Notes to the Financial Statements

For the year ended 31 December 2005
(Expressed in Renminbi)

1. CORPORATE INFORMATION

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

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

At 31 December 2005, in the opinion of the directors, the Company's immediate holding company is China GeoMaxima Company Limited, which is incorporated in the British Virgin Islands, and the Company's ultimate holding company is Hong Chang Group Limited, which is also incorporated in the British Virgin Island.

2. BASIS OF PRESENTATION

Notwithstanding that:

– the Company and the Group sustained losses;

– as at 31 December 2005, the Company had net current liabilities;

– as at 31 December 2005, the Group had net current liabilities, including the bank loans of RMB100,700,000 which were overdue;

– as at the date of authorisation for issue of these financial statements, the overdue bank loans of RMB60,700,000 remain outstanding without renewal; and

– there are contingent liabilities for payment of the alleged bank loans amounting to approximately RMB240 million and the alleged interest thereon amounting to approximately RMB8 million as more detailed in note 35,

2. BASIS OF PRESENTATION *(continued)*

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

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

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

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

(iv) the favourable outcome for the payment of the alleged bank loans amounting to RMB240 million and alleged interest thereon amounting to RMB 8 million as more detailed in note 35.

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

3. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 4.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Basis of preparation of the financial statements

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

The consolidated financial statements for the year ended 31 December 2005 comprise the Company and its subsidiaries and the Group's interest in a jointly controlled entity.

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

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

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

c) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, 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, so as to obtain benefits from their activities.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

c) Subsidiaries *(continued)*

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 and statement of changes in equity within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits the Group's interest is allocated all such profits 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 impairment losses (see note 3(i)).

d) Jointly controlled entities

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

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the jointly controlled entity's net assets, unless it is 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d) Jointly controlled entities *(continued)*

Unrealised profits and losses resulting from transactions between the Group and its 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

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

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

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

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

f) Property, plant and equipment

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

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

– other items of plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Changes arising on the revaluation of properties held for own use are generally dealt with in reserves. The only exceptions are as follows:

– when a deficit arises on revaluation, it will be charged to income statement to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and

– when a surplus arises on revaluation, it will be credited to income statement to the extent that a deficit on revaluation in respect of that same asset had previously been charged to income statement.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits/accumulated losses.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g) Construction in progress

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

No depreciation is provided in respect of construction in progress.

h) Operating lease charges

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

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

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

i) Impairment of assets

(i) Impairment of receivables

Receivables are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised. For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. effective interest rate computed at initial recognition of these assets).

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) Impairment of assets *(continued)*

(ii) Impairment of other assets

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

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

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

– *Calculation of recoverable amount*

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

– *Recognition of impairment losses*

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) Impairment of assets *(continued)*

(ii) Impairment of other assets

– *Reversals of impairment losses*

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

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

j) Inventories

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

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

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

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

k) Trade and other receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

l) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

m) Cash and cash equivalents

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

n) Employee benefits

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

o) Income tax

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

o) Income tax *(continued)*

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

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

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

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

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

– the same taxable entity; or

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

p) Provisions and contingent liabilities

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

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

q) Revenue recognition

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

(i) Sale of 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 recognised as it accrues using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

r) Translation of foreign currencies

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

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

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

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

s) Borrowing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

t) 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

u) Segment reporting

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

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

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

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

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

(Expressed in Renminbi)

4. CHANGES IN ACCOUNTING POLICIES

The following new and revised HKFRSs are relevant for the Group's financial statements and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 26	Accounting and Reporting by Retirement Benefit Plans
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 24, 26, 31, 32, 33, 37 and 39 has had no material impact on the Group's accounting policies and the methods of computation, presentation and disclosures in the Group's consolidated financial statements. The major effects on adoption of the other HKFRSs are summarised as follows:

a) HKAS 1 – Presentation of Financial Statements

HKAS 1 requires the new disclosures to be made in these financial statements. Accordingly, the Group is no longer permitted not to disclose comparative information on movements in property, plant and equipment.

Apart from the above changes, HKAS 1 also requires the disclosure of judgements (apart from those involving estimations) and key assumptions concerning the future and other sources of estimation uncertainty. These disclosures are detailed in note 5 to the financial statements.

4. CHANGES IN ACCOUNTING POLICIES *(continued)*

b) 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 a 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 loss/profit attributable to shareholders.

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

c) HKAS 17 – Leases

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at cost less accumulated depreciation and impairment loss. Following the adoption of HKAS 17, the Group's leasehold interest in land and buildings are separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and are reclassified from property, plant and equipments to land lease prepayments, while leasehold buildings continue to be classified as part of property, plant and equipment. Land lease prepayments under operating leases is initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

The effects of the above changes are summarised in notes 4(f) to 4(g) to the financial statements. In accordance with the transitional provisions of HKAS 17, comparative amounts on the balance sheets for the year ended 31 December 2004 have been restated to reflect the reclassification of leasehold land.

4. CHANGES IN ACCOUNTING POLICIES *(continued)*

d) 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.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 3(n)(iii).

The new accounting policy has been applied retrospectively with comparative restated, except that the group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

(a) all options grants to employees on or before 1 November 2002; and

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

No adjustments to the opening balances as at 1 January 2004 are required as no options existed at that time which were unvested at 1 January 2005.

Details of the employee share option scheme are set out in note 29.

e) Amortisation of positive and negative goodwill (HKFRS 3 – Business combinations, HKAS 36 – Impairment of assets and HKAS 38 – Intangible assets)

In prior periods:

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

– negative goodwill which arose was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it 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.

