



BUSINESS REVIEW

Turnover of the Group for the six months ended 30 June 2002 was approximately RMB89 million (2001: RMB93.5 million) whilst profit attributable to shareholders increased by 154% to approximately RMB37.1 million (2001: RMB14.6 million).

With the withdrawal from the instant food business in December 2001, the Group has benefited by reallocating resources to oil transportation, natural gas pipeline network and other energy related business that would yield a higher return. The turnover for the period was mainly derived from the operation of transportation and storage facilities for crude oil exploited from the Ta He Oil Field in the Xinjiang Autonomous Region, the PRC (“Xinjiang”). The Group has continued to maintain very strong cashflows with its oil transportation business in Xinjiang which maintaining high level of usage. Together with the successful acquisition of equity interest in natural gas pipeline networks in Korla City in Xinjiang and Jilin City in Jilin Province respectively, the Group’s profit attributable to shareholders has increased accordingly during the six months ended 30 June 2002.

Oil Transportation Business

During the period under review, turnover and profit attributable to shareholders of Xinjiang Xingmei Oil Pipeline Co Ltd (“Xingmei”) amounted to approximately RMB71.5 million and RMB34.2 million respectively. For the first six months of 2002, Xingmei has provided oil transportation and unloading services for approximately two million tonnes of crude oil. Xingmei is a Sino-foreign equity joint venture in which the Group holds 80% equity interest whilst the remaining 20% equity interest of Xingmei is held by Sinopec National Star Petroleum Corporation (“SNSP”). The oil field in Xinjiang is operated by SNSP, and pursuant to the transportation and storage agreement made between SNSP and Xingmei in November 1999, SNSP has agreed to transport crude oil through Xingmei’s pipeline as well as its facilities for a term of 20 years. At present, Xingmei’s pipeline is the only pipeline being operated in the area. The annual capacity of oil transportation through the existing oil pipeline is 3.5 million tonnes.

Korla City of Xinjiang – Natural Gas Pipeline Network and Related Operation

In November 2001, the Group entered into an agreement with an independent third party to acquire an effective 32% equity interest in Lejion Gas Company Limited (“Lejion”). Lejion is a Sino-foreign equity joint venture and is principally engaged in the construction and operation of a natural gas pipeline network in Korla of Xinjiang and distribution of natural gas to the users in Korla City. Lejion is currently the sole operator of natural gas network in the region. In order to consolidate this strategic advantage, in March 2002, the Group entered into another agreement with an independent third party and further increase its effective shareholding in Lejion from 32% to 72%. For the first half of 2002, the turnover and profit attributable to shareholders of Lejion were approximately RMB41.4 million and RMB19.1 million respectively. The Group has consolidated its turnover and profit attributable to shareholders for the two months ended 30 June 2002 and has also equity accounted for Lejion’s profit for the first four months of 2002.

Korla City is the second largest city in Xinjiang with a population of approximately 350,000. The supply of natural gas and LPG in Korla in the first half of 2002 was approximately 20.8 million m³ and 3,500 tonnes respectively. Lejion supplies LPG to approximately 40,000 households in towns surrounding Korla. Lejion is also engaged in the construction and operation of a refilling station supplying natural gas and LPG for vehicle use. Currently there are two refilling stations in operation.



Jilin City of Jilin Province – Natural Gas Pipeline Network

In January 2002, the Group entered into an agreement with Mr. Sun Tian Gang, the director and controlling shareholder of the Company, to acquire an effective 30.87% equity interest in Jilin City Jimei Gas Co Ltd. (“Jimei”). Jimei is a Sino-foreign joint venture which is principally engaged in the operation of a natural gas pipeline network in Jilin City and is the sole operator approved by the Municipal Government of Jilin City to operate the only natural gas network in Jilin City. The natural gas pipeline network extends approximately 500 kilometers and covers the majority of Jilin City. The acquisition was completed in April 2002 and the Group has equity accounted for its profit for the two months ended 30 June 2002.

Jilin City is the second largest city in Jilin Province with a population of approximately 1.8 million. The supply of natural gas in Jilin in the first half of 2002 was approximately 31.2 million m³. According to a feasibility study conducted by Jimei in 2001, the coverage is expected to increase to, approximately 310,000 households in seven years.

FINANCIAL REVIEW

As at 30 June 2002, the net assets of the Group have increased to approximately RMB395 million (31 December 2001: RMB304 million) while its total assets were approximately RMB988 million (31 December 2001: RMB764 million). The Group’s bank borrowings were approximately RMB477 million, of which 20%, 38% and 42% were due within one year, from the third to fifth years and after the fifth year, respectively. As at balance sheet date, the total borrowings of the Group comprised fixed interest loans in Renminbi and unsecured debts accounted for 59% of the total bank borrowings. The secured portion of bank loans is pledged by certain fixed assets and fixed deposits of the Group with a total carrying value of approximately RMB264 million (31 December 2001: RMB303 million). The Group’s gearing ratio based on bank borrowings and shareholders’ equity was 121% which has been slightly improved comparing with that of the year ended 2001. This high gearing during the period was due to the operation of Xingmei, of which fixed assets, including pipelines, oil tanks, other ancillary facilities, and construction in progress are being financed by bank borrowings. However, the board considers that given the reliable cash flow from Xingmei and low cost of financing, which is approximately 5.5% per annum, the gearing ratio is acceptable. The board would continue to closely monitor the borrowings and use their best endeavors to lower the gearing ratio in the near future.

As the business transactions as well as the bank borrowings of the Group are mainly denominated in Renminbi, the directors consider that foreign exchange exposure does not pose a significant risk given that the exchange rates of these currencies are fairly stable and no hedging measure is currently necessary.

As at 30 June 2002, the Group’s cash and bank balances were RMB162 million. These available cash resources together with the strong recurring cashflows from the energy related businesses will not only enable the Group to fund its debt repayments without difficulties, but also place the Group in a healthy financial position to take advantage of investment opportunities with confidence.