 2005. This has decreased the Group's loss after taxation for the six months ended 30 June 2005 by RMB397,000.

Also in accordance with the transitional arrangements under HKFRS 3, the carrying amount of negative goodwill existing at 1 January 2005 shall be derecognised, with a corresponding adjustment to the opening balance of retained profits. These have increased the Group's loss after taxation for the six months ended 30 June 2005 by RMB582,000 and the Group's net assets at 30 June 2005 have increased by RMB8,424,000.

2. Changes in Accounting Policies *(continued)*

(d) Minority interest (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the shareholders of the Company, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the shareholders of the Company.

The presentation of minority interests in the consolidated balance sheet, income statements and statement of changes in equity for the comparative period has been restated accordingly.

3. 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 LPG in cylinder.

3. 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	
	2005	2004
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue from external customers		
– Crude oil transportation	**19,647**	20,186
– Natural gas		
Sale of piped natural gas	**6,852**	4,720
Sale of natural gas and LPG at refilling stations	**2,295**	3,592
Sale of LPG in cylinder	**735**	3,627
Total revenue from external customers	**29,529**	32,125
Other revenue-unallocated *(Note)*	**270**	2,589
Total revenue	**29,799**	34,714

Segment result

	Six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Loss from operations		
– Crude oil transportation	**(2,951)**	(1,892)
– Natural gas	**(2,541)**	(1,911)
– Unallocated expenses *(Note)*	**(6,281)**	(6,006)
Total loss from operations	**(11,773)**	(9,809)
Finance costs	**(12,834)**	(15,166)
Loss from ordinary activities before taxation	**(24,607)**	(24,975)
Taxation	**(71)**	(253)
Loss from ordinary activities after taxation	**(24,678)**	(25,228)
Minority interests	**2,345**	3,856
Loss attributable to shareholders	**(22,333)**	(21,372)

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

4. Loss from Ordinary Activities Before Taxation

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

	Six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
(a) Finance costs:		
Interest on bank borrowings	**12,834**	15,166
(b) Other items:		
Cost of inventories	**11,695**	13,957
Amortisation of negative goodwill	**–**	(291)
Depreciation	**20,126**	17,895

5. Taxation

	Six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Provision for PRC income tax for the period	**71**	253

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 profit of Xinjiang Xingmei Oil Pipeline Co., Limited ("Xinjiang Xingmei") as it did not derive any income subject to PRC income tax during the period.

6. Dividends

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2005 (2004: RMBNil).

7. Loss per Share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of RMB22,333,000 (six months ended 30 June 2004: RMB21,372,000) and the weighted average of 3,031,583,936 ordinary shares (2004: 3,031,583,936 ordinary shares) in issue during the period.

(b) Diluted loss per share

The calculation of diluted loss per share is based on the loss attributable to shareholders of RMB22,333,000 (six months ended 30 June 2004: RMB21,372,000) and the weighted average number of 3,031,583,936 ordinary shares (2004: 3,031,583,936 ordinary shares) after adjusting for the effects of all potential dilutive ordinary shares.

8. Acquisitions of Fixed Assets

During the six months ended 30 June 2005, the Group spent approximately RMB11,167,000 (30 June 2004: RMB30,788,000) and RMB617,000 (30 June 2004: RMB4,905,000) on the acquisition of construction in progress and other property, plant and equipment respectively.

9. Trade and Other Receivables

	At 30 June 2005	At 31 December 2004
	RMB'000	*RMB'000*
Trade debtors *(note (i))*	**36,228**	40,111
Amount due from minority shareholders *(note (ii))*	**3,034**	–
Prepayments, deposits and other receivables *(note (iii))*	**29,565**	46,054
	68,827	86,165

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) Included in prepayments, deposits and other receivables as at 30 June 2005 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. During year ended 31 December 2004, the Group decided to withdraw the investment and the equity joint venture refunded an amount of RMB27,374,000 to the Group. As at 30 June 2005, the remaining balance of RMB28,526,000 is unsecured, interest free and repayable on or before 31 July 2006.