4. CHANGES IN ACCOUNTING POLICIES *(continued)*

e) Amortisation of positive and negative goodwill (HKFRS 3 – Business combinations, HKAS 36 – Impairment of assets and HKAS 38 – Intangible assets) *(continued)*

With effect from 1 January 2005, in order to comply with HKFRS 3, HKAS 36 and HKAS 38, the Group has changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill but tests it at least annually for impairment. Also with effect from 1 January 2005 and in accordance with HKFRS 3, HKAS 36 and HKAS 38, 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 profit or loss as it arises. Further details of these new policies are set out in note 3(e).

The new policy in respect of the amortisation of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. The adjustments for consolidated financial statement line affect for the year ended 31 December 2005 are set out in notes 4(f) to 4(g).

f) The effects of changes in the above accounting policies described above on the results for the current and prior year are as follows:

	2005 **RMB'000**	2004 RMB'000
Non-amortisation of positive goodwill	**530**	–
Non-amortisation of negative goodwill	**(582)**	–
Recognition of share based payments as expenses	**(2,332)**	–
(Increase)/decrease in loss for the year	**(2,384)**	–

4. CHANGES IN ACCOUNTING POLICIES *(continued)*

g) The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarised below:

The Group	As at 31 December 2004 (as previously reported)	Retrospective adjustments HKAS 1	Retrospective adjustments HKAS 17	Retrospective adjustments HKFRS 2	As at 31 December 2004 (restated)	Prospective adjustments HKAS 36	As at 1 January 2005 (restated)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance sheet items							
Property, plant and equipment	622,299	–	(4,898)	–	617,401	–	617,401
Land lease prepayments	–	–	4,898	–	4,898	–	4,898
Positive goodwill	10,195	–	–	–	10,195	–	10,195
Negative goodwill	(8,424)	–	–	–	(8,424)	8,424	–
Other net liabilities	(220,789)	–	–	–	(220,789)	–	(220,789)
Total effects on assets and liabilities	403,281	–	–	–	403,281	8,424	411,705
Share capital	32,385	–	–	–	32,385	–	32,385
Retained profits	77,445	–	–	–	77,445	8,424	85,869
Other reserves	263,090	–	–	–	263,090	–	263,090
Minority interests	–	30,361	–	–	30,361	–	30,361
Total effects on equity	372,920	30,361	–	–	403,281	8,424	411,705
Minority interests	30,361	(30,361)	–	–	–	–	–

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Impairment of property, plant and equipment and land lease prepayments

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

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2005, the carrying amount of goodwill was written down to nil.

Impairment of receivables

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

Impairment of interest in jointly controlled entity

As at balance sheet date, both internal and external sources of information are considered to assess where there is any indication that interest in jointly controlled entity may be impaired. If such indiction exists, impairment losses of the interest in jointly controlled entity, are recognised in the income statement.

6. TURNOVER

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

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

	2005	2004
	RMB'000	RMB'000
Provision of crude oil transportation, storage and unloading services	**44,990**	43,689
Sales of natural gas and LPG		
– sales of piped natural gas	**15**	6,693
– sales of natural gas and LPG at refilling stations	**19,432**	9,648
– sales of LPG in cylinder	**3,829**	9,918
	68,266	69,948

7. OTHER REVENUE

	2005	2004
	RMB'000	RMB'000
Interest income on bank deposits	**29**	413
Interest income on loans	**–**	1,802
Others	**233**	38
	262	2,253

8. LOSS BEFORE TAXATION

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

		2005 RMB'000	2004 (restated) RMB'000
a)	**Finance costs**		
	Interest on bank loans wholly repayable within five years	**34,648**	28,501
	Interest on other loan wholly repayable within five years	**6**	–
		34,654	28,501
b)	**Staff costs**		
	Salaries, wages and other benefits	**13,957**	13,935
	Employee share option benefits	**2,332**	–
	Retirement benefit scheme contributions	**898**	808
		17,187	14,743
c)	**Other items**		
	Cost of inventories	**13,461**	16,662
	Amortisation of positive goodwill	**–**	397
	Amortisation of negative goodwill	**–**	(582)
	Amortisation of land lease prepayments	**300**	251
	Auditors' remuneration	**624**	583
	Depreciation of fixed assets	**54,249**	41,005
	Operating lease charges: minimum lease payments – property rentals	**1,454**	2,716
	Bad debts written off	**–**	1,357
	Impairment losses		
	– fixed assets	**107,747**	–
	– land lease prepayments	**1,182**	–
	– positive goodwill	**10,195**	–
	– interest in jointly controlled entity	**58,887**	–
	– other receivables	**5,000**	–
	– trade receivables	**20,757**	–
	Loss on disposals of fixed assets	**207**	373
	Net (gain)/loss on exchange difference	**(97)**	17

9. TAXATION

a) Taxation in the consolidated income statement represents:

	2005 RMB'000	2004 RMB'000
Current tax – Provision for PRC income tax		
Tax for the year	**335**	–

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

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.

No provision for PRC income tax has been made in the financial statements of Xinjiang Xingmei Oil-Pipeline Co., Ltd. ("Xinjiang Xingmei"), a Company's subsidiary established in the PRC, as Xingiang Xingmei has no estimated assessable profits for the years ended 31 December 2005 and 2004.

Lejion Gas Co., Ltd. ("Lejion Gas"), a Company's subsidiary established in the PRC, is entitled to a reduced tax rate of 15%, being 50% of the standard state income tax rate of 30% and full exemption of 3% local income tax. Accordingly, Lejion Gas is subject to PRC income tax at a rate of 15% for the year ended 31 December 2005. No provision for PRC income tax has been made for the year ended 31 December 2004 in respect of the profit of Lejion Gas as it is exempted from PRC income tax for that year.

