

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost.

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share in the fair value of the identifiable assets and liabilities acquired. Positive goodwill is stated at cost less any accumulated amortisation and any impairment losses (see note 1(i)). Positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life.

In respect of acquisitions of associates, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 1(i)) is included in the carrying amount of the interest in associates.

Negative goodwill arising on acquisitions of subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Goodwill (continued)

In respect of any negative goodwill not yet recognised in the consolidated income statement:

- for subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and
- for associates, such negative goodwill is included in the carrying amount of the interest in associates.

On disposal of a subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement is included in the calculation of the profit or loss on disposal.

(f) Fixed assets

- (i) Fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 1(g)) and impairment losses (see note 1(i)).
- (ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Amortisation and depreciation

- (i) Land use rights are amortised on a straight-line basis over the period of the grant.
- (ii) Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:
 - buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 50 years from the date of completion, and the unexpired terms of the land use rights; and
 - other fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	Over the unexpired term of the lease
Oil pipeline and ancillary facilities	Over the unexpired term of the joint venture
Natural gas pipeline network and ancillary facilities	Over the unexpired term of the joint venture
Refilling stations	10 years
Furniture, fixtures and office equipment	5 to 7 years
Motor vehicles	5 to 12 years

(h) Construction in progress

Construction in progress is stated at cost. Cost comprises direct costs of construction as well as interest expenses capitalised during the periods of construction and installation.

No depreciation is provided in respect of construction in progress.

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets;
- investments in subsidiaries and associates (except for those accounted for at fair value under notes 1(c) and (d)); and
- positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of assets (continued)

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(l) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales tax and is after deduction of any trade discounts.

(ii) Transportation income

Revenue from provision of crude oil transportation, storage and unloading services is recognised upon performance of the services. Revenue excludes sales taxes and is after deduction of any trade discounts.

(iii) Sale of natural gas

Revenue from natural gas sales is recognised based on gas consumption derived from meter readings. Revenue from sale of liquefied petroleum gas ("LPG") and natural gas in refilling stations is recognised upon completion of the gas filling transactions.

(iv) Gas connection fee income

Gas connection fee is recognised on connection of the natural gas pipeline to the users' premises.

(v) Interest income

Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(m) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in currencies other than Renminbi are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(o) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(p) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(q) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

(s) Retirement costs

The Group's employees in the People's Republic of China (the "PRC") are members of the state-sponsored retirement benefit scheme organised by the PRC government. The subsidiaries are required to contribute, based on a certain percentage of the basic payroll, to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme. Such contributions are charged to the income statement when incurred.

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance in respect of employees in Hong Kong are charged to the income statement when incurred.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 TURNOVER

The principal activity of the Company is investment holding. The principal activities of the Group are provision of crude oil transportation, storage and unloading services, operation of natural gas pipeline network and refilling stations supplying natural gas and LPG for vehicle use and sale of canned LPG.

Turnover represents the aggregate of revenue from provision of crude oil transportation, storage and unloading services less business tax, and sales of natural gas and LPG. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2002 RMB'000	2001 RMB'000
Continuing operations		
Provision of crude oil transportation, storage and unloading services	131,561	106,674
Natural gas (<i>note (i)</i>)		
– Gas connection fee	13,553	–
– Sale of piped natural gas	20,804	–
– Sale of natural gas and LPG at refilling stations	5,733	–
– Sale of canned LPG	8,622	–
Discontinued operations		
Sale of instant food products (<i>note (ii)</i>)	–	96,350
	180,273	203,024

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

2 TURNOVER (CONTINUED)

Notes:

- (i) In March 2002, the Group entered into an agreement with an independent third party, to acquire a further 50% equity interest in Oriental Energy Limited ("Oriental Energy"), a then 40% owned associate of the Group, and a further 50% of the shareholders' loans owed by Oriental Energy to its then shareholders in the amount of RMB139,870,000, for a total consideration of approximately RMB69,940,000. The sale and purchase was completed on 30 April 2002. Upon completion, the Group owns 90% of the issued share capital of Oriental Energy and 90% of the shareholders' loans owed by Oriental Energy. Oriental Energy is accounted for as a subsidiary of the Group with effect from 1 May 2002. The sole subsidiary of Oriental Energy is mainly engaged in the distribution and supply of natural gas through a pipeline network in Korla, Xinjiang Autonomous Region of the PRC.
- (ii) In November 2001, the Group entered into an agreement for the sale of its entire interests in certain subsidiaries which are engaged in the instant food operations in the PRC, a separate business segment, as well as the loans due by these subsidiaries to the Group for a total consideration of RMB160,000,000. Control of the subsidiaries was effectively ceased at the end of December 2001. The Group recorded a profit on disposal of RMB18,404,000 in the consolidated income statement for the year ended 31 December 2001. As a result of the sale, the Group ceased its instant food operations.

