

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003 (Expressed in Renminbi)



5. TAXATION

(a) Taxation in the consolidated income statement represents:

	2003 RMB'000	2002 RMB'000
Current tax – Provision for PRC income tax		
Tax for the year	5,605	12,391
Over-provision in respect of prior years	(1,902)	–
	<u>3,703</u>	<u>12,391</u>

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

Pursuant to the 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. Provision for PRC income tax for the year represents income tax payable by Xinjiang Xingmei Oil-Pipeline Co., Ltd. ("Xinjiang Xingmei") calculated at a reduced tax rate of 15%, being 50% of the standard state tax rate of 30% and full exemption of 3% local tax. No provision for PRC income tax has been made in respect of the profit of Lejion Gas Co., Ltd. ("Lejion Gas") as it is exempted from PRC income tax during the year.

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

	2003 RMB'000	2002 RMB'000
Profit before taxation	<u>25,431</u>	<u>86,823</u>
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	10,034	29,878
Tax effect of non-deductible expenses	984	2,040
Tax effect of non-taxable revenue	(802)	(2,484)
Tax effect of unused tax losses not recognised	2,502	3,845
Tax effect of reduced tax rate	(7,113)	(20,888)
Overprovision in prior years	(1,902)	–
Actual tax expenses	<u>3,703</u>	<u>12,391</u>



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6. DIRECTORS' REMUNERATION

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

	2003	2002
	RMB'000	RMB'000
Fees	315	254
Salaries and other emoluments	3,445	4,293
Retirement scheme contributions	25	38
	3,785	4,585

Included in the directors' remuneration were fees of RMB315,000 (2002: RMB254,000) payable to the independent non-executive directors during the year.

In addition, certain directors were granted options to subscribe for shares in the Company. Details of the share options granted and outstanding in respect of each director as at 31 December 2003 are disclosed in the report of the directors.

The remuneration of the directors is within the following bands:

	No. of directors	
	2003	2002
RMBNil – RMB1,060,000 (approximately equivalent to HK\$Nil – HK\$1,000,000)	5	7
RMB1,060,001 – RMB1,590,000 (approximately equivalent to HK\$1,000,001 – HK\$1,500,000)	2	2
	7	9

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7. INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the year, the five highest paid individuals comprise three (2002: three) directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other two (2002: two) individuals are as follows:

	2003	2002
	RMB'000	RMB'000
Salaries and other emoluments	1,698	1,654
Retirement scheme contributions	18	25
	1,716	1,679

The emoluments of the two (2002: two) individuals with the highest emoluments are within the following band:

	No. of individuals	
	2003	2002
RMBNil – RMB1,060,000 (approximately equivalent to HK\$Nil – HK\$1,000,000)	2	2

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of RMB6,178,000 (2002: RMB2,179,000) which has been dealt with in the financial statements of the Company.

9. DIVIDENDS

The directors have not declared nor proposed any dividends in respect of the year ended 31 December 2003 (2002: Nil).



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10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB14,929,000 (2002: RMB57,881,000) and the weighted average of 3,031,584,000 ordinary shares (2002: 3,009,830,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of RMB14,929,000 (2002: RMB57,881,000) and the weighted average number of 3,031,584,000 ordinary shares (2002: 3,276,674,000 ordinary shares) after adjusting for the effects of all potential dilutive shares.

(c) Reconciliations

	No. of shares	
	2003 '000	2002 '000
Weighted average number of ordinary shares used in calculating basic earnings per share	3,031,584	3,009,830
Deemed issue of ordinary shares for no consideration	–	266,844
Weighted average number of ordinary shares used in calculating diluted earnings per share	3,031,584	3,276,674

11. CHANGE OF ACCOUNTING POLICY

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 expected with reasonable 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, in order to comply with Statement of Standard Accounting Practice 12 (Revised) "Income taxes" issued by the Hong Kong Society of Accountants, the Group adopted a new policy for deferred tax as set out in note 1(m). The effect of adopting the new accounting policy has been applied retrospectively. The adoption of this revised accounting policy had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment is required.