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

	2005 RMB'000	2004 RMB'000
Loss before taxation	**(273,118)**	(62,847)
Notional tax on loss before tax, calculated at the applicable rates	**(77,339)**	(18,353)
Tax effect of non-deductible expenses	**49,656**	5,700
Tax effect of non-taxable revenue	**(205)**	(417)
Tax effect of unused tax losses not recognised	**27,553**	13,070
Actual tax expenses	**(335)**	–

10. DIRECTORS' REMUNERATION

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

	2005 RMB'000	2004 RMB'000
Fees	**364**	382
Salaries and other emoluments	**2,585**	2,926
Employee share option benefits	**367**	–
Retirement benefit scheme contributions	**26**	25
	3,342	3,333

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 2005 are disclosed in the directors' report.

	Fees RMB'000	**Salaries and other benefits** RMB'000	**Employee share option benefit** RMB'000	**Retirement benefit scheme contributions** RMB'000	**Total** RMB'000
Executive directors					
Xing Xiao Jing (appointed on 29 September 2005)	–	263	37	3	303
Ma Ji (note i)	–	–	165	–	165
Kong Siu Tim (note ii)	–	148	165	2	315
Wan Tze Fan Terence (appointed on 22 August 2005 and resigned on 1 November 2005)	–	158	–	2	160
Guo Ting (resigned on 1 November 2005)	–	789	–	10	799
Sun Tian Gang (resigned on 22 August 2005)	–	930	–	8	938
Zhu Jia Zhen (resigned on 8 March 2005)	–	235	–	–	235
	–	2,523	367	25	2,915
Non-executive directors					
Ma Ji (note i)	–	–	–	–	–
Kong Siu Tim (note ii)	–	62	–	1	63
Zhao Xin Xian (retired on 21 June 2005)	–	–	–	–	–
	–	62	–	1	63
Independent non-executive directors					
Yip Ching Shan	125	–	–	–	125
Ni Zhenwei (appointed on 1 November 2005)	21	–	–	–	21
Yu En Guang (resigned on 4 April 2006)	114	–	–	–	114
Zhang Xue Min (resigned on 1 November 2005)	104	–	–	–	104
	364	–	–	–	364
Total in 2005	364	2,585	367	26	3,342

10. DIRECTORS' REMUNERATION *(continued)*

	Fees RMB'000	Salaries and other benefits RMB'000	Employee share option benefit RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors					
Guo Ting (resigned on 1 November 2005)	–	964	–	13	977
Sun Tian Gang (resigned on 22 August 2005)	–	1,355	–	12	1,367
Zhu Jia Zhen (resigned on 8 March 2005)	–	607	–	–	607
	–	2,926	–	25	2,951
Non-executive directors					
Ma Ji (note i)	–	–	–	–	–
Zhao Xin Xian (retired on 21 June 2005)	–	–	–	–	–
	–	–	–	–	–
Independent non-executive directors					
Yip Ching Shan	127	–	–	–	127
Yu En Guang (resigned on 4 April 2006)	127	–	–	–	127
Zhang Xue Min (resigned on 1 November 2005)	128	–	–	–	128
	382	–	–	–	382
Total in 2004	382	2,926	–	25	3,333

Notes:

(i) Ma Ji was appointed as non-executive director on 29 November 2004 and redesigned from non-executive director to executive director on 22 August 2005.

(ii) Kong Siu Tim was appointed as non-executive director on 22 August 2005 and redesigned from non-executive director to executive director on 1 November 2005.

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest paid emoluments, two (2004: three) are directors whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the other three (2004: two) individuals are as follows:

	2005	2004
	RMB'000	RMB'000
Salaries and other emoluments	**1,509**	1,293
Employee share option benefits	**148**	–
Retirement benefits scheme contributions	**31**	24
	1,688	1,317

The emoluments of the three (2004: two) individuals with the highest emoluments are within the following band:

	No. of individuals	
	2005	2004
RMBnil – RMB1,000,000	**3**	2

Wan Tze Fan Terence, the company secretary of the Company, was appointed as director on 22 August 2005 and resigned as director on 1 November 2005. His emoluments in this note include his director's remuneration, which is also disclosed in note 10 above.

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to equity holders of the Company includes a loss of RMB201,151,000 (2004: RMB6,524,000) which has been dealt with in the financial statements of the Company.

13. DIVIDENDS

The directors have not declared nor proposed any dividends in respect of the year ended 31 December 2005 (2004: Nil).

14. LOSS PER SHARE

a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of RMB262,955,000 (2004: RMB52,742,000) and the weighted average of 3,032,844,000 ordinary shares (2004: 3,031,584,000 ordinary shares) in issue during the year.

14. LOSS PER SHARE *(continued)*

b) Diluted loss per share

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

The diluted loss per share for the year ended 31 December 2004 is the same as the basic loss per share for that year as the exercise price of the Company's outstanding share option is higher than the fair price per share of the Company for the year ended 31 December 2004.

15. SEGMENT REPORTING

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

Business segments

The Group comprises the following main business segments:

Crude oil transportation:	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.

