



NOTES TO THE FINANCIAL STATEMENTS

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

20. PLEDGED BANK DEPOSITS

	The Group	
	2003 RMB'000	2002 RMB'000
Pledged deposits with banks		
Maturing after three months from placement	44,993	53,562
Maturing within three months from placement	8,480	–
	<u>53,473</u>	<u>53,562</u>

Fixed deposits of HK\$10,000,000 (2002: HK\$40,000,000) and US\$5,180,000 (2002: US\$1,350,000) were pledged to a bank for bank loans in the aggregate amount of RMB46,800,000 (2002: RMB46,800,000) granted to the Group.

21. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Cash at bank	69,605	–	1,597	4
Cash in hand	6	2,935	–	–
	<u>69,611</u>	<u>2,935</u>	<u>1,597</u>	<u>4</u>

22. BANK LOANS

At 31 December 2003, the bank loans of the Group were repayable as follows:

	The Group	
	2003 RMB'000	2002 RMB'000
Within 1 year or on demand	176,800	86,800
After 1 year but within 2 years	60,000	30,000
After 2 years but within 5 years	210,000	190,000
After 5 years	80,000	160,000
	<u>350,000</u>	<u>380,000</u>
	<u>526,800</u>	<u>466,800</u>

NOTES TO THE FINANCIAL STATEMENTS

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



22. BANK LOANS (CONTINUED)

At 31 December 2003, the bank loans of the Group were secured as follows:

	The Group	
	2003 RMB'000	2002 RMB'000
Bank loans secured by		
– fixed deposits (<i>note (i)</i>)	46,800	46,800
– corporate guarantees (<i>note (ii)</i>)	270,000	270,000
– fixed assets (<i>note (iii)</i>)	210,000	150,000
	526,800	466,800

Notes:

- (i) Fixed deposits of HK\$10,000,000 (2002: HK\$40,000,000) and US\$5,180,000 (2002: US\$1,350,000) were pledged to a bank for bank loans in the aggregate amount of RMB46,800,000 (2002: RMB46,800,000) granted to the Group.
- (ii) The corporate guarantees are issued by related companies and an independent third party in respect of bank loans of RMB150,000,000 (2002: RMB150,000,000) and RMB120,000,000 (2002: RMB120,000,000) respectively granted to the Group.
- (iii) 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.

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Trade creditors	436	2,715	–	–
Accrued expenses and other payables	20,180	26,964	1,400	1,548
Amount due to minority shareholder	–	4,000	–	–
Dividends payable to minority shareholders	38	–	–	–
Amount due to ultimate holding company	705	–	–	–
	21,359	33,679	1,400	1,548



NOTES TO THE FINANCIAL STATEMENTS

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

23. TRADE AND OTHER PAYABLES (CONTINUED)

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

The amounts due to minority shareholder and ultimate holding company are unsecured, interest free and have no fixed terms of repayment.

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

24. 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.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant scheme administrators, and the Group has no further obligations beyond the annual contributions.

For the year ended 31 December 2003, the aggregate amount of the Group's contributions to the aforementioned schemes was RMB843,000 (2002: RMB589,000) which was included in the staff costs.

25. EQUITY COMPENSATION BENEFITS

The Company adopted a share option scheme on 6 March 2002 for a period of 10 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 determined by the board and it will not less than the highest of the closing price of the shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant, the average closing price of the shares on the Stock Exchange 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.

NOTES TO THE FINANCIAL STATEMENTS

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



25. EQUITY COMPENSATION BENEFITS (CONTINUED)

(a) Movements in share options

	Number of options	
	2003 '000	2002 '000
At 1 January	116,000	50,000
Issued	–	116,000
Exercised	–	(50,000)
At 31 December	<u>116,000</u>	<u>116,000</u>
Options vested at 31 December	<u>116,000</u>	<u>116,000</u>

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

Date granted	Exercise period	Exercise price HK\$	Number of options	
			2003 '000	2002 '000
29 July 2002	2 September 2002 to 31 August 2007	0.698	<u>116,000</u>	<u>116,000</u>

(c) Details of share options granted during the year, all of which were granted for nil consideration

