

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001 (Expressed in Renminbi)

14 INTANGIBLE ASSET

	The Group	
	2001 RMB'000	2000 RMB'000
Cost:		
At 1 January	38,000	38,000
Disposal of subsidiary	(38,000)	–
At 31 December	–	38,000
Accumulated amortisation:		
At 1 January	2,850	950
Charge for the year	1,900	1,900
Disposal of subsidiary	(4,750)	–
At 31 December	–	2,850
Net book value:		
At 31 December	–	35,150

Intangible asset represents cost incurred by a subsidiary for the acquisition of an exclusive right to use certain trademarks. The subsidiary was disposed of in December 2001.

The amortisation charge for the year is included in administrative expenses in the consolidated income statement.

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15 GOODWILL

	Negative goodwill RMB'000
Cost:	
At 1 January 2001	–
Addition arising on acquisition of subsidiaries	<u>8,689</u>
At 31 December 2001	<u>8,689</u>
Accumulated amortisation:	
At 1 January 2001	–
Amortisation for the year	<u>432</u>
At 31 December 2001	<u>432</u>
Carrying amount:	
At 31 December 2001	<u>8,257</u>
At 31 December 2000	<u>–</u>

Negative goodwill is recognised as income on a straight-line basis over eighteen years. The amortisation of negative goodwill for the year is included in “administrative expenses” in the consolidated income statement.

16 INTEREST IN SUBSIDIARIES

	2001 RMB'000	2000 RMB'000
Unlisted shares, at cost	86,823	86,823
Amounts due from subsidiaries	148,237	–
	235,060	86,823

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 financial statements.

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16 INTEREST 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
Brilliant Creation Limited	Hong Kong	HK\$2	100	–	100	Investment holding
Elite Ascend Holdings Limited	British Virgin Islands/Hong Kong	US\$690	100	100	–	Investment holding
Excellent Century Limited	British Virgin Islands/Hong Kong	US\$100	100	–	100	Investment holding
Xinjiang Xingmei Oil-Pipeline Co., Limited (sino foreign equity joint venture)	PRC	Registered capital RMB86,000,000	80	–	80	Transportation of crude oil

On 6 March 2001, the Group acquired 100% interest in Bamber Resources Limited and shareholders' loans for RMB45,861,000, satisfied by cash. As a result, the Group's profit for the year and the net assets as at the year end have both been increased by RMB45,372,284.

17 INTEREST IN ASSOCIATES

	The Group	
	2001 RMB'000	2000 RMB'000
Share of net assets	207	–
Loan to associate	55,948	–
	56,155	–

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17 INTEREST IN ASSOCIATES (CONTINUED)

Loan to associate is unsecured, interest free and has no fixed terms of repayment.

In November 2001, the Group acquired 40% interest in Oriental Energy Ltd. and 40% of the loans due by Oriental Energy Ltd. to its shareholders for a total cash consideration of RMB55.95 million. The principal asset of Oriental Energy Ltd. is the holding of 80% equity interest in Lejion Gas Co., Limited. Further details of the associates are as follows:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of ownership interest			Principal activity
				Group's effective interest	held by the Company	held by subsidiary	
Oriental Energy Ltd.	Incorporated	British Virgin Islands/Hong Kong	US\$1,000	40	–	40	Investment holding
Lejion Gas Co., Limited	Sino-foreign equity joint venture	PRC	Registered capital RMB50,000,000	*32	–	–	Operation of a natural gas pipeline network and refilling stations

* Oriental Energy Ltd. holds an equity interest of 80% in Lejion Gas Co., Limited. Accordingly, the Group's effective interest in Lejion Gas Co., Limited amounts to 32%.

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17 INTEREST IN ASSOCIATES (CONTINUED)

Information on material associate

The financial information of the associate, Oriental Energy Limited which is material in the context of the Group's financial statements, as extracted from the unaudited consolidated financial statements for the year ended 31 December 2001 is summarised below:

	Year ended 31 December 2001 RMB'000
Consolidated income statement	
Turnover	10,296
Cost of sales	<u>(10,026)</u>
	270
Administrative expenses	(821)
Other operating expenses	<u>(47)</u>
Loss from operations	(598)
Finance cost	<u>(2)</u>
Loss from ordinary activities before taxation	(600)
Taxation	<u>–</u>
Loss for the year	<u><u>(600)</u></u>
Post acquisition loss attributable to the Group	<u><u>(61)</u></u>
	31 December 2001 RMB'000
Consolidated assets and liabilities	
Non-current assets	179,162
Current assets	27,470
Current liabilities	(46,188)
Non-current liabilities	(150,047)
Minority interest	<u>(9,880)</u>
Net assets	<u><u>517</u></u>
Net assets attributable to the Group	<u><u>207</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001 (Expressed in Renminbi)