	2005 RMB'000	2004 RMB'000
Revenue from external customers		
– Crude oil transportation	**44,990**	43,689
– Natural gas		
Sales of piped natural gas	**15**	6,693
Sales of natural gas and LPG at refilling stations	**19,432**	9,648
Sales of LPG in cylinder	**3,829**	9,918
Total revenue from external customers	**68,266**	69,948
Other revenue		
– Crude oil	**214**	351
– Natural gas	**19**	148
– Unallocated	**29**	1,754
Total revenue	**68,528**	72,201

15. SEGMENT REPORTING *(continued)*

	2005 RMB'000	2004 RMB'000
Segment result		
Loss from operations		
– Crude oil transportation	**(167,945)**	(12,662)
– Natural gas	**(57,112)**	(6,288)
– Unallocated	**(12,838)**	(14,852)
Loss from operations	**(237,895)**	(33,802)
Finance costs	**(34,654)**	(28,501)
Share of loss of a jointly controlled entity		
– Natural gas	**(569)**	(544)
Loss before taxation	**(273,118)**	(62,847)
Taxation	**(335)**	–
Loss for the year	**(273,453)**	(62,847)
Depreciation and amortisation for the year		
– Crude oil transportation	**40,393**	32,547
– Natural gas	**13,556**	8,581
– Unallocated	**300**	(57)
	54,249	41,071
Bad debts written off		
– Natural gas	**–**	1,357
Impairment for bad and doubtful debts		
– Crude oil transportation	**20,757**	–
Impairment for interest in jointly controlled entity		
– Natural gas	**58,887**	–
Impairment for positive goodwill		
– Natural gas	**10,195**	–
Impairment for fixed assets		
– Crude oil transportation	**67,624**	–
– Natural gas	**40,123**	–
– Unallocated	**–**	–
	107,747	–
Impairment for land lease prepayments		
– Natural gas	**1,182**	–

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

15. SEGMENT REPORTING *(continued)*

	2005 **RMB'000**	2004 RMB'000
Segment assets		
– Crude oil transportation	**477,490**	589,480
– Natural gas	**144,448**	199,863
Unallocated assets	**34,137**	105,713
Total assets	**656,075**	895,056
Segment liabilities		
– Crude oil transportation	**14,322**	10,141
– Natural gas	**716**	1,597
Interest in a jointly controlled entity		
– Natural gas	**569**	544
Unallocated liabilities	**499,156**	479,493
Total liabilities	**514,763**	491,775
Capital expenditure incurred during the year		
– Crude oil transportation	**19,315**	38,968
– Natural gas	**5,228**	14,461
– Unallocated	**51**	268
	24,594	53,697

16. FIXED ASSETS

The Group

	Buildings RMB'000	Leasehold improvements RMB'000	Oil pipeline and ancillary facilities RMB'000	Natural gas pipeline network and ancillary facilities RMB'000	Refilling stations RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost								
At 1 January 2004								
As previously reported	22,795	1,147	481,579	96,625	22,752	2,099	3,572	630,569
Reclassification to land lease prepayments upon adoption of HKAS 17	(4,817)	–	–	–	–	–	–	(4,817)
As restated	17,978	1,147	481,579	96,625	22,752	2,099	3,572	625,752
Additions								
As previously reported	1,338	181	140	–	962	198	126	2,945
Reclassification to land lease prepayments upon adoption of HKAS 17	(756)	–	–	–	–	–	–	(756)
As restated	582	181	140	–	962	198	126	2,189
Transfer from construction in progress (note 17)	2,212	–	62,069	58,539	–	–	–	122,820
Disposals	–	(1,184)	–	–	(114)	(30)	–	(1,328)
At 31 December 2004 and 1 January 2005, as restated	20,772	144	543,788	155,164	23,600	2,267	3,698	749,433
Additions	289	7	191	30,000	25	179	–	30,691
Transfer from construction in progress (note 17)	–	–	109,872	290	–	–	–	110,162
Disposals	–	(24)	–	–	(198)	(323)	(45)	(590)
At 31 December 2005	21,061	127	653,851	185,454	23,427	2,123	3,653	889,696
Aggregate depreciation and impairment								
At 1 January 2005								
As previously reported	1,521	604	74,202	11,293	3,184	824	664	92,292
Reclassification to land lease prepayments upon adoption of HKAS 17	(424)	–	–	–	–	–	–	(424)
As restated	1,097	604	74,202	11,293	3,184	824	664	91,868
Charge for the year								
As previously reported	1,176	220	31,305	5,665	2,100	424	366	41,256
Reclassification to land lease prepayments upon adoption of HKAS 17	(251)	–	–	–	–	–	–	(251)
As restated	925	220	31,305	5,665	2,100	424	366	41,005
Written back on disposals	–	(820)	–	–	–	(21)	–	(841)
At 31 December 2004 and 1 January 2005, as restated	2,022	4	105,507	16,958	5,284	1,227	1,030	132,032
Charge for the year	944	28	39,168	11,233	2,108	408	360	54,249
Impairment loss	2,564	–	65,316	35,827	3,659	101	280	107,747
Written back on disposals	–	(8)	–	–	(24)	(305)	(12)	(349)
At 31 December 2005	5,530	24	209,991	64,018	11,027	1,431	1,658	293,679

16. FIXED ASSETS *(continued)*

The Group *(continued)*

	Buildings RMB'000	Leasehold improvements RMB'000	Oil pipeline and ancillary facilities RMB'000	Natural gas pipeline network and ancillary facilities RMB'000	Refilling stations RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Net book value								
At 31 December 2005	15,531	103	443,860	121,436	12,400	692	1,995	596,017
At 31 December 2004								
As previously reported	23,648	140	438,281	138,206	18,316	1,040	2,668	622,299
Reclassification to land lease prepayments upon adoption of HKAS 17	(4,898)	–	–	–	–	–	–	(4,898)
As restated	18,750	140	438,281	138,206	18,316	1,040	2,668	617,401

Notes:

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

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

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

(iv) As at 31 December 2005, certain of the oil pipeline and ancillary facilities with an aggregate carrying value of approximately RMB343 million (2004: RMB271 million) have been pledged to a bank for bank loans of RMB198 million (2004: RMB200 million) granted to the Group.