10. Bank Loans

At 30 June 2005, the bank loans were repayable as follows:

	At 30 June 2005	At 31 December 2004
	RMB'000	*RMB'000*
Within 1 year or on demand	**133,000**	133,000
After 1 year but within 2 years	**140,000**	110,000
After 2 years but within 5 years	**200,000**	230,000
	340,000	340,000
	473,000	473,000

As at 30 June 2005, the bank loans of the Group were secured as follows:

	At 30 June 2005	At 31 December 2004
	RMB'000	*RMB'000*
Bank loans secured by		
– corporate guarantee put up by a subsidiary	**3,000**	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**	200,000
	473,000	473,000

Notes:

(i) The corporate guarantees are issued by Jilin City Shine Gem Gas Pipeline Co., Ltd. and Jilin City Jimei Gas Go., Ltd., the companies controlled by Mr. Sun Tian Gang (a director and controlling shareholder of the Company as at 30 June 2005), for bank loans of RMB70,000,000 (2004: 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 approximately carrying value of RMB264 million (at 31 December 2004: RMB271 million) have been pledged to a bank for bank loans of RMB200 million (at 31 December 2004: RMB200 million) granted to the Group.

11. Trade and Other Payables

	At 30 June 2005 *RMB'000*	At 31 December 2004 *RMB'000*
Trade creditors *(note)*	**382**	50
Accrued expenses and other payables	**15,765**	16,997
Amount due to minority shareholder	**38**	1,728
	16,185	18,775

Note:

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

The aging analysis of trade creditors are as follows:

	At 30 June 2005 *RMB'000*	At 31 December 2004 *RMB'000*
Due within 3 months or on demand	**382**	50

12. Reserves

	Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Retained profits RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2004	32,385	176,374	86,716	130,187	40,467	466,129
Net loss for the period	–	–	–	(21,372)	(3,856)	(25,228)
At 30 June 2004	32,385	176,374	86,716	108,815	36,611	440,901
At 1 July 2004	32,385	176,374	86,716	108,815	36,611	440,901
Net loss for the period	–	–	–	(31,370)	(6,250)	(37,620)
At 31 December 2004	32,385	176,374	86,716	77,445	30,361	403,281
At 1 January 2005						
– as previously reports	32,385	176,374	86,716	77,445	30,361	403,281
– opening balance adjustment in respect of negative goodwill	–	–	–	8,424	–	8,424
– as restated, after opening balance adjustment	32,385	176,374	86,716	85,869	30,361	411,705
Net loss for the period	–	–	–	(22,333)	(2,345)	(24,678)
At 30 June 2005	32,385	176,374	86,716	63,536	28,016	387,027

13. Commitments

(a) Capital commitments

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

	At 30 June 2005 ***RMB'000***	At 31 December 2004 *RMB'000*
Contracted for		
– acquisition of fixed assets	**4,742**	13,550
– injection of registered capital of a PRC subsidiary	**113,027**	113,027
– injection of registered capital of a jointly controlled entity	**81,600**	81,600

13. Commitments *(continued)*

(b) Operating lease commitments

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

	At 30 June 2005 *RMB'000*	At 31 December 2004 *RMB'000*
Within 1 year	**1,007**	1,452
After 1 year but within 5 years	**308**	678
	1,315	2,130

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 six months ended 30 June 2005, revenue from the provision of crude oil transportation service to the minority shareholder amounted to RMB18,861,000 (for the six months ended 30 June 2004: RMB18,485,000). The balance due from this minority shareholder as at 30 June 2005 was RMB39,262,000 (at 31 December 2004: RMB40,110,000).

(ii) Loans

As at 30 June 2005, Lejion Gas, a subsidiary of the Group, advanced a loan to the PRC joint venture partner of Lejion Gas in the amount of RMB3,034,000 (at 31 December 2004: RMB4,041,000). The loan is unsecured, interest free and has no fixed term of repayment.