18 INVENTORIES

	The Group	
	2001 RMB'000	2000 RMB'000
Raw materials	–	6,685
Work in progress	–	546
Finished goods	–	5,763
Spare parts and consumables	619	196
	619	13,190

19 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Amounts due from related companies	–	3,677	–	–
Amount due from associate (<i>note (ii)</i>)	3,000	–	–	–
Trade debtors	39,104	64,886	–	–
Loans receivable (<i>note (iii)</i>)	59,755	–	–	–
Prepayments, deposits and other receivables (<i>notes (iv) and (v)</i>)	83,380	56,048	453	340
	185,239	124,611	453	340

Notes:

- (i) All the trade debtors and other receivables are expected to be recovered within one year.
- (ii) The amount due from associate is unsecured, interest free and has no fixed terms of repayment.
- (iii) Included in loans receivable is a loan to a third party of RMB14,755,000 which is unsecured, interest bearing at 12% per annum and repayable within one year. All other loans receivable are unsecured, interest free and have no fixed terms of repayment.
- (iv) Included in prepayments, deposits and other receivables is 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. The investment deposit is 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.
- (v) Included in prepayments, deposits and other receivables is an amount of RMB32,531,000 representing the balance of the consideration for the disposal of the Group’s subsidiaries engaged in the instant food operations which is due for settlement in April 2002.

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For the year ended 31 December 2001 (Expressed in Renminbi)

19 TRADE AND OTHER RECEIVABLES (CONTINUED)

The ageing analysis of trade debtors (net of provisions for bad and doubtful debts) is as follows:

	The Group	
	2001 RMB'000	2000 RMB'000
Current – aged less than 6 months	39,104	51,051
Overdue – aged 7 to 12 months	–	13,835
	39,104	64,886

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.

20 AMOUNTS DUE FROM SUBSIDIARIES

Amounts due from subsidiaries as at 31 December 2000 were unsecured, interest free and had no fixed terms of repayment.

21 CASH AND BANK BALANCES

	The Group		The Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Fixed deposits with banks				
– maturing after three months from placement	44,372	–	–	–
– maturing within three months from placement	23,156	5,538	–	–
Cash at bank and in hand	17,503	15,539	192	135
	85,031	21,077	192	135

Fixed deposits of HK\$30,000,000 (equivalent to RMB31,800,000) and US\$4,310,000 (equivalent to RMB35,635,000) (2000: RMB5,350,000) were pledged to a bank for bank loans of RMB58,000,000 (2000: bank overdrafts of RMB3,168,000) granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001 (Expressed in Renminbi)

22 BANK LOANS AND OVERDRAFTS

At 31 December 2001, the bank loans and overdrafts of the Group were repayable as follows:

	The Group	
	2001 RMB'000	2000 RMB'000
Within 1 year or on demand	108,000	33,168
After 1 year but within 2 years	140,000	–
After 2 years but within 5 years	100,000	–
After 5 years	30,000	–
	270,000	–
	378,000	33,168

At 31 December 2001, the bank loans and overdrafts of the Group were secured as follows:

	The Group	
	2001 RMB'000	2000 RMB'000
Bank overdrafts (<i>note (i)</i>)	–	3,168
Bank loans secured by		
– corporate guarantees issued by related company and associate (<i>note (ii)</i>)	150,000	–
– fixed assets (<i>note (iii)</i>)	150,000	20,930
– fixed deposits (<i>note (i)</i>)	58,000	–
Unsecured	20,000	9,070
	378,000	33,168

Notes:

- (i) Fixed deposits of HK\$30,000,000 (equivalent to RMB31,800,000) and US\$4,310,000 (equivalent to RMB35,635,000) (2000: RMB5,350,000) were pledged to a bank for bank loans of RMB58,000,000 (2000: bank overdrafts of RMB3,168,000).
- (ii) The corporate guarantees are issued by an associate, Lejion Gas Co., Limited, and the minority shareholder of Xinjiang Xingmei Oil-Pipeline Co. Limited, China National Star Petroleum Corporation.
- (iii) Certain of the oil pipeline and ancillary facilities with a total estimated carrying value of RMB236 million (2000: land use rights and buildings of RMB20,304,000) were pledged to a bank for bank loans of RMB150,000,000 (2000: RMB20,930,000).