3 OTHER REVENUE AND NET INCOME

	2002 RMB'000	2001 RMB'000
Other revenue		
Interest income on bank deposits	4,072	1,909
Interest income on loans	3,065	1,271
Licence fee income	–	2,808
Others	65	198
	<u>7,202</u>	<u>6,186</u>
Other net income		
Net proceeds from issue of warrants realised upon expiry of warrants (note 28(c))	<u>5,260</u>	–

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

4 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2002 RMB'000	2001 RMB'000
(a) Finance costs		
Interest on bank advances wholly repayable within five years	25,333	22,704
Other borrowing costs	44	106
Total borrowing costs	25,377	22,810
Less: borrowing costs capitalised into construction in progress*	–	(4,112)
	<u>25,377</u>	<u>18,698</u>

* The borrowing costs for the year ended 31 December 2001 were capitalised at rates ranging between 5% and 6% per annum for construction in progress.

	2002 RMB'000	2001 RMB'000
(b) Staff costs		
Contribution to defined contribution plan	589	1,412
Salaries, wages and other benefits	8,552	16,137
	<u>9,141</u>	<u>17,549</u>
(c) Other items		
Cost of inventories*	27,449	68,444
Amortisation of negative goodwill	(552)	(432)
Amortisation of intangible asset	–	1,900
Loss on disposal of fixed assets	100	270
Auditors' remuneration		
– current year	1,272	1,367
– underprovision in prior year	–	186
Depreciation	23,793	21,451
Operating lease charges in respect of properties	2,835	3,191
Provision for bad debts	–	64
	<u>–</u>	<u>64</u>

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

4 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION (CONTINUED)

- * Cost of inventories includes RMB5,669,000 (2001: RMB5,905,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately in notes 4(b) and 4(c) for each of these types of expenses.

5 TAXATION

- (a) Taxation in the consolidated income statement represents:

	2002 RMB'000	2001 RMB'000
Provision for PRC income tax for the year	<u>12,391</u>	<u>—</u>

No provision for Hong Kong profits tax has been made in the financial statements as the Group did not derive any income subject to Hong Kong profits tax during the year.

Pursuant to relevant PRC laws and regulations applicable to the Sino-foreign equity joint venture enterprises, the Company's PRC subsidiaries are exempted from PRC income tax for two years starting from the first profit-making year, followed by a 50% reduction for the subsequent three years. Provision for PRC income tax for the year represents income tax payable by Xinjiang Xingmei Oil-Pipeline Co., Limited ("Xinjiang Xingmei") calculated at a reduced tax rate of 18%, being 50% of the standard state tax rate of 30% together with 3% local income tax. No provision for PRC income tax has been made in respect of the profit of Lejion Gas Co., Limited ("Lejion Gas") as it is exempted from PRC income tax during the year.

- (b) Taxation in the consolidated balance sheet represents:

	2002 RMB'000	2001 RMB'000
Provision for PRC income tax for the year	<u>12,391</u>	<u>—</u>
Provisional PRC income tax paid	<u>(2,346)</u>	<u>—</u>
	<u>10,045</u>	<u>—</u>

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

6 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2002 RMB'000	2001 RMB'000
Fees	254	278
Salaries and other emoluments	4,293	5,007
Retirement scheme contributions	38	34
	<u>4,585</u>	<u>5,319</u>

Included in the directors' remuneration were fees of RMB254,000 (2001: RMB278,000) payable to the independent non-executive directors during the year.

In addition, certain directors were granted options to subscribe for shares in the Company. Details of the share options granted and outstanding in respect of each director as at 31 December 2002 are disclosed in the directors' report.

The remuneration of the directors is within the following bands:

	No. of directors	
	2002	2001
RMBNil – RMB1,060,000 (approximately equivalent to HK\$Nil – HK\$1,000,000)	7	16
RMB1,060,001 – RMB1,590,000 (approximately equivalent to HK\$1,000,001 – HK\$1,500,000)	2	1
	<u>9</u>	<u>17</u>

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the year, the five highest paid individuals comprise three (2001: five) directors whose emoluments are disclosed in note 6. The aggregate of the emoluments in respect of the other two individuals are as follows:

	2002 RMB'000	2001 RMB'000
Salaries and other emoluments	1,654	–
Retirement scheme contributions	25	–
	<u>1,679</u>	<u>–</u>

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS (CONTINUED)

The emoluments of the two individuals with the highest emoluments are within the following band:

	No. of individuals	
	2002	2001
RMBNil – RMB1,060,000 (approximately equivalent to HK\$Nil – HK\$1,000,000)	2	–

8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of RMB2,179,000 (2001: RMB7,573,000) which has been dealt with in the financial statements of the Company.

9 DIVIDENDS

The directors have not declared nor proposed any dividends in respect of the year ended 31 December 2002 (2001: RMBNil).

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB57,881,000 (2001: RMB43,728,000) and the weighted average of 3,009,830,000 ordinary shares (2001: 2,761,700,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of RMB57,881,000 (2001: RMB43,728,000) and the weighted average number of 3,276,674,000 ordinary shares (2001: 2,858,678,000 ordinary shares) after adjusting for the effects of all potential dilutive shares.