Exercise period	Exercise price HK\$	Number of options	
		2003 '000	2002 '000
2 September 2002 to 31 August 2007	0.698	<u>–</u>	<u>116,000</u>



NOTES TO THE FINANCIAL STATEMENTS

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

26. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2003 RMB'000	2002 RMB'000
At 1 January	10,045	–
Provision for PRC income tax	5,605	12,391
Over-provision in respect of prior year	(1,902)	–
Provisional PRC income tax paid	(12,833)	(2,346)
At 31 December	915	10,045

(b) Deferred tax liabilities/(assets) not recognised

At the balance sheet date and for the year, no deferred tax assets has been recognised in relation to tax losses as it is not probable that taxable profit will be available against which tax losses can be utilised. At 31 December 2003, the Group's and the Company's tax losses of approximately RMB7,658,000 (2002: RMB5,147,000) and RMB3,952,000 (2002: RMB2,950,000) do not expire under tax legislation.

The Group had no significant potential deferred tax liabilities for the year and at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

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



27. SHARE CAPITAL

	The Group and The Company			
	2003		2002	
	No. of shares '000	Amount RMB'000	No. of shares '000	Amount RMB'000
Authorised:				
Shares of HK\$0.01 each	<u>10,000,000</u>	<u>106,000</u>	<u>10,000,000</u>	<u>106,000</u>
Issued and fully paid:				
Shares of HK\$0.01 each	<u>3,031,584</u>	<u>32,385</u>	<u>3,031,584</u>	<u>32,385</u>

A summary of the movements in the issued share capital of the Company is as follows:

	2003		2002	
	No. of shares '000	Amount RMB'000	No. of shares '000	Amount RMB'000
At 1 January	<u>3,031,584</u>	<u>32,385</u>	2,937,500	31,388
Shares issued under share option scheme (note (a))	–	–	50,000	530
Issue of shares on subscription (note (b))	–	–	<u>44,084</u>	<u>467</u>
At 31 December	<u>3,031,584</u>	<u>32,385</u>	<u>3,031,584</u>	<u>32,385</u>

- (a) On 22 February 2002, 50,000,000 ordinary shares of HK\$0.01 each were issued at a price of HK\$0.084 each, upon the exercise of share options under the Company's share option scheme for a total consideration of HK\$4,200,000. The amounts credited to share capital and the share premium account were HK\$500,000 (equivalent to RMB530,000) and HK\$3,700,000 (equivalent to RMB3,922,000) respectively.
- (b) On 30 April 2002, 44,083,936 ordinary shares of HK\$0.01 each were allotted and issued to Mr Sun Tian Gang at a price of HK\$1.07 each pursuant to a subscription agreement in order to satisfy part of the consideration for acquisition of 49% equity interest of Sky Global. The amounts credited to share capital and the share premium account were HK\$441,000 (equivalent to RMB467,000) and HK\$46,729,000 (equivalent to RMB49,533,000) respectively.



NOTES TO THE FINANCIAL STATEMENTS

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

28. RESERVES

(a) The Group

	Share premium RMB'000	Contributed surplus RMB'000	Warrant reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2002	122,956	86,716	5,260	57,377	272,309
Shares issued under share option scheme net of expenses (note 27(a))	3,922	-	-	-	3,922
Share issue expenses	(37)	-	-	-	(37)
Issue of shares on subscription (note 27(b))	49,533	-	-	-	49,533
Expiry of warrants (note (c))	-	-	(5,260)	-	(5,260)
Net profit for the year	-	-	-	57,881	57,881
At 31 December 2002	<u>176,374</u>	<u>86,716</u>	<u>-</u>	<u>115,258</u>	<u>378,348</u>
At 1 January 2003	176,374	86,716	-	115,258	378,348
Net profit for the year	-	-	-	14,929	14,929
At 31 December 2003	<u>176,374</u>	<u>86,716</u>	<u>-</u>	<u>130,187</u>	<u>393,277</u>

