

China Petrotech Holdings Limited

Second Quarter Financial Statement for the Period ended 30th June, 2005

1(a) An income statement (for the Group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Note	Group			Group		
		3 months ended 30 June 2005	3 months ended 30 June 2004	+ / (-)	6 months ended 30 June 2005	6 months ended 30 June 2004	+ / (-)
		(Unaudited) RMB'000	(Unaudited) RMB'000	Change (%)	(Unaudited) RMB'000	(Unaudited) RMB'000	Change (%)
Revenue		19,100	19,505	(2)	30,572	21,104	45
Cost of sales		(2,144)	(1,681)	28	(4,189)	(2,620)	60
Gross Profit		16,956	17,824	(5)	26,383	18,484	43
Other income	Note 1	926	2,117	(56)	2,849	2,131	34
Research and development costs	Note 2	(854)	(918)	(7)	(1,726)	(1,467)	18
Selling and distribution costs	Note 3	(326)	(704)	(54)	(582)	(1,794)	(68)
Administrative expenses	Note 4	(3,627)	(1,186)	206	(6,136)	(2,101)	192
Other operating expenses	Note 5	(36)	(1,537)	(98)	(10)	(1,503)	(99)
Net finance income/(costs)		78	(17)	n.m.	203	(80)	n.m.
Profit from continuing operations before taxation		13,117	15,579	(16)	20,981	13,670	53
Income tax expense		-	-	-	-	-	-
Profit for the period		13,117	15,579	(16)	20,981	13,670	53
Attributable to:							
Equity holders of the parent		11,547	15,579	(26)	19,411	13,670	42
Minority interest		1,570	-	100	1,570	-	100
Profit for the period		13,117	15,579	(16)	20,981	13,670	53

n.m. = not meaningful

Explanatory notes:

1. Other income comprises:

	3 months ended	3 months ended	6 months ended	6 months ended
	30 June 2005	30 June 2004	30 June 2005	30 June 2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
VAT refund *	926	2,113	2,849	2,113
Others	-	4	-	18
	926	2,117	2,849	2,131

* The Group is entitled to a refund of value added taxes (“VAT”) on the sales of standard software products. The VAT refund represents the amount of VAT paid in excess of 3% of software sales. The amount of VAT refund is calculated on a monthly basis and recognized as other revenue when the relevant tax authorities approve the refund.

2. The research and development costs decreased slightly in 2Q 2005 and increased 18% for the six months ended 30 June 2005 as compared to the corresponding periods in 2004. The increase is mainly due to more development expenditure incurred during the 1H 2005.
3. The selling and distribution expenses decreased by 54% in 2Q 2005 and 68% in the six months ended 30 June 2005 as compared to the corresponding periods in 2004. This is due to lower selling and distribution expenses for standardized software during the 1H 2005.
4. The administrative expenses increased by 206% in 2Q 2005 and 192% in the six months ended 30 June 2005. The reasons are mainly due to the increase in directors’ remuneration and staff costs of RMB 2.1 million, rental expenses of RMB 450,000,

higher expenses of RMB 600,000 as a public listed company and other expenses of RMB 850,000 in line with the increase in turnover in 1H 2005.

5. The other operating expense in 1H 2004 was mainly due to the IPO expenses of RMB 1.8 million relating to listing of vendor's shares which were expensed off to the profit and loss account in that period.

Notes to Income Statement

	Group			Group		
	3 months ended 30 June	3 months ended 30 June	Change	6 months ended 30 June	6 months ended 30 June	Change
	(Unaudited) 2005	(Unaudited) 2004	+ / (-) %	(Unaudited) 2005	(Unaudited) 2004	+ / (-) %
	RMB'000	RMB'000		RMB'000	RMB'000	
Other income	926	2,117	(56)	2,849	2,131	34
Interest income	(79)	(5)	1,480	(206)	(13)	1,485
Finance costs	1	22	(95)	3	93	(97)
Foreign exchange loss/(gain)	22	-	100	-	(34)	(100)
Depreciation of property, plant and equipment	123	71	73	218	134	63
Amortization of intangible assets (note 6)	2,350	690	241	4,342	1,158	275
Reversal of allowance for doubtful trade receivables	-	(287)	(100)	(4)	(287)	(99)
Loss on disposal of property, plant and equipment	14	-	100	14	-	100

Note :

6. Amortization of intangible assets increased as compared to last corresponding period, which is in line with the increase in intangible assets acquired in 2H 2004. In addition, the Group acquired intangible assets through the acquisition of Shaanxi Long Top in June 2005, which attributed to the increase in amortization charges.