(c) Reconciliations

	No. of shares	
	2002 '000	2001 '000
Weighted average number of ordinary shares used in calculating basic earnings per share	3,009,830	2,761,700
Deemed issue of ordinary shares for no consideration	266,844	96,978
Weighted average number of ordinary shares used in calculating diluted earnings per share	3,276,674	2,858,678

Notes to the Financial Statements

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11 SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments. As all of the Group's revenue and results were substantially derived from the PRC, no geographical segment information is presented.

Business segments

The Group comprises the following main business segments:

Continuing operations

Crude oil transportation: The operation of crude oil transportation, storage and unloading facilities.

Natural gas: The operation of natural gas pipeline network and refilling stations supplying natural gas and LPG for vehicle use and sale of canned LPG.

Discontinued operations (note 2(ii))

Instant food: The manufacturing and sale of instant food products.

	2002 RMB'000	2001 RMB'000
Revenue from external customers		
– Crude oil transportation	131,561	106,674
– Natural gas		
Gas connection fee	13,553	–
Sale of piped natural gas	20,804	–
Sale of natural gas and LPG at refilling stations	5,733	–
Sale of canned LPG	8,622	–
– Instant food	–	99,158
Total revenue from external customers	180,273	205,832
Other revenue		
– Unallocated	12,462	3,378
Total revenue	192,735	209,210

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

11 SEGMENT REPORTING (CONTINUED)

	2002 RMB'000	2001 RMB'000
Segment result		
Profit/(loss) from operations		
– Crude oil transportation	94,441	74,180
– Natural gas	18,656	–
– Instant food	–	(4,225)
– Unallocated	(9,823)	(14,679)
Total profit from operations	103,274	55,276
Finance costs	(25,377)	(18,698)
Profit on disposal of subsidiaries		
– Instant food	–	18,404
Share of profits/(losses) of associates		
– Natural gas	8,926	(61)
Profit from ordinary activities before taxation	86,823	54,921
Taxation	(12,391)	–
Profit from ordinary activities after taxation	74,432	54,921
Minority interests	(16,551)	(11,193)
Profit attributable to shareholders	57,881	43,728
Depreciation and amortisation for the year		
– Crude oil transportation	19,030	15,101
– Natural gas	4,401	–
– Instant food	–	7,590
– Unallocated	362	228
	23,793	22,919

There were no significant non-cash expenses other than depreciation and amortisation.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

11 SEGMENT REPORTING (CONTINUED)

	2002 RMB'000	2001 RMB'000
Segment assets		
– Crude oil transportation	491,310	532,025
– Natural gas	189,779	–
Interest in associates		
– Natural gas	133,371	56,155
Unallocated assets	162,693	175,744
Total assets	<u>977,153</u>	<u>763,924</u>
Segment liabilities		
– Crude oil transportation	20,702	20,404
– Natural gas	3,966	–
Unallocated liabilities	481,856	408,274
Total liabilities	<u>506,524</u>	<u>428,678</u>
Capital expenditure incurred during the year		
– Crude oil transportation	39,140	72,921
– Natural gas	179,047	56,216
– Instant food	–	211
– Unallocated	241	1,478
	<u>218,428</u>	<u>130,826</u>

Notes to the Financial Statements

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12 FIXED ASSETS The Group

	Land use rights and buildings	Leasehold improvements	Oil pipeline and ancillary facilities	Natural gas pipeline network and ancillary facilities	Refilling stations	Furniture, fixtures and office equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:								
At 1 January 2002	2,909	1,124	329,977	-	-	998	2,289	337,297
Additions								
- through acquisition								
of subsidiaries	6,404	-	-	92,288	9,609	65	276	108,642
- others	75	-	34	-	-	370	-	479
Disposals	(82)	-	-	-	-	(40)	(23)	(145)
Transfer from construction in progress (note 13)	13,331	-	140,635	679	12,888	263	-	167,796
At 31 December 2002	22,637	1,124	470,646	92,967	22,497	1,656	2,542	614,069
Aggregate depreciation:								
At 1 January 2002	-	154	28,433	-	-	190	151	28,928
Charge for the year	410	225	18,611	3,286	813	259	189	23,793
Written back on disposal	(1)	-	-	-	-	(9)	(2)	(12)
At 31 December 2002	409	379	47,044	3,286	813	440	338	52,709
Net book value:								
At 31 December 2002	22,228	745	423,602	89,681	21,684	1,216	2,204	561,360
At 31 December 2001	2,909	970	301,544	-	-	808	2,138	308,369

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

12 FIXED ASSETS (CONTINUED)

The oil pipeline and ancillary facilities consist of an oil pipeline of approximately 70 kilometres, connecting the Tahe Oil Field (塔河油田) and Lun Tai (輪台縣) railway station in Xinjiang Autonomous Region ("Xinjiang") and ancillary facilities including oil tanks and loading bays to facilitate the operation of the oil pipeline. The Group has obtained the preliminary approval of the Xinjiang Government to use the land for construction of the oil pipeline and is in the process of applying for the land use rights. In the opinion of the directors, no land premium will be payable for the grant of the land use rights.