(b) The Company

	Share premium RMB'000	Contributed surplus RMB'000	Warrant reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2002	122,956	86,716	5,260	(11,745)	203,187
Share issued under share option scheme net of expenses (note 27(a))	3,885	-	-	-	3,885
Issue of shares on subscription (note 27(b))	49,533	-	-	-	49,533
Expiry of warrants (note (c))	-	-	(5,260)	-	(5,260)
Net loss for the year	-	-	-	(2,179)	(2,179)
At 31 December 2002	<u>176,374</u>	<u>86,716</u>	<u>-</u>	<u>(13,924)</u>	<u>249,166</u>
At 1 January 2003	176,374	86,716	-	(13,924)	249,166
Net loss for the year	-	-	-	(6,178)	(6,178)
At 31 December 2003	<u>176,374</u>	<u>86,716</u>	<u>-</u>	<u>(20,102)</u>	<u>242,988</u>

NOTES TO THE FINANCIAL STATEMENTS

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



28. RESERVES (CONTINUED)

(b) The Company (continued)

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 under certain circumstances.

(c) In October 2001, the Company issued 548,000,000 non-listed warrants at an issue price of HK\$0.01 per warrant by private placement and the warrants were placed to not less than six selected independent professional, institutional and other investors as disclosed in the announcement of the Company dated 16 October 2001. The net proceeds of HK\$4,962,000 (equivalent to RMB5,260,000) were used for general working capital purposes. During the year ended 31 December 2002, all warrants expired without being exercised.

(d) At 31 December 2003, the aggregate amount of reserves available for distribution to shareholders of the Company was as follows:

	2003 RMB'000	2002 RMB'000
Contribution surplus	86,716	86,716
Accumulated losses	(20,102)	(13,924)
	<u>66,614</u>	<u>72,792</u>



NOTES TO THE FINANCIAL STATEMENTS

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

29. ACQUISITION AND SALE OF SUBSIDIARIES

- (a) During the year ended 31 December 2002, the Group increased its equity interest in Oriental Energy to 90% by acquiring a further 50% equity interest and shareholders' loans for a consideration of RMB69,940,000.

RMB'000

Net assets acquired

Fixed assets	108,642
Construction in progress	69,739
Inventories	479
Trade debtors	18,856
Other debtors and deposits	11,412
Cash and bank balances	11,649
Short term bank loans	(8,800)
Trade creditors	(11,387)
Other creditors and accruals	(37,735)
Shareholders' loans	(139,870)
Amount due to minority shareholder	(6,565)
Minority interest	(12,190)
	<u>4,230</u>
Interest in associate at 30 April 2002	(2,056)
Shareholders' loans acquired	69,935
Negative goodwill arising on consolidation	(1,852)
	<u>70,257</u>

Net cash outflow in respect of the purchase of subsidiary:

Total purchase price paid	(69,940)
Expenses in relation to acquisition	(317)
Cash and bank balances acquired	11,649
	<u>(58,608)</u>

- (b) The net cash inflow from sale of subsidiaries of RMB32,531,000 for the year ended 31 December 2002 represents the balance of the consideration received in 2002 for the sale of the Group's entire interests in certain subsidiaries which were engaged in the instant food operations in the PRC in prior years.

NOTES TO THE FINANCIAL STATEMENTS

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



30. COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2003 not provided for in the financial statements of the Group were as follows:

	2003 RMB'000	2002 RMB'000
Contracted for		
– acquisition of fixed assets	16,015	–
– injection of registered capital of a PRC subsidiary	113,027	–
	129,042	–
Authorised but not contracted for		
– acquisition of fixed assets	–	54,600
	129,042	54,600

- (b) At 31 December 2003, the total future minimum lease payments under non-cancellable operating leases of the Group and of the Company are payable as follows:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within 1 year	2,696	1,836	891	–
After 1 year but within 5 years	774	1,839	774	–
	3,470	3,675	1,665	–

The Group and the Company leases a number of properties under operating leases.

31. CONTINGENT LIABILITIES

At 31 December 2003, there were contingent liabilities in respect of the following:

- (i) As at 31 December 2002, Xinjiang Xingmei, a subsidiary of the Group, has given corporate guarantee to a bank to secure bank loans granted to Jimei Gas, an associate, in the amount of RMB10,000,000. The bank loans have been fully paid off by Jimei Gas in July 2003. Accordingly, the corporate guarantee given by Xinjiang Xingmei has been discharged.