NOTES TO THE FINANCIAL STATEMENTS

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12. 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 canned LPG.

	2003 RMB'000	2002 RMB'000
Revenue from external customers		
– Crude oil transportation	112,177	131,561
– Natural gas		
Gas connection fee	1	13,553
Sales of piped natural gas	29,520	20,804
Sales of natural gas and LPG at refilling stations	8,645	5,733
Sales of canned LPG	8,376	8,622
Total revenue from external customers	158,719	180,273
Other revenue		
– Unallocated items	4,887	12,462
Total revenue	163,606	192,735



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12. SEGMENT REPORTING (CONTINUED)

	2003 RMB'000	2002 RMB'000
Segment result		
Profit/(loss) from operations		
– Crude oil transportation	60,985	94,441
– Natural gas	4,761	18,656
– Unallocated income and expenses	<u>(11,873)</u>	<u>(9,855)</u>
Total profit from operations	53,873	103,242
Finance costs	(29,726)	(25,377)
Share of profits of associates		
– Natural gas	2,131	8,958
Loss on disposal of an associate		
– Natural gas	<u>(847)</u>	<u>–</u>
Profit from ordinary activities before taxation	25,431	86,823
Taxation	<u>(3,703)</u>	<u>(12,391)</u>
Profit from ordinary activities after taxation	21,728	74,432
Minority interests	<u>(6,799)</u>	<u>(16,551)</u>
Profit attributable to shareholders	<u>14,929</u>	<u>57,881</u>
Depreciation and amortisation for the year		
– Crude oil transportation	28,249	19,030
– Natural gas	6,728	4,401
– Unallocated items	<u>501</u>	<u>362</u>
	<u>35,478</u>	<u>23,793</u>

There were no significant non-cash expenses other than depreciation and amortisation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003 (Expressed in Renminbi)



12. SEGMENT REPORTING (CONTINUED)

	2003 RMB'000	2002 RMB'000
Segment assets		
– Crude oil transportation	585,895	491,310
– Natural gas	204,237	189,779
Interest in an associate		
– Natural gas	–	133,371
Unallocated assets	234,533	162,693
Total assets	<u>1,024,665</u>	<u>977,153</u>
Segment liabilities		
– Crude oil transportation	16,412	20,702
– Natural gas	1,775	3,966
Unallocated liabilities	540,349	481,856
Total liabilities	<u>558,536</u>	<u>506,524</u>
Capital expenditure incurred during the year		
– Crude oil transportation	106,743	39,140
– Natural gas	3,408	179,047
– Unallocated items	758	241
	<u>110,909</u>	<u>218,428</u>



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13. FIXED ASSETS

The Group

	Land use rights and 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 2003	22,637	1,124	470,646	92,967	22,497	1,656	2,542	614,069
Reclassification	88	-	-	3,658	333	9	26	4,114
Additions	70	23	36	-	2	434	1,004	1,569
Transfer from construction in progress (note 14)	-	-	10,897	-	-	-	-	10,897
Disposals	-	-	-	-	(80)	-	-	(80)
At 31 December 2003	<u>22,795</u>	<u>1,147</u>	<u>481,579</u>	<u>96,625</u>	<u>22,752</u>	<u>2,099</u>	<u>3,572</u>	<u>630,569</u>
Aggregate depreciation:								
At 1 January 2003	409	379	47,044	3,286	813	440	338	52,709
Reclassification	88	-	-	3,658	333	9	26	4,114
Charge for the year	1,024	225	27,158	4,349	2,047	375	300	35,478
Written back on disposal	-	-	-	-	(9)	-	-	(9)
At 31 December 2003	<u>1,521</u>	<u>604</u>	<u>74,202</u>	<u>11,293</u>	<u>3,184</u>	<u>824</u>	<u>664</u>	<u>92,292</u>
Net book value:								
At 31 December 2003	<u>21,274</u>	<u>543</u>	<u>407,377</u>	<u>85,332</u>	<u>19,568</u>	<u>1,275</u>	<u>2,908</u>	<u>538,277</u>
At 31 December 2002	<u>22,228</u>	<u>745</u>	<u>423,602</u>	<u>89,681</u>	<u>21,684</u>	<u>1,216</u>	<u>2,204</u>	<u>561,360</u>

