

## **BUSINESS REVIEW**

The six months under review was a challenging period for the Group mainly due to the intense competition in the food business and the recently acquired oil transportation operation. When the new Board took over the management of the Company in late April 2001, the focus of managerial action and resources were devoted to the rationalization of marketing strategy of the food business and maximization of the contribution from the oil transportation operation. The Group has managed to have a solid growth for the six month period ended 30 June 2001. The Group's turnover was approximately RMB93.5 million and the profit attributable to shareholders amounted to approximately RMB14.6 million, representing a 11.3% and 343.4% increase compared with that of year 2000. This increase is mainly due to the contribution from the oil transportation business which was acquired by the Company in March this year.

### **Food Business**

The turnover and profit from operations of the food business has dropped by 39.4% and 68.7% respectively. The food business has experienced a difficult first half year caused by the change of consumers market structure as well as the keen competition in the PRC. Competition in the PRC market has become fierce and profit margin has to be reduced in order to compete for the market share. Management has reviewed and rationalized the food business and an aggressive marketing strategy was implemented with the focus on improving turnover and repositioning the target market. In parallel with this, tightened credit policy has been employed to ensure recoverability of trade receivables. The above measures will enhance the marketing efficiency, secure a larger market share and further strengthen the liquidity of the food operation.

### **Oil Transportation Business**

In March 2001, the Group acquired an 80% equity interest in Xinjiang Xingmei Oil Pipeline Co. Ltd. ("Xingmei"). Xingmei is a Sino-foreign joint venture established in the PRC and is principally engaged in the operation of transportation and storage facilities for crude oil exploited from the Ta He oil field in the Xinjiang Autonomous Region of the PRC. The facilities consist of an oil pipeline of approximately 70 kilometers, stretching from Ta He oil field to Lun Tai railway station, eight oil tanks which have a total capacity of 120,000 tonnes and other ancillary facilities including loading bays to facilitate the operation of the oil pipeline.

The oil field in Xinjiang is operated by Sinopec National Star Petroleum Corporation ("SNSP"), which holds the remaining 20% equity interest of Xingmei. Pursuant to the transportation and storage agreement dated 25 November 1999 made between SNSP and Xingmei, 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.



Upon completion of the acquisition, turnover and profit attributable to shareholders of Xingmei for the four month period ended 30 June 2001 were approximately RMB42.6 million and RMB32.3 million respectively. With the increasing production of crude oil from Ta He oil field and the national policy of the PRC government to develop the northwestern region of the PRC, the directors believe that the contribution from Xingmei to our Group's profit will increase in the remaining half of this year as well as the coming years.

## **FINANCIAL REVIEW**

As at 30 June 2001, the net assets of the Group have increased to approximately RMB251.9 million. The Group's total assets were approximately RMB888.4 million and its total borrowings were approximately RMB510.1 million, of which 64% was due within one year while 28% and 8% were due in the second year and in the third to fifth year, respectively. As at balance sheet date, 85% of the total borrowings of the Group are fixed interest loans in Renminbi and unsecured debt comprised 42% of the total borrowings. The Group's gearing ratio based on shareholders' equity was 202.5% compared to 23.4% as at 31 December 2000. This increase during the period is due to acquisition of Xingmei, of which fixed assets, including pipelines, oil tanks, other ancillary facilities, and construction in progress are being financed by bank borrowings. Notwithstanding the increase in gearing ratio, we consider given the reliable cash flow from Xingmei and low cost of financing, which is approximately 6% per annum, in the opinion of the Board, the gearing ratio is acceptable.

Inventory level was strictly controlled and accounts receivable was closely monitored. For the six month period ended 30 June 2001, the Group received approximately RMB34.4 million of cash distribution from its two operations. Further the Group also raised approximately HK\$90 million, approximately equivalent to RMB96 million, from placement of 23,750,000 new shares at HK\$3.8 per share in February 2001 and the Group's cash and bank balances were approximately RMB170 million as at balance sheet date.

## **PROSPECTS**

In view of the national policy of the PRC government to develop the northwestern region of the PRC, the Directors believe that there will be immense market potential for the energy related business in the region. The Board will search for suitable opportunities to strengthen the Company's investment in energy related industries in order to enhance its earning base. As stated by GeoMaxima Holdings Limited (formerly known as China GeoMaxima Co., Ltd.) in the offer document dated 28 March 2001, shareholders should rest assured that our ambitions for the Company do not only lie on the food business but will shift its focus to the development of energy related business. The Board is confident that the Company's diversification plans will produce additional and sustained growth for the Company.