The natural gas pipeline network and ancillary facilities and refilling stations are situated in Korla of Xinjiang.

As at 31 December 2002, certain of the oil pipeline and ancillary facilities with a total estimated carrying value of RMB204,000,000 (2001: RMB236,000,000) were pledged to a bank for bank loans of RMB150,000,000 (2001: RMB150,000,000) granted to the Group.

13 CONSTRUCTION IN PROGRESS

	The Group	
	2002 RMB'000	2001 RMB'000
At 1 January	136,768	331
Acquisition of subsidiaries	69,739	141,483
Additions	39,568	23,859
Interest capitalisation	–	4,112
Transfer to fixed assets (<i>note 12</i>)	(167,796)	(33,017)
Others	(2,982)	–
At 31 December	<u>75,297</u>	<u>136,768</u>

The transfer to fixed assets during the year represents a heat pump station and ancillary facilities constructed along the oil pipeline to increase its transportation capacity.

As at 31 December 2002, construction in progress comprises mainly extension of the natural gas pipeline network.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

14 GOODWILL

	Negative goodwill RMB'000
Cost:	
At 1 January 2002	8,689
Addition arising on acquisition of subsidiaries	<u>1,852</u>
At 31 December 2002	<u>10,541</u>
Accumulated amortisation:	
At 1 January 2002	432
Amortisation for the year	<u>520</u>
At 31 December 2002	<u>952</u>
Carrying amount:	
At 31 December 2002	<u><u>9,589</u></u>
At 31 December 2001	<u><u>8,257</u></u>

Negative goodwill is recognised as income on a straight-line basis over the unexpired terms of the joint ventures ranging from 18 to 19 years. The amortisation of negative goodwill for the year is included in "administrative expenses" in the consolidated income statement.

15 INTEREST IN SUBSIDIARIES

	2002 RMB'000	2001 RMB'000
Unlisted shares, at cost	86,823	86,823
Amounts due from subsidiaries	195,742	148,237
	<u>282,565</u>	<u>235,060</u>

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

15 INTEREST IN SUBSIDIARIES (CONTINUED)

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's financial statements.

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	
Elite Ascend Holdings Limited	British Virgin Islands/ Hong Kong	US\$690	100	100	-	Investment holding
Brilliant Creation Limited	Hong Kong	HK\$2	100	-	100	Provision of management services to group companies
Excellent Century Limited	British Virgin Islands/ HongKong	US\$100	100	-	100	Investment holding
Oriental Energy Ltd.	British Virgin Islands/ HongKong	US\$1,000	90	-	90	Investment holding
Bamber Resources Limited	British Virgin Islands/ HongKong	US\$50,000	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
Lejion Gas Co., Limited (sino-foreign equity joint venture)	PRC	Registered capital RMB50,000,000	72	-	80	Operation of natural gas pipeline network and refilling stations

On 21 March 2002, the Group acquired a further 50% equity interest in Oriental Energy Limited ("Oriental Energy") and shareholders' loans for RMB69,940,000. As a result, the Group's profit for the year and the net assets as at the year end have both been increased by RMB13,368,000.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

16 INTEREST IN ASSOCIATES

	The Group	
	2002 RMB'000	2001 RMB'000
Share of net assets	108,094	207
Negative goodwill	(777)	–
Loan to associate	26,054	55,948
	133,371	56,155

Loan to an associate at 31 December 2001 was advanced to Oriental Energy. The loan was unsecured, interest free and had no fixed terms of repayment. At 31 December 2001, the Group held an equity interest of 40% in Oriental Energy. The Group acquired a further 50% interest in Oriental Energy on 30 April 2002. Consequently, it was accounted for as a subsidiary from 1 May 2002 and the loan to Oriental Energy was eliminated on consolidation.

On 17 January 2002, the Group entered into an agreement with a director, Mr. Sun Tian Gang, who is also the controlling shareholder of the Company, to acquire 49% equity interest in Sky Global Limited ("Sky Global"), a company incorporated in the British Virgin Islands with limited liability, for a consideration of RMB100 million. The sale and purchase was completed on 30 April 2002. The consideration has been settled by cash of RMB50 million and the issue of 44,083,936 new shares of HK\$0.01 each of the Company, at HK\$1.07 each. The sole asset of Sky Global is an interest of 63% in Jilin City Jimei Gas Co., Limited ("Jimei Gas"), a Sino-foreign 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.

Further details of Sky Global and Jimei Gas 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	
Sky Global Limited	Incorporated	British Virgin Islands/Hong Kong	US\$100	49	–	49%	Investment holding
Jilin City Jimei Gas Co., Limited	Sino-foreign equity joint venture	PRC	Registered capital RMB100,000,000	30.87*	–	–	Operation of natural gas pipeline network

* Sky Global holds an equity interest of 63% in Jimei Gas. Accordingly, the Group's effective interest in Jimei Gas is 30.87%.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

16 INTEREST IN ASSOCIATES (CONTINUED)

Loan to an associate at 31 December 2002 is advanced to Sky Global. The loan is unsecured, interest free and repayable on demand.