1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

		Group		Company	
		30 June 2005	31 December 2004	30 June 2005	31 December 2004
Non-current assets	Note	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
Property, plant and equipment		1,965	1,266	235	238
Intangible assets	7	41,989	17,832	-	-
Subsidiaries	8	-	-	100,743	38,059
		43,954	19,098	100,978	38,297
Current assets					
Inventories		862	24	-	-
Trade and other receivables	9	41,067	12,455	235	213
Amounts due from subsidiaries (non-trade)	8	-	-	-	62,683
Cash and cash equivalents	10	106,787	131,685	1,948	5,515
		148,716	144,164	2,183	68,411
Total assets		192,670	163,262	103,161	106,708
Equity attributable to equity holders of the parent					
Share capital		47,425	47,425	47,425	47,425
Reserves		127,876	108,444	52,637	56,185
		175,301	155,869	100,062	103,610
Minority interests	7	6,025	-	-	-
Total equity		181,326	155,869	100,062	103,610
Non-current liability					
Deferred tax liability	7	(460)	-	-	-

Current liabilities					
Trade and other payables	11	(10,884)	(7,393)	(3,099)	(3,098)
Total liabilities		(11,344)	(7,393)	(3,099)	(3,098)
Total equity and liabilities		192,670	163,262	103,161	106,708

Notes :

7. Pursuant to a sale and purchase agreement dated 20 January 2005 and a supplementary agreement dated 20 May 2005, Market Wisdom International Limited acquired 70% equity interest in Shaanxi Long Top for a consideration of RMB 25.9 million. The acquisition resulted in an increase in minority interest and gave rise to a goodwill on consolidation of RMB 15.5 million, which was capitalized at balance sheet date. The identifiable assets acquired comprise mainly intangible assets of RMB 13 million, trade and other receivables of RMB 2.5 million and deferred tax liability of RMB 0.5 million. The net cash outflow on acquisition of Shaanxi Long Top amounted to RMB 24.1 million, net of cash balances acquired and amounts financed by a director. For the six months ended 30 June 2005, the fair values to be assigned to the acquiree's identifiable assets and liabilities can be determined only provisionally. The Group is in the midst of reassessing the fair values of the intangible assets at the acquisition date. The Group would recognize any adjustments to the provisional values of the acquired identifiable assets and liabilities before the end of the current financial year ending 31 December 2005.
8. Amounts due to subsidiaries totaling RMB 62.7 million were transferred to interest in subsidiaries as at 30 June 2005 as these receivables were determined to form part of the Company's net investment in subsidiaries (ie quasi-equity in nature).
9. The Group's trade and other receivables increased by RMB 28.6 million. The payment period of trade receivables by key customers is normally longer in the first half of the year and the payment will speed up in the second half of the year. The increase is also due to prepayment for some hardware equipment to be acquired from overseas vendors.
10. The decrease in cash and cash equivalents is mainly due to the payment of the purchase consideration for the acquisition of 70% equity interest of Shaanxi Long Top on 1 June 2005.
11. The Group's trade and other payables increased by RMB 3.49 million. These are attributed by the increase of VAT payable of RMB 2.2 million and amounts due to directors of RMB 1.6 million respectively, offset by a decrease of receipts in advance from customers of RMB 310,000 during the 1H 2005.

1(b) (ii) Aggregate amount of group's borrowings and debt securities.

Amount repayable in one year or less, or on demand

As at 30/06/2005		As at 31/12/2004	
Secured	Unsecured	Secured	Unsecured
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
RMB'000	RMB'000	RMB'000	RMB'000
nil	Nil	Nil	nil

Amount repayable after one year

As at 30/06/2005		As at 31/12/2004	
Secured	Unsecured	Secured	Unsecured
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
RMB'000	RMB'000	RMB'000	RMB'000
nil	Nil	Nil	nil

Details of any collateral :

Not applicable.