(v) As at 31 December 2005, certain of the refilling stations and land at an aggregate carrying value of approximately RMB4,208,000 (2004: Nil) have been pledged for other loan of RMB7,700,000 (2004: Nil) granted to the Group.

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

17. CONSTRUCTION IN PROGRESS

	The Group	
	2005	2004
	RMB'000	RMB'000
At 1 January	**91,080**	173,740
Additions	**22,795**	40,160
Transfer to fixed assets (note 16)	**(110,162)**	(122,820)
At 31 December	**3,713**	91,080

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 2005, construction in progress comprises mainly refilling station facilities. As at 31 December 2004, construction in progress comprises mainly improvement works of oil pipeline facilities.

18. LAND LEASE PREPAYMENTS

	The Group	
	2005	2004
		(restated)
	RMB'000	RMB'000
Net book value at 1 January		
– as previously reported	**–**	–
– effect of adopting HKAS 17	**4,898**	4,393
– as restated	**4,898**	4,393
Additions	**1,108**	756
Amortisation	**(300)**	(251)
Impairment loss	**(1,182)**	–
Net book value at 31 December	**4,524**	4,898
Current portion of non-current assets	**(301)**	(251)
Non-current portion	**4,223**	4,647

The leasehold land is held under medium term lease and situated in the PRC. The cost of the leasehold land is RMB6,681,000 (2004: RMB5,573,000).

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

19. GOODWILL

	The Group		
	Goodwill RMB'000	Negative goodwill RMB'000	Total 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
At 1 January 2005, as previously restated	10,592	(10,541)	51
Effect of changes in accounting policies (see note 4)	(397)	10,541	10,144
At 1 January, as restated, and 31 December 2005	10,195	–	10,195
Accumulated amortisation and impairment			
At 1 January 2004	–	1,535	1,535
Amortisation for the year	(397)	582	185
At 31 December 2004	(397)	2,117	1,720
At 1 January 2005, as previously restated	(397)	2,117	1,720
Effect of changes in accounting policies (see note 4)	397	(2,117)	(1,720)
At 1 January 2005, as restated	–	–	–
Impairment loss	(10,195)	–	(10,195)
At 31 December 2005	(10,195)	–	(10,195)
Carrying amount			
At 31 December 2005	–	–	–
At 31 December 2004	10,195	(8,424)	1,771

Until 31 December 2004, goodwill is recognised as an expense on a straight-line basis over the estimated useful life of 20 years while negative goodwill is recognised as an income on a straight-line basis over the unexpired terms of the joint ventures ranging from 18 to 19 years. The amortisation of goodwill for the year is included in "other operating expenses" in the consolidated income statement.

19. GOODWILL *(continued)*

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

20. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2005	2004
	RMB'000	RMB'000
Unlisted shares, at cost	**86,824**	86,823
Less: Impairment loss	**(15,000)**	–
	71,824	86,823

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 3(c) and have been consolidated in the Group's financial statements.

			Proportion of ownership interest			
Name of company	Place of incorporation/ 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	US$690	100	100	–	Investment holding
Chuang Xin Management Services Limited*	Hong Kong	HK$2	100	100	–	Provision of management services to group companies
Genesis Energy (Hong Kong) Limited (formerly known as Brilliant Creation Limited)	Hong Kong	HK$2	100	–	100	Provision of administrative services to group companies
Excellent Century Limited	British Virgin Islands	US$100	100	–	100	Investment holding
Oriental Energy Limited	British Virgin Islands	US$1,000	90	–	90	Investment holding

* During the year, the Company changed its name from GeoMaxima Management Services Limited to Genesis Energy Holdings Limited. Subsequent to the balance sheet date, it has been changed to its existing name as above.

20. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ operation	Issued and paid up/ registered capital	Proportion of ownership interest: Group's effective holding	held by the Company	held by subsidiary	Principal activity
Bamber Resources Limited	British Virgin Islands	US$50,000	100	–	100	Investment holding
Ordifen Limited	British Virgin Islands	US$1,000	100	–	100	Investment holding
Xinjiang Xingmei Oil-Pipeline Co., Ltd. (sino-foreign equity joint venture)	PRC	RMB321,000,000, of which RMB143,773,000 being paid up	80	–	80	Transportation of crude oil
Lejion Gas Co., Ltd. (sino-foreign equity joint venture)	PRC	RMB50,000,000	72	–	80	Operation of natural gas pipeline network and gas refilling stations
GeoMaxima International Petroleum & Chemicals Co. Ltd.∆	British Virgin Islands	US$100	100	100	–	Dormant

∆ Incorporated during the year.

21. INTEREST IN JOINTLY CONTROLLED ENTITY

	The Group 2005 RMB'000	2004 RMB'000
Share of net liabilities	**(1,113)**	(544)
Loan to jointly controlled entity	**60,000**	60,000
	58,887	59,456
Less: Impairment loss	**(58,887)**	–
	–	59,456

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

21. INTEREST IN JOINTLY CONTROLLED ENTITY *(continued)*

b) In March 2004, the Group entered into an agreement to acquire effectively 51% equity interest in the JCE and the JCE was to involve in the project of building up of a gas pipeline network to supply natural gas for an industrial project. However, during the year ended 31 December 2005, due to the possible termination of the industrial project, the project of the JCE involving the building up of a gas pipeline network was suspended. The Group is negotiating with the other JCE venture partners and the local government so as to make a new arrangement under which the Group can recover the loan to the JCE. As at the balance sheet date and the date of this report, no new arrangement has been concluded.