The balance of interest in associates as at 31 December 2002 and 31 December 2001 represents the Group's interest in Sky Global and Oriental Energy respectively. Prior to the Group's acquisition of Sky Global, the equity interest in Jimei Gas was pledged by its then holding company to certain banks to secure loans granted to a company controlled by Mr. Sun Tian Gang, further details of which are set out in note 31.

Information on material associates

The financial information of Sky Global and its subsidiary which is material in the context of the Group's financial statements, as extracted from the unaudited consolidated financial statements for the period from 30 April 2002 (date of acquisition) to 31 December 2002 is summarised below:

Consolidated income statement of Sky Global and its subsidiary for the period ended 31 December 2002

	RMB'000
Turnover	98,887
Cost of sales	<u>(72,736)</u>
	26,151
Other revenue	5
Other net income	5
Administrative expenses	(637)
Distribution costs	<u>(3,696)</u>
Profit from operations	21,828
Finance costs	<u>(181)</u>
Profit from ordinary activities before taxation	21,647
Taxation	<u>–</u>
Profit from ordinary activities after taxation	21,647
Minority interest	<u>(8,010)</u>
Profit attributable to shareholders	<u>13,637</u>
Post acquisition profit attributable to the Group	<u>6,682</u>

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

16 INTEREST IN ASSOCIATES (CONTINUED)

Consolidated assets and liabilities of Sky Global and its subsidiary as at 31 December 2002

	RMB'000
Non-current assets	551,379
Current assets	31,921
Current liabilities	(179,971)
Non-current liabilities	(53,172)
Minority interest	(129,558)
Net assets	<u>220,599</u>
Net assets attributable to the Group	<u>108,094</u>

The financial information of Oriental Energy and its subsidiary (accounted for as associates from 1 January 2002 to 30 April 2002 and as subsidiaries of the Group with effect from 1 May 2002 (note 2(i)) which is material in the context of the Group's financial statements, as extracted from the unaudited consolidated financial statements for the period from 1 January 2002 to 30 April 2002 is summarised below:

Consolidated income statement of Oriental Energy and its subsidiary for the period ended 30 April 2002

	RMB'000
Turnover	23,920
Cost of sales	<u>(15,940)</u>
	7,980
Other revenue	54
Administrative expenses	(463)
Other operating expenses	<u>(558)</u>
Profit from operations	7,013
Finance costs	<u>(1)</u>
Profit from ordinary activities before taxation	7,012
Taxation	<u>—</u>
Profit from ordinary activities after taxation	7,012
Minority interest	<u>(1,402)</u>
Profit attributable to shareholders	<u>5,610</u>
Profit attributable to the Group	<u>2,244</u>

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

16 INTEREST IN ASSOCIATES (CONTINUED)

The consolidated assets and liabilities of Oriental Energy and its subsidiary as at 31 December 2002 are not separately disclosed in this note as they are accounted for as subsidiaries from 1 May 2002. Their assets and liabilities as at 31 December 2002 are included in the consolidated balance sheet of the Group.

17 INVENTORIES

	The Group	
	2002 RMB'000	2001 RMB'000
Spare parts and consumables	896	619

18 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Trade debtors (note (i))	19,071	39,104	–	–
Amount due from minority shareholder (note (ii))	4,273	–	–	–
Amount due from associate (note (iii))	13,005	3,000	–	–
Loans receivable (note (iv))	11,267	59,755	–	–
Prepayments, deposits and other receivables (note (v))	115,705	83,380	530	453
	<u>163,321</u>	<u>185,239</u>	<u>530</u>	<u>453</u>

Notes:

- (i) All the trade debtors and other receivables (net of specific provisions for bad and doubtful debts) are expected to be recovered within one year. All trade debtors are current and aged less than six months.

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.

- (ii) The amount due from minority shareholder is unsecured, interest free and has no fixed terms of repayment.
- (iii) The amount due from associate is unsecured, interest free and repayable on 30 August 2003.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

18 TRADE AND OTHER RECEIVABLES (CONTINUED)

Notes: (continued)

- (iv) Loans receivable as at 31 December 2001 were repaid in full during the year. The outstanding balance at 31 December 2002 represents loans advanced to third parties during the year. The loans are unsecured, repayable within one year and interest free except for an amount of RMB9,967,000 which bears interest at 3% per annum.
- (v) Included in prepayments, deposits and other receivables as at 31 December 2002 are the following balances:

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 in November 2001. 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 Jilin KeMao at any time before 14 May 2003. Subsequent to 31 December 2002, the Group has demanded repayment of the deposit. As at the date of approval of the Group’s financial statements, Jilin KeMao has repaid the deposit and accrued interest to the Group in full.

An investment deposit of RMB55,900,000 paid to 寧夏豐友化工有限公司 (“Ningxia Fengyou”) in November 2002. A sino-foreign equity joint venture will be established and the Group will own 15% equity interest in the joint venture in respect of the capital contributed of RMB55,900,000. The Group has the option to withdraw the investment within 18 months in which case the capital contributed will be refunded to the Group in full with interest calculated based on the prevailing market rates.