1(c) A cash flow statement (for the group) , together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group		Group	
	3 months	3 months ended	6 months ended	6 months ended
	ended 30 June	30 June 2004	30 June 2005	30 June 2004

		2005			
	Note	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
Operating activities					
Profit from ordinary activities before taxation		13,117	15,579	20,981	13,670
Adjustments for :					
Depreciation and amortization		2,473	761	4,560	1,292
IPO expenses relating to the offer of vendor shares		-	1,824	-	1,824
Loss on disposal of property, plant and equipment		14	-	14	-
Reversal of allowance for doubtful trade receivables		-	(287)	(4)	(287)
Finance costs		1	22	3	93
Interest income		(79)	(5)	(206)	(13)
Operating profit before working capital changes		15,526	17,894	25,348	16,579
Changes in working capital:					
Inventories		(208)	(1)	(837)	6
Trade and other receivables		(13,352)	(9,719)	(26,042)	(5,160)
Trade and other payables		2,344	8,252	1,306	3,282
Cash generated from/(used in) operations		4,310	16,426	(225)	14,707
Interest received		79	5	206	13
Interest paid		(1)	-	(3)	-
Cash flows from operating activities		4,388	16,431	(22)	14,720

Investing activities					
Acquisition of XCTC's undertakings	1	-	-	-	(12,037)
Purchase of property, plant and equipment		(155)	(68)	(793)	(454)
Purchase of intangible assets		-	-	-	(3,000)
Proceeds from disposal of property, plant and equipment		37	-	37	-
Net cash outflow on acquisition of subsidiary	8	(24,122)	-	(24,122)	-
Cash flows from investing activities		(24,240)	(68)	(24,878)	(15,491)
Financing activities					
Balances with directors		34	(104)	2	1,081
Proceeds from issue of new shares, net of IPO expenses		-	69,520	-	69,520
Cash flow from financing activities		34	69,416	2	70,601
Net (decrease)/increase in cash and cash equivalents		(19,818)	85,779	(24,898)	69,830
Cash and cash equivalents at beginning of the period		126,605	21,393	131,685	37,342
Cash and cash equivalents at end of the period		106,787	107,172	106,787	107,172

Note 1: This relates to the acquisition of XCTC's undertakings on 30 January 2004 as part of the Group's Restructuring Exercise for the IPO.

1d(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) Change in equity other than those arising from capitalization issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediate preceding financial year.

At 30 June 2005	47,425	61,905	-	5,055	5,788	(55)	55,183	175,301	6,025	181,326
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The Company	Share capital	Share premium	Foreign exchange reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2004	-	-	-	-	-
Loss for the period	-	-	-	-	-
At 31 March 2004	-	-	-	-	-
New shares issued pursuant to the Restructuring Exercise	37,986	-	-	-	37,986
New shares issued in connection with the initial public offering	9,439	70,786	-	-	80,225
Share issue expenses	-	(8,881)	-	-	(8,881)
Loss for the period	-	-	163	(2,426)	(2,263)
At 30 June 2004	47,425	61,905	163	(2,426)	107,067
At 1 January 2005	47,425	61,905	-	(5,720)	103,610
Loss for the period	-	-	-	(1,403)	(1,403)
At 31 March 2005	47,425	61,905	-	(7,123)	102,207
Loss for the period	-	-	-	(2,145)	(2,145)
At 30 June 2005	47,425	61,905	-	(9,268)	100,062

Note 1: Upon completion of the Restructuring Exercise on 27 April 2004, the Company issued 195,535,400 ordinary shares at par of S\$0.04 each in exchange for the entire share capital of Market Wisdom and its subsidiary.

Note 2: The Company issued 49,000,000 new ordinary shares of S\$0.04 each pursuant to the public invitation at an issue price of S\$0.34 on 9 June 2004.