c) During the year ended 31 December 2005, the management of the Group assessed the recoverable amount of the interest in the JCE. With reference to the above factors and the study performed by an independent valuation firm, it is unlikely that JCE can be operating as a going concern entity. In view of that, the Group had written down the entire carrying amount of the interest in the JCE by an impairment of RMB58,887,000, which was included in "other operating expenses" in the consolidated income statement.

d) 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 holding	held by the Company	held by subsidiary	Principal activity
Ningxia Meining Pipeline Co., Ltd. (Sino-foreign equity joint venture)	PRC	RMB160,000,000	51%	–	51%	Operation and management of natural gas pipelines and ancillary business but activity has been temporarily suspended

22. INVENTORIES

	The Group 2005 RMB'000	The Group 2004 RMB'000
Spare parts, consumables and others	**724**	1,021

23. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Due from subsidiaries (note (i))	**–**	–	**–**	184,093
Trade debtors (note (ii))	**16,946**	40,111	**–**	–
Investment deposits (note (iii))	**29,950**	39,900	**–**	–
Rental and utility deposits	**263**	451	**257**	429
Prepayments and other receivables	**339**	5,703	–	139
	47,498	86,165	**257**	184,661

Notes:

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

	The Company	
	2005	2004
	RMB'000	RMB'000
Due from subsidiaries	**171,197**	184,093
Less: Impairment for bad and doubtful debts	**(171,197)**	–
	–	184,093

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

(ii) All the trade debtors and other receivables, other than rental and utility deposits, are expected to be recovered within one year. Ageing analysis of trade debtors is as follows:

	The Group	
	2005	2004
	RMB'000	RMB'000
Current (within 6 months)	**31,507**	23,923
More than 6 months overdue but less than 12 months overdue	**6,196**	16,188
	37,703	40,111
Less: Impairment for bad and doubtful debts	**(20,757)**	–
	16,946	40,111

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

(iii) An investment deposit of RMB55,900,000 was paid to an independent entity in November 2002. A sino-foreign equity joint venture would be established in which the Group would own 15% equity interest. During the year ended 31 December 2004, the Group decided to withdraw the investment. During the year ended 31 December 2005 and 2004, this entity refunded to the Group an amount of RMB9,950,000 and RMB16,000,000 respectively. As at 31 December 2005, the remaining balance of RMB29,950,000 (2004: RMB39,900,000) is unsecured, interest free and repayable on or before 31 July 2006.

24. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank	**3,064**	2,846	**2**	3
Cash on hand	**344**	83	**–**	–
	3,408	2,929	**2**	3

At 31 December 2005, the Group owed to a bank amounting to bank loan principal of RMB469,700,000 (2004: RMB473,000,000) and interest thereon of RMB11,772,000 (2004: RMB729,000). This bank has the right to set off the bank deposits of RMB777,000 (2004: RMB2,094,000) placed by the Group against any indebtedness owing by the Group to the bank, if the Group defaults to repay its indebtedness to the bank.

25. BANK LOANS

At 31 December 2005, the bank loans of the Group were repayable as follows:

	The Group	
	2005	2004
	RMB'000	RMB'000
Within 1 year or on demand	**269,700**	133,000
After 1 year but within 2 years	**40,000**	110,000
After 2 years but within 5 years	**160,000**	230,000
	200,000	340,000
	469,700	473,000

25. BANK LOANS *(continued)*

At 31 December 2005, the bank loans of the Group were secured as follows:

	The Group	
	2005	2004
	RMB'000	RMB'000
Bank loans secured by		
– corporate guarantee put up by a subsidiary	**2,700**	3,000
– corporate guarantee put up by related companies (note (i))	**149,000**	150,000
– corporate guarantee put up by an independent third party	**120,000**	120,000
– fixed assets (note (ii))	**198,000**	200,000
	469,700	473,000

Notes:

(i) The corporate guarantees are issued by Jilin City Shine Gem Gas Pipeline Co., Ltd. and Jilin City Jimei Gas Co., Ltd., the companies controlled by Mr. Sun Tian Gang, who was a director up to 22 August 2005 and controlling shareholder of the Company during the year ended 31 December 2005, for bank loans of RMB69,000,000 (2004: RMB70,000,000) and RMB80,000,000 (2004: RMB80,000,000) respectively granted to the Group.

(ii) At 31 December 2005, certain of the oil pipeline and ancillary facilities with an aggregate carrying value of approximately RMB343 million (2004: RMB271 million) have been pledged to a bank for bank loans of RMB198 million (2004: RMB200 million) granted to the Group.

26. OTHER LOAN, SECURED

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

27. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Due to a subsidiary (note (i))	**–**	–	**1**	–
Trade creditors (note (ii))	**–**	50	**–**	–
Accrued expenses and other payables	**29,190**	17,035	**1,324**	2,638
Due to minority shareholder (note (iii))	**2,007**	1,690	**–**	–
Due to ultimate holding company (note (iv))	**6,166**	–	**–**	–
	37,363	18,775	**1,325**	2,638

Notes:

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

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

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

(iv) The amount due to ultimate holding company, Hong Chang Group Limited, is unsecured, interest free and has no fixed terms of repayment.

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

28. EMPLOYEE RETIREMENT BENEFITS

a) The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of 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 contribution charged to the consolidated income statement for the year ended 31 December 2005 amounting to approximately RMB898,000 (2004: RMB808,000).