The oil pipeline and ancillary facilities consist of an oil pipeline of approximately 70 kilometers, connecting the Ta He 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 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.

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

As at 31 December 2003, certain of the oil pipeline and ancillary facilities with a total estimated carrying value of RMB285 million (2002: RMB204 million) were pledged to a bank for bank loans of RMB210,000,000 (2002: RMB150,000,000) granted to the Group.

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14. CONSTRUCTION IN PROGRESS

	The Group	
	2003 RMB'000	2002 RMB'000
At 1 January	75,297	136,768
Acquisition of subsidiaries	–	69,739
Additions	109,340	39,568
Transfer to fixed assets (<i>note 13</i>)	(10,897)	(167,796)
Others	–	(2,982)
At 31 December	<u>173,740</u>	<u>75,297</u>

The transfer to fixed assets during the year represents ancillary facilities constructed along the oil pipeline to increase its transportation capacity.

As at 31 December 2003, construction in progress comprises mainly improvement works of oil pipeline facilities and extension of the natural gas pipeline network.

15. GOODWILL

	The Group Negative goodwill RMB'000
Cost:	
At 1 January 2003 and 31 December 2003	<u>10,541</u>
Accumulated amortisation:	
At 1 January 2003	952
Amortisation for the year	<u>583</u>
At 31 December 2003	<u>1,535</u>
Carrying amount:	
At 31 December 2003	<u>9,006</u>
At 31 December 2002	<u>9,589</u>

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



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16. INTERESTS IN SUBSIDIARIES

	The Company	
	2003 RMB'000	2002 RMB'000
Unlisted shares, at cost	86,823	86,823
Amounts due from subsidiaries	188,108	195,742
	274,931	282,565

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

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

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity			Principal activity
			Group's effective holding	held by the Company	held by subsidiary	
Elite Ascend Holdings Limited	British Virgin Islands/ Hong Kong	US\$690	100	100	-	Investment holding
GeoMaxima Management Services Limited	Hong Kong,	HK\$2	100	100	-	Provision of management services to group companies
Brilliant Creation Limited	Hong Kong	HK\$2	100	-	100	Provision of administrative services to group companies
Excellent Century Limited	British Virgin Islands/ Hong Kong	US\$100	100	-	100	Investment holding
Oriental Energy Ltd.	British Virgin Islands/ Hong Kong	US\$1,000	90	-	90	Investment holding

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16. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of equity			Principal activity
			Group's effective holding	held by the Company	held by subsidiary	
Bamber Resources Limited	British Virgin Islands/ Hong Kong	US\$50,000	100	–	100	Investment holding
Xinjiang Xingmei Oil-Pipeline Co., Ltd. (sino-foreign equity joint venture)	PRC	Registered capital RMB321,000,000	80	–	80	Transportation of crude oil
Lejion Gas Co., Ltd. (sino-foreign equity joint venture)	PRC	Registered capital RMB50,000,000	72	–	80	Operation of natural gas pipeline network and refilling stations

17. INTEREST IN AN ASSOCIATE

	The Group	
	2003 RMB'000	2002 RMB'000
Share of net assets	–	108,094
Negative goodwill	–	(777)
Loan to associate	–	26,054
	<u>–</u>	<u>133,371</u>

On 17 January 2002, the Group entered into an agreement with a director, Mr Sun Tian Gang, who is also the controlling shareholder of the Company's ultimate holding company, to acquire 49% equity interest in Sky Global Limited ("Sky Global"), a company incorporated in the British Virgin Islands with limited liability, for a consideration of RMB100 million. The sale and purchase was completed on 30 April 2002. The sole asset of Sky Global is its 63% equity interest in Jilin City Jimei Gas Co., Ltd. ("Jimei Gas"), a sino-foreign joint venture established in the PRC which is engaged in the distribution and supply of natural gas through a pipeline network in Jilin City of the PRC.