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23 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Amount due to related company	–	4,604	–	–
Trade creditors	5,064	21,708	–	–
Receipts in advance	–	4,155	–	–
Accrued expenses and other payables	18,943	15,441	1,130	10,720
	24,007	45,908	1,130	10,720

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

The ageing analysis of trade creditors is as follows:

	The Group	
	2001 RMB'000	2000 RMB'000
Due within 3 months or on demand	5,064	15,118
Due after 3 months	–	6,590
	5,064	21,708

24 DEFERRED TAXATION

(a) Movements on deferred tax assets of the Group comprise:

	The Group	
	2001 RMB'000	2000 RMB'000
At 1 January	3,198	2,888
Disposals of subsidiaries	(3,198)	–
Transfer from the income statement	–	310
At 31 December	–	3,198

(b) Major components of deferred tax assets provided for by the Group are set out below:

	The Group	
	2001 RMB'000	2000 RMB'000
General provision for receivables and stocks	–	2,302
Others	–	896
	–	3,198



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25 LOAN FROM ULTIMATE HOLDING COMPANY

The loan is unsecured, interest free and has no fixed terms of repayment. The loan is not expected to be repayable within one year.

26 SHARE CAPITAL

	2001		2000	
	No of shares '000	Amount '000	No of shares '000	Amount '000
Authorised:				
Shares of HK\$0.01 each (2000: shares of HK\$0.1 each)	10,000,000	HK\$100,000	1,000,000	HK\$100,000
Issued and fully paid:				
Shares of HK\$0.01 each (2000: shares of HK\$0.1 each)	2,937,500	RMB31,388	250,000	RMB26,750

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

	2001		2000	
	No of shares '000	Amount RMB'000	No of shares '000	Amount RMB'000
At 1 January	250,000	26,750	2,000	214
Capitalisation issue of shares (note (a))	–	–	185,500	19,849
New issue of shares on initial public offering (note (b))	–	–	62,500	6,687
Shares issued by private placement (note (c))	23,750	2,518	–	–
Shares issued under share option scheme (note (d))	300	32	–	–
Number of shares before subdivision	274,050	29,300	250,000	26,750
Subdivision of shares (note (e))	2,466,450	–	–	–
Shares issued under share option scheme (note (f))	197,000	2,088	–	–
At 31 December	2,937,500	31,388	250,000	26,750

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26 SHARE CAPITAL (CONTINUED)

- (a) In February 2000, an amount of HK\$18,550,000 (equivalent to RMB19,849,000) standing to the credit of the share premium account was applied in paying up in full 185,500,000 shares of HK\$0.10 each which were allotted and distributed as fully paid to its shareholders in proportion to their shareholdings.
- (b) In February 2000, a further 62,500,000 shares (including 50,000,000 shares to independent investors by way of a placement) of HK\$0.10 each were issued and offered for subscription at a price of HK\$0.80 per share upon the listing of the Company's shares on the Stock Exchange.
- (c) In March 2001, 23,750,000 shares of HK\$0.10 each were allotted and issued to Total China Investments Limited, an independent third party, at a consideration of HK\$90,250,000 pursuant to a subscription agreement, of which HK\$2,375,000 (equivalent to RMB2,518,000) was credited to share capital and the balance of HK\$87,875,000 (equivalent to RMB93,147,000) was credited to the share premium account. The net proceeds have been utilised to finance acquisition of Bamber Resources Limited and for general working capital purposes.
- (d) Prior to the subdivision of the Company's shares, options were exercised to subscribe for 300,000 shares in the Company at a consideration of HK\$252,000, of which HK\$30,000 (equivalent to RMB32,000) was credited to share capital and the balance of HK\$222,000 (equivalent to RMB235,000) was credited to the share premium account.
- (e) Pursuant to an ordinary resolution passed in a special general meeting held on 15 May 2001, the Company subdivided the issued and unissued shares of HK\$0.10 each on the basis of one share of HK\$0.10 being subdivided into 10 shares of HK\$0.01 each.
- (f) Subsequent to the subdivision of the Company's shares, options were exercised to subscribe for 197,000,000 shares in the Company at a consideration of HK\$16,548,000 of which HK\$1,970,000 (equivalent to RMB2,088,000) was credited to share capital and the balance of HK\$14,578,000 (equivalent to RMB15,453,000) was credited to the share premium account.
- (g) 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. Each warrant entitles the holder to subscribe for one ordinary share of HK\$0.01 each in the share capital of the Company at an initial subscription price of HK\$0.38 per share, subject to adjustment, during the twelve-month period from the date of allotment and issue of the warrants. The net proceeds of HK\$4,962,000 (equivalent to RMB5,260,000) were used for general working capital purposes. During the year, no warrants were exercised.
- (h) The Company did not grant any new options during the year. At 31 December 2001, the outstanding options were:

Date of option granted	Period during which options exercisable	Exercise price per share	Number of options outstanding	
			2001	2000 (Note)
4 August 2000	4 August 2000 to 3 August 2005	HK\$0.084	50,000,000	250,000,000

Note: This represents the number of options outstanding after taking into account the subdivision of shares in 2001.