19 PLEDGED BANK DEPOSITS

	2002 RMB'000	2001 RMB'000
Pledged deposits with banks		
Maturing after three months from placement	53,562	44,279
Maturing within three months from placement	—	23,156
	<u>53,562</u>	<u>67,435</u>

Fixed deposits of HK\$40,000,000 (2001: HK\$30,000,000) and US\$1,350,000 (2001: US\$4,310,000) were pledged to a bank for bank loans in the aggregate amount of RMB46,800,000 (2001: RMB58,000,000) granted to the Group.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

20 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Fixed deposits with banks	–	93	–	–
Cash at bank and in hand	2,935	17,503	4	192
	2,935	17,596	4	192

21 BANK LOANS

At 31 December 2002, the bank loans of the Group were repayable as follows:

	The Group	
	2002 RMB'000	2001 RMB'000
Within 1 year or on demand	86,800	108,000
After 1 year but within 2 years	30,000	140,000
After 2 years but within 5 years	190,000	100,000
After 5 years	160,000	30,000
	380,000	270,000
	466,800	378,000

At 31 December 2002, the bank loans of the Group were secured as follows:

	The Group	
	2002 RMB'000	2001 RMB'000
Bank loans secured by		
– fixed deposits (note (i))	46,800	58,000
– corporate guarantees (note (ii))	270,000	150,000
– fixed assets (note (iii))	150,000	150,000
Unsecured	–	20,000
	466,800	378,000

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

21 BANK LOANS (CONTINUED)

Notes:

- (i) Fixed deposits of HK\$40,000,000 (2001: HK\$30,000,000) and US\$1,350,000 (2001: US\$4,310,000) were pledged to a bank for bank loans in the aggregate amount of RMB46,800,000 (2001: RMB58,000,000) granted to the Group.
- (ii) The corporate guarantees are issued by an associate (Jimei Gas), a related company and an unrelated company in respect of bank loans of RMB80,000,000 (2001: RMB Nil), RMB70,000,000 (2001: RMB150,000,000) and RMB120,000,000 (2001: RMB Nil) respectively granted to the Group.
- (iii) Certain of the oil pipeline and ancillary facilities with a total estimated carrying value of RMB204,000,000 (2001: RMB236,000,000) were pledged to a bank for bank loans of RMB150,000,000 (2001: RMB150,000,000) granted to the Group.

22 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Trade creditors	2,715	5,064	–	–
Accrued expenses and other payables	26,964	18,943	1,548	1,130
Amount due to minority shareholder	4,000	–	–	–
	<u>33,679</u>	<u>24,007</u>	<u>1,548</u>	<u>1,130</u>

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

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

23 DEFERRED TAXATION

Movements in deferred tax assets of the Group comprise:

	The Group	
	2002 RMB'000	2001 RMB'000
At 1 January	–	3,198
Disposal of subsidiaries	–	(3,198)
At 31 December	<u>–</u>	<u>–</u>

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

24 LOAN FROM ULTIMATE HOLDING COMPANY

The loan from ultimate holding company at 31 December 2001 was unsecured, interest free and repaid in full by the Group during the year.

25 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 \$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. The Group has no other material obligation for the payment of pension benefits associated with this scheme beyond the contributions described above.

26 EQUITY COMPENSATION BENEFITS

The Company adopted a share option scheme on 6 January 2000 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. The exercise price of options was determined by the board and was the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange of Hong Kong Limited ("HKSE") for the five business days immediately preceding the date of the grant.

On 6 March 2002, the Company terminated the above scheme and adopted a new share option scheme for a period of 10 years commencing from that date. Under the terms of this scheme, the exercise price of options will be determined by the board and it will not be less than the highest of the closing price of the shares on the HKSE on the date of grant, the average closing price of the shares on the HKSE 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 2002 (Expressed in Renminbi)

26 EQUITY COMPENSATION BENEFITS (CONTINUED)

(a) Movements in share options

	Number of options	
	2002 '000	2001 '000
At 1 January	50,000	–
Issued	116,000	250,000
Exercised	(50,000)	(200,000)
At 31 December	<u>116,000</u>	<u>50,000</u>
Options vested at 31 December	<u>116,000</u>	<u>50,000</u>

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

Date granted	Exercise period	Exercise price HK\$	Number of options	
			2002 '000	2001 '000
4 August 2000	4 August 2000 to 3 August 2005	0.084	–	50,000
29 July 2002	2 September 2002 to 31 August 2007	0.698	116,000	–
			<u>116,000</u>	<u>50,000</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	
		2002 '000	2001 '000
4 August 2000 to 3 August 2005	0.084	–	250,000
2 September 2002 to 31 August 2007	0.698	<u>116,000</u>	<u>–</u>

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

26 EQUITY COMPENSATION BENEFITS (CONTINUED)

(d) Details of share options exercised during the year

Exercise date	Exercise price HK\$	Market value	Proceeds received RMB	Number of options '000
		per share at exercise date HK\$		
28 January 2002	0.084	1.01	4,452,000	<u>50,000</u>