Note 3: China Petrotech Holdings Limited was incorporated in Singapore on 11 June 2003 (formerly known as Cenozoic Holdings Pte Ltd) for acquiring the shares in the existing companies of Market Wisdom and its subsidiary on 27 April 2004. Accordingly, the Company remained dormant in the first quarter of 2004 and no significant financial information could be presented for the statement of changes in equity for 1Q 2004. Hence, the Company only presented the financial information for the six months ended 30 June 2004.

Basis of Preparation of Financial Information

The interim consolidated financial statements of the Group for the three months and six months ended 30 June 2004 were prepared in a manner similar to the “pooling of interests” method as if the Restructuring Exercise and the transfer of all the assets, liabilities and undertakings (the “Transfer”) of Xi’an Cenozoic Technology Co., Ltd (“XCTC”) had been completed on 1 January 2004. Such manner of presentation reflects the economic substance of the combining companies [namely XCTC, Xi’an Cenozoic Petro Tech Co., Ltd (“XCPT”), Market Wisdom International Limited (“Market Wisdom”) and the Company], which were under common control throughout the six months ended 30 June 2004, as a single economic enterprise, although the legal parent-subsidary relationships were not established until 27 April 2004.

The interim consolidated financial statements for the three months and six months ended 30 June 2004 principally reflected the results and financial status of XCTC. However, it does not form part of the listing group pursuant to the Transfer on 30 January 2004.

As the Group’s acquisitions of the undertakings of XCTC and Market Wisdom on 30 January 2004 and 27 April 2004 respectively constitute common control transactions, the consolidated financial statements of the Group for the financial year ended 31 December 2004 have been prepared in a manner similar to the “pooling of interests” method.

All intra-group transactions and balances among the companies comprising the Group are eliminated in the preparation of the consolidated financial statements.

1(d) (ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. Stated also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

There have been no movements in the Company's share capital since 31 December 2004.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

The figures have been reviewed by the Company's auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Please see attached.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

Except as disclosed in paragraph 5, the Group has applied the same accounting policies and methods of computation in the financial statements for the current financial period as those of the audited financial statements for the year ended 31 December 2004.

5. There any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed as well as the reasons for, and the effect of, the change.

The Group adopted the new Financial Reporting Standards ("FRSs") and various revisions to existing FRSs that are applicable for financial periods beginning on or after 1 January 2005. These are currently assessed to have no significant impact on the financial position and results of the Group for the current and prior periods.

6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	3 months ended 30 June 2005	3 months ended 30 June 2004	6 months ended 30 June 2005	6 months ended 30 June 2004
Earnings per ordinary share for the period based on net profit attributable to shareholders:				
Basic and fully diluted (RMB cents) (Note 1)	4.72	7.51	7.94	6.78
Note 1:				
Basic and fully diluted earnings per share were based on:				
Net profit for the period (RMB'000)	11,547	15,579	19,411	13,670
	No. of shares	No. of shares	No. of shares	No. of shares
Shares outstanding at beginning of the period (Note 2)	244,535,400	195,535,400	244,535,400	195,535,400
Weighted average number of new shares issued during the period pursuant to the public invitation	-	11,846,154	-	5,955,801
Weighted average number of shares issued during the period (basic and fully diluted)	244,535,400	207,381,554	244,535,400	201,491,201

Note 2. For illustrative purposes, it was assumed that the Restructuring Exercise had been completed on 1 January 2004 and the pre-invitation share capital of 195,535,400 shares had already been in issue on 1 January 2004. The effect of the sub-division of shares had been applied retrospectively.

7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the :-

(a) current financial period reported on ; and (b) immediately preceding financial year.

	Group		Company	
	30 June 2005	31 December 2004	30 June 2005	31 December 2004
Net asset value (RMB'000) (Note 1)	181,326	155,869	100,062	103,610
Issued and fully paid ordinary shares	244,535,400	244,535,400	244,535,400	244,535,400
Net asset value per ordinary share (RMB cents)	74.15	63.74	40.92	42.37

Note 1: Net asset value as at 30 June 2005 and 31 December 2004 were computed based on the summation of total assets and total liabilities.