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27 RESERVES

(a) The Group

	Share premium RMB'000	Contributed surplus RMB'000	Warrant reserve RMB'000	General reserve RMB'000	Enterprise expansion reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2000	-	43,721	-	14,266	7,133	33,477	98,597
Capitalisation issue of shares (note 26(a))	(19,849)	-	-	-	-	-	(19,849)
New issue of shares on initial public offering (note 26(b))	46,813	-	-	-	-	-	46,813
Share issue expenses	(12,306)	-	-	-	-	-	(12,306)
Transfer between reserves	-	-	-	2,071	1,036	(3,107)	-
Profit for the year	-	-	-	-	-	1,768	1,768
At 31 December 2000	14,658	43,721	-	16,337	8,169	32,138	115,023
At 1 January 2001	14,658	43,721	-	16,337	8,169	32,138	115,023
Shares issued by private placement (note 26(c))	93,147	-	-	-	-	-	93,147
Shares issued under share option scheme - before share subdivision (note 26(d))	235	-	-	-	-	-	235
- after share subdivision (note 26(f))	15,453	-	-	-	-	-	15,453
Share issue expenses	(537)	-	-	-	-	-	(537)
Disposal of subsidiaries	-	42,995	-	(16,337)	(8,169)	(18,489)	-
Placement of warrants (note 26(g))	-	-	5,809	-	-	-	5,809
Warrant issue expenses (note 27(c))	-	-	(549)	-	-	-	(549)
Profit for the year	-	-	-	-	-	43,728	43,728
At 31 December 2001	122,956	86,716	5,260	-	-	57,377	272,309

Included in the figure for the retained profit is an amount of RMB61,000 (2000: Nil), being the accumulated losses attributable to associates.

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27 RESERVES (CONTINUED)

(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 2000	–	86,716	–	–	86,716
Capitalisation issue of shares (note 26(a))	(19,849)	–	–	–	(19,849)
New issue of shares on initial public offering (note 26(b))	46,813	–	–	–	46,813
Share issue expenses	(12,306)	–	–	–	(12,306)
Net loss for the year (note 8)	–	–	–	(4,172)	(4,172)
At 31 December 2000	14,658	86,716	–	(4,172)	97,202
At 1 January 2001	14,658	86,716	–	(4,172)	97,202
Shares issued by private placement (note 26(c))	93,147	–	–	–	93,147
Share issued under share option scheme					
– before share subdivision (note 26(d))	235	–	–	–	235
– after share subdivision (note 26(f))	15,453	–	–	–	15,453
Share issue expenses	(537)	–	–	–	(537)
Placement of warrants (note 26(g))	–	–	5,809	–	5,809
Warrant issue expenses (note 27(c))	–	–	(549)	–	(549)
Net loss for the year (note 8)	–	–	–	(7,573)	(7,573)
At 31 December 2001	122,956	86,716	5,260	(11,745)	203,187

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.

(c) The warrant reserve represents the amount received net of expenses paid in relation to the placement of warrants during the year. The reserve will be released to the share capital and share premium accounts upon exercise of the warrants.

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28 COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2001 not provided for in the financial statements of the Group were as follows:

	2001 RMB'000	2000 RMB'000
Contracted for	–	5,126
Authorised but not contracted for	8,075	–
	8,075	5,126

- (b) At 31 December 2001, the total future minimum lease payments under non-cancellable operating lease are payable as follows:

	2001 RMB'000	2000 RMB'000
Within 1 year	2,830	255
After 1 year but within 5 years	264	92
	3,094	347

29 MATERIAL RELATED PARTY TRANSACTIONS

- (a) Prior to 12 March 2001, the owners of Guangxi Havle Foodstuff group ("Guangxi Havle group") who are a group of individuals comprising the founding shareholders of the Group, collectively held controlling equity interests in certain of the Group's subsidiaries which were disposed of in December 2001. These individuals were also directors of the Company until April 2001 when all but one of them resigned. The remaining individual resigned as a director of the Company in December 2001.

