



NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

1 Significant accounting policies

(a) *Basis of presentation*

The unaudited interim financial report has been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), and with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”).

The financial information relating to the financial year ended 31 December 2002 included in the interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2002 are available from the Stock Exchange’s website. The auditors have expressed an unqualified opinion on those financial statements in their report dated 11 April 2003.

The same accounting policies adopted in the 2002 annual financial statements have been applied to the interim financial report except as disclosed under 1(b).

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2002 annual financial statements.

(b) *Adoption of new accounting standards in Hong Kong*

The new SSAP 12 (revised), Income Taxes, issued by the HKSA, which became effective for accounting periods commencing on or after 1 January 2003, was adopted for preparation of the Group’s financial statements for the six months ended 30 June 2003:

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonably probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred taxation is recognized in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exception. The adoption of this SSAP 12 (revised) has had no significant effect on the group’s current and prior year financial statements. Accordingly no prior period adjustment is required.



2 Turnover and segmental information

Business segments

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

The Group comprises the following main business segments:

Crude oil transportation : The operation of crude oil transportation, storage and unloading facilities.

Natural gas : The operation of a natural gas pipeline network and refilling stations supplying natural gas and liquefied petroleum gas ("LPG") for vehicle use and sale of canned LPG.

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

	Six months ended 30 June	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from external customers		
– Crude oil transportation	72,023	71,472
– Natural gas		
Gas connection fee	–	11,639
Sale of piped natural gas	17,227	2,847
Sale of natural gas and LPG at refilling stations	5,201	1,157
Sale of canned LPG	6,301	1,873
	<hr/>	<hr/>
Total revenue from external customers	100,752	88,988
Other revenue – unallocated (<i>Note</i>)	581	4,448
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Total revenue	101,333	93,436
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**Segment result**

	Six months ended 30 June	
	2003 RMB'000	2002 RMB'000
Profit/(loss) from operations		
– Crude oil transportation	47,901	53,643
– Natural gas	3,111	12,057
– Unallocated expenses (<i>Note</i>)	(7,497)	(6,480)
Total profit from operations	43,515	59,220
Finance costs	(14,521)	(11,904)
Share of profits of associates	2,131	7,479
Profit from ordinary activities before taxation	31,125	54,795
Taxation	(6,009)	(7,513)
Profit from ordinary activities after taxation	25,116	47,282
Minority interests	(6,345)	(10,221)
Profit attributable to shareholders	18,771	37,061

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

3 Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2003 RMB'000	2002 RMB'000
(a) Finance costs:		
Interest on bank borrowings	14,519	11,904
Other borrowings costs	2	–
	14,521	11,904
(b) Other items:		
Cost of inventories	23,446	5,012
Amortisation of negative goodwill	(291)	(229)
Depreciation	14,154	10,279



4 Taxation

	Six months ended 30 June	
	2003	2002
	RMB'000	RMB'000
Provision for PRC income tax for the period	<u>6,009</u>	<u>7,513</u>

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

Pursuant to relevant PRC laws and regulations applicable to the Sino-foreign equity joint venture enterprises, the Company's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the subsequent three years. Provision for PRC income tax for the period represents income tax payable by Xinjiang Xingmei Oil-Pipeline Co., Limited ("Xinjiang Xingmei") which is subject to income tax at a reduced rate of 18%, being 50% of the standard state tax rate of 30% together with 3% local income tax. No provision for PRC income tax has been made in respect of the profit of Lejion Gas Co., Limited ("Lejion Gas") as it is exempted from PRC income tax during the period.

5 Dividends

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2003 (2002: Nil).

6 Earnings per share

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB18,771,000 (2002: RMB37,061,000) and the weighted average of 3,031,583,936 ordinary shares (2002: 2,987,716,133 ordinary shares) in issue during the period.

(b) *Diluted earnings per share*

The calculation of diluted earnings per share is based on the profit attributable to shareholders of RMB18,771,000 (2002: RMB37,061,000) and the weighted average number of 3,031,583,936 ordinary shares (2002: 3,416,929,265 ordinary shares) after adjusting for the effects of all potential dilutive ordinary shares.



(c) *Reconciliation*

	Six months ended 30 June	
	2003	2002
	Number	Number
	of shares	of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	3,031,583,936	2,987,716,133
Deemed issued of ordinary shares for no consideration	<u>–</u>	<u>429,213,132</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>3,031,583,936</u>	<u>3,416,929,265</u>

7 Additions to fixed assets and construction in progress

During the period, the Group spent approximately RMB2,450,000 (31 December 2002: RMB109,121,000) and RMB3,518,000 (31 December 2002: RMB109,307,000) on the acquisition of fixed assets and construction in progress respectively.