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

29. EQUITY COMPENSATION BENEFITS

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

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

a) Movements in share options

	Number of options	
	2005	2004
	'000	'000
At 1 January	**116,000**	116,000
Cancelled/lapsed	**(116,000)**	–
Granted	**210,000**	–
Exercised	**(20,000)**	–
At 31 December 2005	**190,000**	116,000
Options vested at 31 December	**190,000**	116,000

The following table discloses the details of the share options held by directors and employees and movements in such holdings during the year 2004 and 2005:

	Number of share options							
Date of grant	Outstanding at 1 January 2004	Granted during the year	Outstanding at 31 December 2004 and 1 January 2005	Cancelled/ lapsed during the year	Granted during the year	Exercised during the year	Outstanding at 31 December 2005	Exercise price per share HK$
Options granted to directors								
– on 29 July 2002	76,000,000	–	76,000,000	(76,000,000)	–	–	–	0.698
– on 2 November 2005	–	–	–	–	33,000,000	–	33,000,000	0.035
Options granted to employees								
– on 29 July 2002	40,000,000	–	40,000,000	(40,000,000)	–	–	–	0.698
– on 2 November 2005	–	–	–	–	177,000,000	(20,000,000)	157,000,000	0.035
	116,000,000	–	116,000,000	(116,000,000)	210,000,000	(20,000,000)	190,000,000	

29. EQUITY COMPENSATION BENEFITS *(continued)*

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

Date granted	Exercise period	Exercise price per share	Number of options 2005	Number of options 2004
		HK$	'000	'000
29 July 2002	2 September 2002 to 31 August 2007	0.698	–	116,000
2 November 2005	3 November 2005 to 2 November 2010	0.035	**190,000**	–

c) Fair value of share options and assumptions

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

Fair value of share options and assumptions

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

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

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

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

For the options granted on 29 July 2002, the Group has taken advantage of the transitional provisions set out in HKFRS 2, under which no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company.

30. INCOME TAX IN THE BALANCE SHEET

a) Current taxation in the balance sheet represents:

	The Group	
	2005	2004
	RMB'000	RMB'000
Tax recoverable/(payable) at 1 January	**335**	(915)
Provision for PRC income tax	**(335)**	–
Provisional PRC income tax paid	**191**	1,250
Tax recoverable at 31 December	**191**	335

b) Deferred taxation not recognised

At the balance sheet date and for the year, the Group has not recognised deferred tax asset in respect of tax losses of approximately RMB16,253,000 (2004: RMB20,717,000) as it is not probable that taxable profit will be available against which tax losses can be utilised.

At 31 December 2005, the Group's tax losses of approximately RMB5,525,000 (2004: RMB13,637,000) do not expire under the relevant current tax legislation and of approximately RMB10,728,000 (2004: RMB9,338,000) will expire in five years from the year in which they were incurred.

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

31. SHARE CAPITAL

	The Group and the Company			
	2005		2004	
	Number of shares '000	**Amount RMB'000**	Number of shares '000	Amount RMB'000
Authorised:				
Shares of HK$0.01 each	10,000,000	106,000	10,000,000	106,000
Issued and fully paid:				
Shares of HK$0.01 each				
At 1 January	3,031,584	32,385	3,031,584	32,385
Shares issued under share option scheme	20,000	208	–	–
At 31 December	3,051,584	32,593	3,031,584	32,385

32. RESERVES

a) The Group

	Attributable to equity holders of the Company						
	Share premium RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At January 2004, as previously reported	176,374	86,716	–	130,187	393,277	–	393,277
Effect of retrospective adjustments upon changes in accounting policies (see note 4)	–	–	–	–	–	40,466	40,466
At 1 January 2004, as restated	176,374	86,716	–	130,187	393,277	40,466	433,743
Loss for the year	–	–	–	(52,742)	(52,742)	(10,105)	(62,847)
At 31 December 2004, as restated	176,374	86,716	–	77,445	340,535	30,361	370,896
At 1 January 2005, as previously reported	176,374	86,716	–	77,445	340,535	–	340,535
Effect of retrospective adjustments upon changes in accounting policies (see note 4)	–	–	–	–	–	30,361	30,361
	176,374	86,716	–	77,445	340,535	30,361	370,896
Effect of prospective adjustment upon changes in accounting policies (see note 4)	–	–	–	8,424	8,424	–	8,424
At 1 January 2005, as restated	176,374	86,716	–	85,869	348,959	30,361	379,320
Loss for the year	–	–	–	(262,955)	(262,955)	(10,498)	(273,453)
Shares issued under employee share option scheme	520	–	–	–	520	–	520
Employee share option benefits	–	–	2,332	–	2,332	–	2,332
Transfer of reserves	222	–	(222)	–	–	–	–
At 31 December 2005	177,116	86,716	2,110	(177,086)	88,856	19,863	108,719

32. RESERVES *(continued)*

b) The Company

	Share premium RMB'000	Share option reserve RMB'000	Contributed surplus RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2004	176,374	–	86,716	(20,102)	242,988
Loss for the year	–	–	–	(6,524)	(6,524)
At 31 December 2004 and 1 January 2005	176,374	–	86,716	(26,626)	236,464
Shares issued under employee share option schemes	520	–	–	–	520
Employee share option benefits	–	2,332	–	–	2,332
Transfer of reserves	222	(222)	–	–	–
Loss for the year	–	–	–	(201,151)	(201,151)
At 31 December 2005	177,116	2,110	86,716	(227,777)	38,165

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

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

	2004 RMB'000
Contributed surplus	86,716
Accumulated losses	(26,626)
	60,090

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

a) Fair value and cash flow interest rate risks

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

b) Foreign exchange risk

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

c) Credit risk

The Group's maximum exposure to credit risk in the event that counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team in one of its major subsidiary responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

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

d) Liquidity risk

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

34. COMMITMENTS

a) Capital commitments outstanding at 31 December 2005 not provided for in the financial statements of the Group were as follows:

	The Group	
	2005	2004
	RMB'000	RMB'000
Contracted for		
– acquisition of fixed assets	**–**	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
	194,627	208,177

In addition, at 31 December 2005, the jointly controlled entity is itself committed to incur capital expenditure of approximately RMB123,373,000 (2004: RMB123,373,000), which are contracted for.

b) At 31 December 2005, 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	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**884**	1,452	**678**	1,452
After 1 year but within 5 years	**182**	678	**–**	678
	1,066	2,130	**678**	2,130

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

35. CONTINGENT LIABILITIES

The contingent liability of the Group as at 31 December 2005 amounted to approximately RMB248 million (2004: Nil).