Details of material transactions between the Group and Guangxi Havle group, and its subsidiaries and associates during the year are as follows:

	2001 RMB'000	2000 RMB'000
Purchase of packaging materials (<i>note (i)</i>)	4,161	6,681
Purchase of instant food products (<i>note (ii)</i>)	1,906	2,836
Hotel charges (<i>note (iii)</i>)	395	635
Rental charges	–	37
Licence fee income (<i>note (iv)</i>)	167	323

Notes:

- (i) Purchase of packaging materials represents packaging materials supplied to Guangxi Baixing Nanfang Food Co., Ltd ("Guangxi Baixing"), a subsidiary of the Group disposed in December 2001, by certain subsidiaries of Guangxi Havle group. The purchase prices charged to Guangxi Baixing are similar to those charged by independent third party suppliers.

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29 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

- (ii) Purchase of instant food products represents instant food products supplied to Guangxi Baixing by associates of Guangxi Havle group. The purchase prices paid to these companies are similar to those paid to unrelated suppliers.
- (iii) Hotel charges represent charges paid by Guangxi Baixing to a hotel owned by Guangxi Havle group for the use of the hotel services. The rates charged to Guangxi Baixing are similar to those offered to unrelated hotel guests.
- (iv) License fee income represents income from sub-licensing the use of the Group's trademarks to the associates of Guangxi Havle group.

The Group has no outstanding balances with the Guangxi Havle Group as at 31 December 2001.

- (b) In November 1999, the Company's subsidiary, Xinjiang Xingmei Oil-Pipeline Co., Limited ("Xingmei"), entered into an agreement with its minority shareholder, Sinopec National Star Petroleum Corporation, for the provision of crude oil transportation, storage and unloading services for a period of 20 years.

During the year ended 31 December 2001, revenue from the provision of crude oil transportation, storage and unloading services to the minority shareholder amounted to RMB58,726,000 (2000: Nil). The amount due from minority shareholder as at 31 December 2001 amounted to RMB7,249,000 (2000: Nil).

- (c) In the opinion of the directors, the related party transactions as described above were carried out in the ordinary course of business and on normal commercial terms.

30 POST BALANCE SHEET EVENTS

- (a) In January 2002, the Group entered into an agreement with Mr Sun Tian Gang, who is also the controlling shareholder of the ultimate holding company, to acquire an equity interest of 49% in Sky Global Limited ("Sky Global"), a company incorporated in the British Virgin Islands with limited liability for a total consideration of RMB100 million which will be satisfied as to RMB50 million by cash and as to the remaining RMB50 million by procuring the Company to issue 44,083,936 new shares of HK\$0.01 each, credited as fully paid, at HK\$1.07 each. The principal asset of Sky Global is investment in a wholly owned subsidiary, Maxy Oil & Gas Limited ("Maxy"), a company incorporated in Hong Kong. The sole operating asset of Maxy is an equity interest of 63% in Jilin City Jimei Gas Company Limited, a Sino-foreign equity 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. The sale and purchase is expected to complete in April 2002.
- (b) In March 2002, the Group entered into an agreement with Mr Shi Jian Hua, an independent third party, to acquire an equity interest of 50% in Oriental Energy Ltd. ("Oriental"), an existing associate of the Group, and 50% of the shareholders' loan owed by Oriental in the aggregate amount of RMB139,870,000 as at 31 December 2001, for a total consideration of RMB69,940,000. The sale and purchase is expected to complete in early May 2002.

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30 POST BALANCE SHEET EVENTS (CONTINUED)

Upon completion, the Group will own 90% of the issued share capital of Oriental and 90% of the shareholders' loans owed by Oriental.

31 ULTIMATE HOLDING COMPANY

In March 2001, China GeoMaxima Co., Ltd. ("CGCL"), a company incorporated in the British Virgin Islands with limited liability, entered into a sale and purchase agreement to acquire from Kindhearted Holdings Limited ("Kindhearted") 166,279,565 shares of HK\$0.1 each of the Company, representing Kindhearted's then entire equity interest in the Company and approximately 60.67% of the issued share capital of the Company as at 6 March 2001 at a consideration of HK\$166,279,565, or HK\$1.00 per share. Following the completion of the sale and purchase agreement on 12 March 2001, CGCL became the ultimate holding company of the Company. Mr Sun Tian Gang, a director of the Company, is the sole beneficial shareholder of CGCL.