8 Goodwill

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

9 Interest in associates

	At 30 June	At 31 December
	2003	2002
	RMB'000	RMB'000
Share of net assets	110,201	108,094
Negative goodwill	(752)	(777)
Loan to associate	<u>26,054</u>	<u>26,054</u>
	<u>135,503</u>	<u>133,371</u>

Loan to an associate at 30 June 2003 is advanced to Sky Global Limited. The loan is unsecured, interest free and repayable on demand.



10 Trade and other receivables

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000
Trade debtors	71,586	19,071
Amount due from minority shareholders (<i>note (ii)</i>)	4,130	4,273
Amount due from associate (<i>note (iii)</i>)	226	13,005
Loans receivable (<i>note (iv)</i>)	2,082	11,267
Prepayments, deposits and other receivables (<i>note (v)</i>)	73,288	115,705
	<u>151,312</u>	<u>163,321</u>

Notes:

- (i) All the trade and other receivables (net of specific provisions for bad and doubtful debts) are expected to be recovered within one year. All trade debtors are current and aged less than 6 months.

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

- (ii) Amount due from minority shareholders is unsecured, interest free and has no fixed terms of repayment.
- (iii) Amount due from associate is unsecured, interest free and repayable in December 2003.
- (iv) Loans receivable at 30 June 2003 represents loans advanced to third parties. The loans are unsecured, repayable within one year and interest free except for an amount of RMB782,000 (2002: RMB9,967,000) which bear interest at 3% per annum.
- (v) Included in prepayments, deposits and other receivables as at 30 June 2003 is an investment deposit of RMB55,900,000 paid to 寧夏豐友化工有限公司 in November 2002. A sino-foreign equity joint venture will be established and the Group will own 15% equity interest in the joint venture in respect of the capital contributed of RMB55,900,000. The Group has the option to withdraw the investment within 18 months in which case the capital contributed will be refunded to the Group in full with interest calculated based on the prevailing market rates.

**11 Bank loans**

At 30 June 2003, the bank loans were repayable as follows:

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000
Within 1 year or on demand	<u>146,800</u>	86,800
After 1 year but within 2 years	30,000	30,000
After 2 years but within 5 years	270,000	190,000
After 5 years	<u>80,000</u>	160,000
	<u>380,000</u>	<u>380,000</u>
	<u>526,800</u>	<u>466,800</u>

As at 30 June 2003, the bank loans of the Group were secured as follows:

- (i) Fixed deposits of HK\$40,000,000 (2002: HK\$40,000,000) and US\$1,350,000 (2002: US\$1,350,000) were pledged to a bank for bank loans of RMB46,800,000 (2002: RMB46,800,000) granted to the Group;
- (ii) Certain fixed assets with a total estimated carrying value of RMB286,000,000 (2002: RMB204,000,000) were pledged to a bank for bank loans of RMB210,000,000 (2002: RMB150,000,000) granted to the Group; and
- (iii) The corporate guarantees issued by an associate, a related company and an unrelated company in respect of bank loans of RMB80,000,000 (2002: RMB80,000,000), RMB70,000,000 (2002: RMB70,000,000) and RMB120,000,000 (2002: RMB120,000,000) respectively granted to the Group.

12 Trade and other payables

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000
Trade creditors	13,331	2,715
Accrued expenses and other payables	29,412	26,964
Amount due to minority shareholder	–	4,000
Deposit received (<i>note (ii)</i>)	<u>83,500</u>	–
	<u>126,243</u>	<u>33,679</u>

*Notes:*

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

The aging analysis of trade creditors are as follows.

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000
Due within 3 months or on demand	8,659	2,715
Due after 3 months	4,672	–
	<u>13,331</u>	<u>2,715</u>

- (ii) Amount represented deposit received from Mr Sun Tian Gang, the controlling shareholder of the Group, for the cash consideration of the disposal of an associate. Further details of which are set out in note 17.