### Employee Information

As at 30 June 2001, the Group employed approximately 974 employees. They were remunerated according to the nature of job and market condition. The Group also provides eligible employees benefits such as share options, housing allowances, discretionary bonus and medical and dental schemes.

### DIRECTORS' INTEREST IN SECURITIES

As at 30 June 2001, according to the register of interests required to be maintained pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the following Directors had personal interests in the securities of the Company as set out hereunder.

#### (a) Shares of the Company

Name of Director	Number of shares	Nature of interests	Name of Company
Li Han Rong (Note 1)	25,500 non-voting deferred shares	Personal	Amersham Investment Limited
Li Han Chao	14,025 non-voting deferred shares	Personal	Amersham Investment Limited
Wei Qing Wen (Note 1)	24,975 non-voting deferred shares	Personal	Amersham Investment Limited
Cheng Hung Mui (Note 1)	10,500 non-voting deferred shares	Personal	Amersham Investment Limited
Chen Ching (Note 1)	13,236,960 shares (Note 3)	Personal	GeoMaxima (Hong Kong) Holdings Limited
Sun Tian Gang (Note 2)	1,662,795,650 shares (Note 3)	Corporate	GeoMaxima (Hong Kong) Holdings Limited
Guo Ting	3,000,000 shares (Note 3)	Personal	GeoMaxima (Hong Kong) Holdings Limited

**(b) Share options granted by the Company**

Name of Director	Number of options outstanding as at 1 January 2001	Date of grant	Number of options granted during the period	Number of options exercised during the period	Number of options outstanding as at 30 June 2001	Exercise period (Exercise price)
Sun Tian Gang	60,000,000 (Note 3)	4 August 2000	Nil	Nil	60,000,000 (Note 3)	4 August 2000 to 3 August 2005 (HK\$0.084) (Note 4)
Wong Nam Ling	50,000,000 (Note 3)	4 August 2000	Nil	Nil	50,000,000 (Note 3)	4 August 2000 to 3 August 2005 (HK\$0.084) (Note 4)
Chen Ching (Note 1)	5,000,000 (Note 3)	4 August 2000	Nil	Nil	5,000,000 (Note 3)	4 August 2000 to 3 August 2005 (HK\$0.084) (Note 4)

(Note 1) Messrs. Li Han Rong, Wei Qing Wen, Cheng Hung Mui and Chen Ching resigned as Directors of the Company on 26 April 2001.

(Note 2) 1,662,795,650 shares were owned by GeoMaxima Holdings Limited (formerly known as China GeoMaxima Co., Ltd.), a company wholly owned by Mr. Sun Tian Gang.

(Note 3) Pursuant to an ordinary resolution passed in a special general meeting held on 15 May 2001, the Company's existing issued and unissued shares of HK\$0.10 each be subdivided on the basis of one share being subdivided into 10 shares of HK\$0.01 each. ("Share Subdivision")

(Note 4) The exercise price has been adjusted from HK\$0.84 to HK\$0.084 as a result of Share Subdivision.

Save as disclosed above, as at 30 June 2001, none of the Directors or their respective associates had any personal, family, corporate or other interest in the share capital of the Company or any of its associated corporations as defined in the SDI Ordinance. No right had been granted to, or exercised by, any Director of the Company or his spouse and children under 18 years of ages, to subscribe for shares in or debentures of the Company during the six month period ended 30 June 2001.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2001, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be maintained by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Number of Shares	Approximate percentage of interests
GeoMaxima Holdings Limited (formerly known as China GeoMaxima Co. Ltd.)	1,662,795,650*	60.67%

Save as disclosed above, the Company is not aware of any other parties holding 10% or more in the issued share capital of the Company as at 30 June 2001.

\* Pursuant to an ordinary resolution passed in a special general meeting held on 15 May 2001, the Company's existing issued and unissued shares of HK\$0.10 each be subdivided on the basis of one share being subdivided into 10 shares of HK\$0.01 each.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six month period ended 30 June 2001, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## AUDIT COMMITTEE

The Audit Committee of the Company comprises two Independent Non-Executive Directors. The primary duties of the Audit Committee are to review and supervise the financial reporting and internal control procedures of the Group.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Directors of the Company are not aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

By Order of the Board

**Zhu Jia Zhen**

*Chairman*

Hong Kong, 14 September 2001