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17. INTEREST IN AN ASSOCIATE (CONTINUED)

On 10 April 2003, the Group entered into an agreement 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 to Mr. Sun Tian Gang, 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 Tian Gang in July 2003, this transaction was duly completed. This disposal recorded a loss of RMB847,000 in the consolidated income statement.

18. INVENTORIES

	The Group	
	2003 RMB'000	2002 RMB'000
Spare parts, consumables and others	<u>571</u>	<u>896</u>

All inventories are stated at cost.

19. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Trade debtors (<i>note (i)</i>)	30,355	19,071	–	–
Amount due from minority shareholder (<i>note (ii)</i>)	4,041	4,273	–	–
Amount due from associate (<i>note (iii)</i>)	–	13,005	–	–
Investment deposits (<i>note (iv)</i>)	115,900	100,900	–	–
Deposits for purchases of fixed assets	30,000	10,000	–	–
Rental and utility deposits	791	837	–	–
Loans receivable (<i>note (v)</i>)	4,628	11,267	–	–
Prepayments and other receivables	2,822	3,968	245	530
	<u>188,537</u>	<u>163,321</u>	<u>245</u>	<u>530</u>



19. TRADE AND OTHER RECEIVABLES (CONTINUED)

Notes:

- (i) All the trade and other receivables (net of specific provisions for bad and doubtful debts), apart from deposits for purchases of fixed assets, rental and utility deposits, are expected to be recovered within one year. All trade debtors are current and aged less than six 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) The amount due from minority shareholder is unsecured, interest free and has no fixed terms of repayment.
- (iii) The amount due from associate was unsecured, interest free and settled on 30 August 2003.
- (iv) Included in investment deposits are the following balances:

An investment deposit of RMB55,900,000 paid to 寧夏豐友化工有限公司 (“Ningxia Fengyou”) on 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.

An advance of RMB60,000,000 paid to Faith Honour International Limited (“Faith Honour”), an independent third party, in July 2003. This advance is secured by 100% equity interest of Faith Honour, bears interest at 8% per annum and intended to be repaid on or before 31 July 2005. Faith Honour ultimately has placed this amount of RMB60,000,000 as shareholder’s loan in a joint venture in Ningxia, the PRC in which Faith Honour owned effectively 24.99% equity interest. Subsequently in March 2004, the Group entered into an agreement with Faith Honour and another independent third party to acquire effectively 51% equity interest of the joint venture in Ningxia and the shareholder’s loan of RMB60,000,000. Further details of such acquisition are set out in note 33.

An investment deposit of RMB45,000,000 paid to 吉林科貿商城有限公司 (“Jilin KeMao”), a company established in Jilin Province of the PRC and engaged in domestic trading, computer software development and property management and leasing in November 2002. The investment deposit was refundable to the Group on demand together with interest calculated at 4.5% per annum on or before 14 May 2003. In addition, the Group is entitled to convert the investment deposit into an equity interest of 20% in Jilin KeMao by giving a notice in writing to Jinlin KeMao at any time before 14 May 2003. During the year, Jilin KeMao has repaid the deposit and accrued interest to the Group in full.

- (v) Loans receivable of RMB11,267,000 at 31 December 2002 was repaid in full during the year. The outstanding balance at 31 December 2003 is unsecured, interest free and have no fixed terms of repayment (2002: included in the loans receivable was an amount of RMB9,967,000 which bears interest at 3% per annum, and the remaining balance was unsecured, interest free and repayable within year).