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

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

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

The executive board of directors has performed a high level review on the PRC subsidiary and all active companies in the Group. This examination mainly involved the review of the available copies of board resolutions, bank statements, material contracts and interview with senior management personnel and members of respective board of directors. Upon completion of this review, no material irregularity has been noted. The executive board of directors has already submitted a report to the board of independent non-executive directors with the above finding, together with the legal opinion as to both the PRC and Hong Kong law.

35. CONTINGENT LIABILITIES *(continued)*

After taking into account of the followings:

(i) report submitted by the executive board of directors with no material irregularity noted;

(ii) since the entire event, the possible crime committed, the parties and documents involved all happened in the PRC, relying on the PRC and Hong Kong legal opinion, the Company and its subsidiaries are not liable under the PRC and Hong Kong law; and

(iii) the suspect has already been arrested by the PRC police and the PRC police is performing a thorough investigation on the case; and as advised by the PRC legal adviser, no other party should perform investigation in this event while the investigation performed by the PRC police department is not yet finalised,

the board of independent non-executive directors is in the opinion that an immediate review and study on the Group's overall system of financial internal control and legal compliance is necessary and beneficial to the new management which was only on board in November 2005. The board of independent non-executive directors therefore has appointed an independent professional firm to perform this review, which aims at identifying internal control weakness and to incorporate key elements of sound corporate governance in its management structures and internal control procedures, so as to ensure its affairs are conducted in accordance with applicable laws and regulations. As at the date of this report, the review has not yet completed. Subject to the finalisation of the investigation performed by the PRC police department, the independent board of directors will reassess if it is appropriate to have a further investigation on this isolated event as soon as practicable.

36. 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 the year 2003, the minority shareholder completed the construction and commenced operation of its own pipeline. During the year ended 31 December 2004, 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. The Company appointed a PRC lawyer in January 2005 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 for the year ended 31 December 2004.

Subsequently, the pending litigation has been withdrawn and the approval of withdrawal was issued by the Supreme Court of China on 8 December 2005. Further details are set out in the announcement dated 14 December 2005 issued by the Company.

37. MATERIAL RELATED PARTY TRANSACTIONS

a) Provision of crude oil transportation service

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

During the year ended 31 December 2005, revenue from the provision of crude oil transportation service to the minority shareholder amounted to RMB44,990,000 (2004: RMB40,978,000). The balance due from this minority shareholder as at 31 December 2005, as included in trade debtors in note 23 was RMB16,946,000 (2004: RMB40,110,000), of which gross trade receivables and impairment for bad and doubtful debts were RMB37,703,000 (2004: RMB40,110,000) and RMB20,757,000 (2004: Nil) respectively.

b) Guarantees

(i) As at 31 December 2005, 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 RMB2,700,000 (2004: RMB3,000,000).

(ii) As at 31 December 2005, Jilin City Shine Gem Gas Pipeline Co. Ltd., a company controlled by Mr. Sun Tian Gang ("Mr. Sun") who was the director of the Company until 22 August 2005 and former controlling shareholder of the Company, has given corporate guarantee to secure bank loans of RMB69,000,000 (2004: RMB70,000,000) granted to Xinjiang Xingmei.

(iii) As at 31 December 2005, Jilin City Jimei Gas Co., Ltd., a company controlled by Mr. Sun, has given corporate guarantee to secure bank loans of RMB80,000,000 (2004: RMB80,000,000) granted to Xinjiang Xingmei.

(iv) As at 31 December 2005, 庫爾勒市燃氣公司, the PRC joint venture partner of Lejion Gas and the minority shareholder of the Group, has given corporate guarantee to secure other loan of RMB7,700,000 (2004: Nil) granted to Lejion Gas.

37. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

c) Loans

(i) Loans to minority shareholder

During the year ended 31 December 2004, 庫爾勒市燃氣公司, the PRC joint venture partner of Lejion Gas and the minority shareholder of the Group, repaid the loan of RMB4,041,000 to Lejion Gas. The loan was unsecured, interest free and had no fixed terms of repayment.

(ii) Loan from ultimate holding company

During the year ended 31 December 2004, the Group repaid the loan of RMB705,000 to China GeoMaxima Company Limited, the then ultimate holding company of the Company. The loan was unsecured and interest free and had no fixed terms of repayment.

d) Purchase of fixed assets

During the year ended 31 December 2004, Lejion Gas purchased certain fixed assets from 庫爾勒市燃氣公司, the PRC joint venture partner of the Lejion Gas and the minority shareholder of the Group, 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.

As at 31 December 2004, the Group had an amount of approximately RMB1,690,000 due to this minority shareholder, arising from the above transaction.

38. PARENT AND ULTIMATE CONTROLLING PARTY

At 31 December 2005, the directors consider the Company's immediate parent and ultimate holding company to be China GeoMaxima Company Limited and Hong Chang Group Limited respectively, both of which are incorporated in the British Virgin Islands. These entities do not produce financial statements available for public use.

39. COMPARATIVE FIGURES

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