8. A review of the performance for the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following :-

- (a) any significant factors that affected the turnover, costs, and earnings of the group for current financial period reported on, including (where applicable) seasonal or cyclical factors; and (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

Review of the Group Performance

Business Review

Group revenue in the first half year of 2005 ("1H05") rose 45% to RMB 30.6 million, partly boosted by first-time contribution from 70%-owned Shaanxi Long Top Technology Co., Ltd ("Shaanxi Long Top") whose results were consolidated from 1 June 2005.

Long Top contributed RMB 5.8 million to the Group revenue in 1H05. The original business in China under the wholly owned subsidiary, Xi'an Cenozoic Petro Tech Co., Ltd ("Cenozoic"), achieved a 17.3% growth in revenue to RMB 24.8 million. Of this amount, RMB 17.7 million was generated from sales of new software which is the main engine of growth, and RMB 4.9 million from software upgrades.

In line with the increase in revenue, Group gross profit rose 43% to RMB 26.4 million.

Among the key expense items, R&D costs rose 18% to RMB 1.7 million as the Group continued to upgrade its products and broaden the range of product and services. Sales and distribution costs declined by 68% as there were not many large scale product seminars and conferences held during the period. Administrative expenses during the period nearly tripled to RMB 6.1 million. However, the amount was comparable to that in the second half of 2004. The increase is mainly attributable to the increase in rental expenses, staff costs, directors' remuneration and higher administrative expenses following our public listing last year. The amount also included the expenses from Long Top.

Group profit before tax rose 53% to RMB 21 million including RMB 5.6 million contributed by Long Top. Net of minority interests of Long Top, Group net attributable profit increased 42% to RMB 19.4 million or 7.94 RMB cents per share.

Financial Position and Liquidity

Financial position of the Group as at 30 June 2005 remained very healthy with net cash holdings of RMB 106.8 million or 43.7 RMB cents per share. The amount is net of the RMB25.9 million paid for the 70% stake in Long Top which was officially acquired on 1 June 2005. The acquisition also contributed to the increase of RMB 28.5 million in intangible assets (before amortization in the 1H05).

The increase of RMB 28.6 million in trade and other receivables is partly due to the increase in sales and partly seasonable in nature as we expect payment from customers to be sped up in the second half of the year.

The Company had expected to declare a special interim dividend together with the announcement of the second quarter results. However, there has been a delay in the "upstreaming" of the profits from the subsidiaries to the Company to enable it to declare a dividend. The Company will expedite the process and declare the special interim dividend as soon as it can.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

The Group financial performance in 2Q 2005 was in line with the view expressed by the Directors in the 1Q 2005 announcement on 11 May 2005.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

The Group remains positive on business outlook for the second half of 2005.

It expects software upgrades and provision of technical and consultation services to drive Cenozoic revenue growth in the next six months. Cenozoic has started implementing major software upgrades for some products and the upgrade will gather momentum over the next few months. It is also in the midst of finalizing details of technical and consultation projects at two major oil fields in the Western part of China which should contribute to the revenue growth in the next 12 months.

Cenozoic has an outstanding order book of RMB 16 million. Its order book should grow further in next few months during the peak sales period from August to December.

We are working very closely with Long Top to market its ERP products to other major oil fields in China. The initial response from our clients has been very encouraging. As at 31 July 2005, Long Top has an outstanding order of RMB 4.5 million and we are confident of further growth in the next six months.

We are still exploring direct investment opportunities in marginal oil and gas fields and provision of consultation services such as secondary enhanced oil recovery in Indonesia. The Directors are very mindful of the financial risk involved in these direct investments. The investment amount required for marginal oil and gas fields will be within the financial resources of the Group. The technical aspect of the work scope involved is also within the technical expertise of the Group.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on? No

(b) Corresponding Period of the immediately preceding financial year

Any dividend declared for the corresponding period of the immediately preceding financial year? No

(c) Date payable

Not applicable

(d) Book Closure Date

Not applicable

12. If no dividend has been declared/recommend, a statement to that effect.

Not Applicable.

By Order of the Board

**William Chan Shut Li
Chairman of the Board
12 August 2005**