NOTES TO THE FINANCIAL STATEMENTS

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

31. CONTINGENT LIABILITIES (CONTINUED)

- (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 ("Mr. Sun"). Mr. Sun is the director and controlling shareholder of the Company. Maxy Oil subsequently transferred its 63% interest in Jimei Gas to 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 (the "Disposal"). After marking appropriate enquires 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 31 December 2002, no provision has been made and these matters have been disclosed as contingent liabilities. 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, such contingent liabilities ceased to exist.

32. 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 year, revenue from the provision of crude oil transportation service to the minority shareholder amounted to RMB74,946,000 (2002: RMB79,401,000). The balance due from minority shareholder as at 31 December 2003 was RMB27,792,000 (2002: RMB5,930,000) which was included in trade debtors.

(ii) Purchase of natural gas

There exists an agreement dated 24 April 1999 entered into between Jimei Gas, which became an associate of the Group on 30 April 2002 and ceased to be an associate of the Group on 2 July 2003, 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. Total purchases including transmission tariff and purification fee for the six months ended 30 June 2003 amounted to RMB42,162,000 (For eight months ended 31 December 2002: RMB47,602,000).



32. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(iii) Guarantees

At 31 December 2002, Xinjiang Xingmei has given corporate guarantee to certain banks to secure loans granted to Jimei Gas in the amount of RMB10,000,000. The bank loans have been fully paid off by Jimei Gas in July 2003. Accordingly, the corporate guarantee given by Xinjiang Xingmei has been discharged.

At 31 December 2003, Shine Gem has given corporate guarantee to secure bank loans granted to Xinjiang Xingmei in the aggregate amounts of RMB150,000,000 (2002: RMB70,000,000).

At 31 December 2002, corporate guarantee was given by Jimei Gas to secure bank loans of RMB80,000,000 granted to Xinjiang Xingmei. During the year, this corporate guarantee has been released.

(iv) Loans

Loans from/to minority shareholders

- (a) At 31 December 2002, an amount of RMB4,000,000 was due to the minority shareholder of Oriental Energy Limited, a subsidiary of the Group. The balance was unsecured, interest free and has no fixed terms of repayment. During the year ended 31 December 2003, such loan was settled in full.
- (b) During the year, the PRC joint venture partner of Lejion Gas Co., Ltd. ("Lejion Gas"), a subsidiary of the Group, repaid RMB232,000 to Lejion Gas. At 31 December 2003, the remaining balance of the loan due from this joint venture partner was RMB4,041,000 (2002: RMB4,273,000). The loan is unsecured, interest free and has no fixed term of repayment.

Loans from/to associates

- (c) As at 31 December 2002, 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, interest free and repayable on demand. The loan advanced by the Group at 31 December 2002 amounted to RMB26,054,000 and the amount was fully settled by July 2003.

Loan from ultimate holding company

- (d) During the year ended 31 December 2003, China GeoMaxima Company Limited, the ultimate holding company of the Company, advanced a loan to the Group, in the amount of RMB705,000 (2002: Nil) which was unsecured and interest free and has no fixed terms of repayment.



NOTES TO THE FINANCIAL STATEMENTS

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

32. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(v) Sale of an associate

On 10 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 for a total cash consideration of RMB135,000,000, resulting in a loss of RMB847,000 in the consolidated income statement. 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.

33. SUBSEQUENT EVENT

On 18 March 2004, the Group entered into an agreement with Crown Trade Enterprises Limited ("Crown Trade") and Faith Honour International Limited ("Faith Honour"), two independent third parties, to acquire 100% equity interest in Ordifen Limited ("Ordifen"), a company incorporated in the British Virgin Islands with limited liabilities, for an aggregate cash consideration of HK\$10,000,000 (equivalent to RMB10,600,000) and 100% of the shareholder's loan of RMB60,000,000 owed by Ordifen to Faith Honour for an aggregate consideration of RMB60,000,000. The principal asset of Ordifen is its 51% equity interest in a joint venture, Ningxia Meining Pipeline Co., Ltd. (the "JV Company"), a sino-foreign joint venture established in the PRC on 3 December 2003. The JV Company is principally engaged in the construction, operation and management of natural gas pipelines and ancillary business in Ningxia, the PRC.

34. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

35. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 December 2003 to be China GeoMaxima Co., Ltd., which is incorporated in the British Virgin Islands.