13 Share capital

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	<u>106,000</u>	<u>106,000</u>
Issued and fully paid:		
3,031,583,936 ordinary shares of HK\$0.01 each	<u>32,385</u>	<u>32,385</u>

14 Commitments*(a) Capital commitments*

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

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000
Authorised but not contracted for		
– acquisition of fixed assets	<u>54,600</u>	<u>54,600</u>



(b) *Operating lease commitments*

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

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000
Within 1 year	1,805	1,836
After 1 year but within 5 years	820	1,839
	2,625	3,675

15 Contingent liabilities

At 30 June 2003, there were contingent liabilities in respect of the following:

- (i) As at 30 June 2003, Xinjiang Xingmei, a subsidiary of the Group, has given guarantee to a bank to secure bank loans granted to Jilin City Jimei Gas Co., Limited ("Jimei Gas"), an associate, in the amount of RMB10,000,000. The bank loan has been fully paid off by Jimei Gas subsequently in July 2003. Accordingly the guarantee given by Xinjiang Xingmei has been discharged.
- (ii) Pursuant to a loan agreement dated 26 May 1999, Maxy Oil & Gas Limited ("Maxy Oil"), the then joint venture partner of Jimei Gas, executed a charge over its 63% interest in Jimei Gas in favour of certain banks to secure loans in the aggregate amount of US\$16.5 million (equivalent to RMB136 million) granted to Jilin City Shine Gem Gas Pipeline Co. Ltd. ("Shine Gem"), a company controlled by Mr Sun Tian Gang, the director and controlling shareholder of the Company. Maxy Oil subsequently transferred its 63% interest in Jimei Gas to Sky Global Limited ("Sky Global"), a company then wholly owned by Mr Sun. The Group acquired 49% interest in Sky Global from Mr Sun on 30 April 2002. At the time of acquisition, the Group was not aware of the existence of the charge. Based on the legal opinion obtained, the directors consider that Sky Global has good title to the 63% equity interest in Jimei Gas subject to the banks' equitable interest.

In April 2003, the Group entered into an agreement with Mr Sun for the disposal of its entire 49% interest in Sky Global and the shareholder's loan advanced by the Group to Sky Global in the amount of RMB26,054,000 for a total cash consideration of RMB135,000,000 ("Disposal"). After making appropriate enquiries and taking into account of the Disposal, the directors consider that there are no adverse implications to the Group arising from the charge and undertakings. Accordingly, at balance sheet date, no provision has been made and these matters have been disclosed as contingent liabilities. The Disposal was completed in July 2003. Further details of this transaction are set in note 17.



16 Material related party transactions

(i) *Provision of crude oil transportation service*

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

During the period, revenue from the provision of crude oil transportation service to the minority shareholder amounted to RMB43,613,000 (30 June 2002: RMB39,643,000). The balance due from minority shareholder as at 30 June 2003 was RMB19,543,000 (31 December 2002: RMB5,930,000).

(ii) *Purchase of natural gas*

There exists an agreement dated 24 April 1999 entered into between the Company's associate, Jimei Gas, and Shine Gem, a company in which a director of the Company has beneficial interest, for the supply and transmission of natural gas to Jimei Gas. Jimei Gas became an associate of the Group on 30 April 2002. During the period, total purchases including transmission tariff and purification fee amounted to RMB42,162,000 (For the two months ended 30 June 2002: RMB11,575,000).

(iii) *Guarantees*

As at 30 June 2003, Shine Gem and Jimei Gas have given guarantees to secure bank loans granted to Xinjiang Xingmei in the amounts of RMB70,000,000 (31 December 2002: RMB70,000,000) and RMB80,000,000 (31 December 2002: RMB80,000,000) respectively.

(iv) *Loans*

- (a) As at 30 June 2003, Lejion Gas, a subsidiary of the Group, advanced a loan to the PRC joint venture partner of Lejion Gas in the amount of RMB4,130,000 (31 December 2002: RMB4,273,000). The loan is unsecured, interest free and has no fixed term of repayment.
- (b) As at 30 June 2003, loans in the aggregate amount of RMB53,172,000 were advanced to Sky Global by its shareholders in proportion to their respective interests in the company. The loans are unsecured and interest free. The loan advanced by the Group amounted to RMB26,054,000 (31 December 2002: RMB26,054,000) and this amount was repaid in full subsequently in July 2003.
- (c) As at 30 June 2003, Mr Sun Tian Gang has placed a deposit of RMB83,500,000 for the Disposal as mentioned in note 15(ii) and 17.

17 Subsequent event

In April 2003, the Group entered into an agreement for the disposal of its entire 49% interest in Sky Global and shareholder's loan advanced by the Group to Sky Global in the amount of RMB26,054,000 to Mr Sun Tian Gang, the controlling shareholder of the Group, for a total cash consideration of RMB135,000,000. Pursuant to the approval of the independent shareholders at a special general meeting of the Company held in June 2003 and full settlement of the consideration by Mr Sun in July 2003, this transaction has been duly completed. Based on legal opinion obtained, the directors consider that subsequent to the completion of the disposal, the contingent liabilities in respect of the matters set out in note 15(ii) will cease to exist.