27 SHARE CAPITAL

	2002		2001	
	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>2,937,500</u>	<u>31,388</u>

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

	2002		2001	
	No. of shares '000	Amount RMB'000	No. of shares '000	Amount RMB'000
At 1 January	<u>2,937,500</u>	<u>31,388</u>	250,000	26,750
Shares issued by private placement (note (a))	–	–	23,750	2,518
Shares issued under share option scheme before subdivision (note (b))	–	–	300	32
Subdivision of shares (note (c))	–	–	2,466,450	–
Shares issued under share option scheme after subdivision (note (d))	–	–	197,000	2,088
Shares issued under share option scheme (note (e))	<u>50,000</u>	<u>530</u>	–	–
Issue of shares on subscription (note (f))	<u>44,084</u>	<u>467</u>	–	–
At 31 December	<u>3,031,584</u>	<u>32,385</u>	<u>2,937,500</u>	<u>31,388</u>

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

27 SHARE CAPITAL (CONTINUED)

- (a) In March 2001, 23,750,000 shares of HK\$0.10 each were allotted and issued to Total China Investments Limited 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.
- (b) 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.
- (c) 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.
- (d) 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.
- (e) 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.
- (f) 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 the acquisition of 50% 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 2002 (Expressed in Renminbi)

28 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 2001	14,658	43,721	-	16,337	8,169	32,138	115,023
Shares issued by private placement (note 27(a))	93,147	-	-	-	-	-	93,147
Shares issued under share option scheme							
– before share subdivision (note 27(b))	235	-	-	-	-	-	235
– after share subdivision (note 27(d))	15,453	-	-	-	-	-	15,453
Share issue expenses	(537)	-	-	-	-	-	(537)
Disposal of subsidiaries	-	42,995	-	(16,337)	(8,169)	(18,489)	-
Placement of warrants (note (c))	-	-	5,809	-	-	-	5,809
Warrant issue expenses (note (c))	-	-	(549)	-	-	-	(549)
Profit for the year	-	-	-	-	-	43,728	43,728
At 31 December 2001	<u>122,956</u>	<u>86,716</u>	<u>5,260</u>	<u>-</u>	<u>-</u>	<u>57,377</u>	<u>272,309</u>
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(e))	3,922	-	-	-	-	-	3,922
Share issue expenses	(37)	-	-	-	-	-	(37)
Issue of shares on subscription (note 27(f))	49,533	-	-	-	-	-	49,533
Expiry of warrants (note (c))	-	-	(5,260)	-	-	-	(5,260)
Profit for the year	-	-	-	-	-	57,881	57,881
At 31 December 2002	<u>176,374</u>	<u>86,716</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>115,258</u>	<u>378,348</u>

Included in the figure for retained profits is a profit of RMB8,926,000 (2001: loss of RMB61,000), being the accumulated profit or loss attributable to associates.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

28 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 2001	14,658	86,716	-	(4,172)	97,202
Shares issued by private placement (note 27(a))	93,147	-	-	-	93,147
Share issued under share option scheme - before share subdivision (note 27(b))	235	-	-	-	235
- after share subdivision (note 27(d))	15,453	-	-	-	15,453
Share issue expenses	(537)	-	-	-	(537)
Placement of warrants (note (c))	-	-	5,809	-	5,809
Warrant issue expenses (note (c))	-	-	(549)	-	(549)
Net loss for the year (note 8)	-	-	-	(7,573)	(7,573)
At 31 December 2001	<u>122,956</u>	<u>86,716</u>	<u>5,260</u>	<u>(11,745)</u>	<u>203,187</u>
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(e))	3,885	-	-	-	3,885
Issue of shares on subscription (note 27(f))	49,533	-	-	-	49,533
Expiry of warrants (note (c))	-	-	(5,260)	-	(5,260)
Net loss for the year (note 8)	-	-	-	(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>

Notes to the Financial Statements

For the year ended 31 December 2002 (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. 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, all warrants expired without being exercised.

(d) The Company's reserves available for distribution to shareholders at 31 December 2002 are as follows:

	2002 RMB'000	2001 RMB'000
Contributed surplus	86,716	86,716
Accumulated losses	(13,924)	(11,745)
	<u>72,792</u>	<u>74,971</u>

Notes to the Financial Statements

For the year ended 31 December 2002 (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 RMB69,940,000 (note 2(i)).

	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)
	4,230
Interest in associate at 30 April 2002	(2,056)
Shareholders' loans acquired	69,935
Negative goodwill arising on consolidation	(1,852)
	70,257
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
	(58,608)

- (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 are engaged in the instant food operations in the PRC in December 2001.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

30 COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2002 not provided for in the financial statements of the Group were as follows:

	2002 RMB'000	2001 RMB'000
Contracted for	–	–
Authorised but not contracted for	54,600	8,075
	54,600	8,075

- (b) At 31 December 2002, the total future minimum lease payments under non-cancellable operating leases of the Group are payable as follows:

	2002 RMB'000	2001 RMB'000
Within 1 year	1,836	2,830
After 1 year but within 5 years	1,839	264
	3,675	3,094

31 CONTINGENT LIABILITIES

At 31 December 2002, there were contingent liabilities in respect of the following:

- (i) As at 31 December 2002, Xinjiang Xingmei, a subsidiary of the Group, has given guarantee to a bank to secure bank loans granted to Jimei Gas, an associate, in the amount of RMB10,000,000.
- (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 in which Mr. Sun Tian Gang holds a beneficial interest of 53.6%. Mr. Sun is the controlling shareholder of the Group. 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. The directors only came to notice of the existence of the charge in the course of preparing the Group's financial statements for annual audit for the year ended 31 December 2002. The directors have sought legal opinions to the effect that the Group has valid title to the 49% interest in Sky Global but Sky Global's 63% interest in Jimei Gas would be subject to the charge. Should Shine Gem fail to repay the loans and the banks enforce the charge, Sky Global would rank after the banks in the proceeds of sale when the charged equity interest in Jimei Gas is realised.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

31 CONTINGENT LIABILITIES (CONTINUED)

In addition, Jimei Gas has provided certain undertakings to the banks in relation to the loan granted to Shine Gem prior to the Group's acquisition of Sky Global.

The directors, after making appropriate enquiries, consider that as at the date of approval of the financial statements, there are no immediate adverse implications to the Group arising from the charge and undertakings. Accordingly, no provision has been made and these matters have been disclosed as contingent liabilities in the financial statements. Subsequent to 31 December 2002, 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 in order to ratify the position and protect the interest of the Group. Further details of this disposal are set in note 33.

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 RMB79,401,000 (2001: RMB58,727,000). The balance due from minority shareholder as at 31 December 2002 was RMB5,930,000 (2001: RMB7,249,000).

(ii) Purchase of natural gas

There exists an agreement dated 24 April 1999 entered into between the Company's associate, Jimei Gas, 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. Jimei Gas became an associate of the Group on 30 April 2002. Total purchases including transmission tariff and purification fee amounted to RMB47,602,000 for the eight months ended 31 December 2002.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

32 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(iii) Guarantees

As at 31 December 2002, Xinjiang Xingmei and Shine Gem have given guarantees to certain banks to secure loans granted to Jimei Gas in the amounts of RMB10,000,000 and RMB1,950,000 respectively.

Shine Gem and Jimei Gas have given guarantees to secure bank loans granted to Xinjiang Xingmei in the amounts of RMB70,000,000 (2001: RMB70,000,000) and RMB80,000,000 respectively.

(iv) Loans

Loans from/to minority shareholders

- (a) During the year, the Group repaid loans in the aggregate amount of RMB9,987,000 to the minority shareholder of Oriental Energy, a subsidiary of the Group. The remaining balance due to this minority shareholder of RMB4,000,000 was outstanding at 31 December 2002. The balance is unsecured, interest free and has no fixed terms of repayment.
- (b) During the year, the Group repaid RMB6,565,000 to the PRC joint venture partner of Lejion Gas Co., Limited ("Lejion Gas"), a subsidiary of the Group. The PRC joint venture partner subsequently borrowed RMB4,273,000 from Lejion Gas which was outstanding as at 31 December 2002 (note 18(ii)). The loan is unsecured, interest free and has no fixed terms of repayment.

Loans from/to associates

- (c) As at 31 December 2002, the loan advanced by Xinjiang Xingmei to Jimei Gas amounted to RMB13,000,000 which is unsecured, interest free and due for repayment in August 2003.
- (d) 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 amounted to RMB26,054,000.
- (e) As at 31 December 2001, China GeoMaxima Co., Ltd., the ultimate holding company of the Company, advanced a loan to Brilliant Creation Ltd., a wholly owned subsidiary of the Company, in the amount of RMB26,671,000 which was unsecured and interest free. The loan was repaid in full by the Group during the year.

Notes to the Financial Statements

For the year ended 31 December 2002 (Expressed in Renminbi)

33 SUBSEQUENT EVENT

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 Tian Gang, the controlling shareholder of the Group, for a total cash consideration of RMB135,000,000.

Based on legal opinion obtained, the directors consider that subsequent to the sale, the contingent liabilities in respect of the matters set out in note 31(ii) will cease to exist. In addition, pursuant to the sale and purchase agreement, Mr. Sun has agreed to indemnify the Group in the event there are any claims or any action whatsoever taken against the Group under, arising out of, or in connection with the loan agreement and charge on the 63% interest in Jimei Gas held by Sky Global as disclosed in note 31(ii).

The disposal is subject to the approval of the independent shareholders at a special general meeting ("SGM") of the Company and a circular containing the details of the disposal and notice of the SGM will be despatched to the shareholders.

34 COMPARATIVE FIGURES

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively and a detailed breakdown of cash flows from operating activities has been included on the face of the consolidated cash flow statement. 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 2002 to be China GeoMaxima Co., Ltd., which is incorporated in the British Virgin Islands.