

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)



1 Significant accounting policies

(a) Basis of presentation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants (“HKSA”). KPMG’s independent review report to the board of directors is included on page 19.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), including compliance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the HKSA.

The financial information relating to the financial year ended 31 December 2001 included in the interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2001 are available from the Stock Exchange’s website. The auditors have expressed an unqualified opinion on those financial statements in their report dated 12 April 2002.

The same accounting policies adopted in the 2001 annual financial statements have been applied to the interim financial report except as disclosed under notes 1(b) and 1(c).

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2001 annual financial statements.

(b) Adoption of new accounting standards in Hong Kong

The following new SSAPs issued by the HKSA, which became effective for accounting period beginning on or after 1 January 2002, were adopted for preparation of the Group’s financial statements for the six months ended 30 June 2002:

- SSAP 1 (revised), Presentation of financial statements.
- SSAP 15 (revised), Cash flow statements.

(i) Adoption of SSAP 1 (revised), Presentation of financial statements

In order to comply with the revised requirements of SSAP 1 (revised), the Group adopts the new statement “Consolidated statement of changes in equity” which replaces the “Consolidated statement of recognised gains and losses” included in previous financial statements. The new statement reconciles the movement of key components of the shareholders’ fund, including share capital, reserves and retained earnings, from the beginning to end of a period.

(ii) Adoption of SSAP 15 (revised), Cash flow statements

The format of the condensed consolidated cash flow statement has been revised to follow the new requirements of SSAP 15 (revised).



(c) *The following accounting policies have been adopted in respect of the natural gas pipeline business acquired by the Group in April 2002*

(i) Depreciation

Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:

Natural gas pipeline network and ancillary facilities	20 years
Refilling stations – plant and machinery	10 years

(ii) Revenue recognition

Revenue from natural gas sales is recognised based on gas consumption derived from meter readings. Liquefied petroleum gas and natural gas sales in refilling stations are recognised upon completion of the gas filling transactions.

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

2 Acquisitions of subsidiary and associate

- (a) 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's ultimate holding 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 Company Limited ("Jimei Gas"), a Sino-foreign joint venture established in the People's Republic of China ("PRC"), which is mainly engaged in the distribution and supply of natural gas through a pipeline network in Jilin City of the PRC.
- (b) On 21 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 shareholders in the amount of RMB139,870,000 as at 31 December 2001, 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. It is mainly engaged in the distribution and supply of natural gas through a pipeline network in Korla, Xinjiang Autonomous Region of the PRC.



3 Segmental reporting

Business segments

Segmental 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.

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 a natural gas pipeline network and refilling stations supplying natural gas and liquefied petroleum gas ("LPG") for vehicle use.

Discontinued operations

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

As disclosed in the Group's financial statements for the year ended 31 December 2001, the instant food business was discontinued on 31 December 2001.

An analysis of the Group's revenue and segment result for the financial period is as follows:

	Six months ended 30 June	
	2002	2001
	RMB'000	RMB'000
Revenue from external customers		
– Crude oil transportation	71,472	42,616
– Natural gas		
Gas connection fee	11,639	–
Sale of piped natural gas	2,847	–
Sale of natural gas and LPG at refilling stations	1,157	–
Sale of canned LPG	1,873	–
– Instant food	–	50,891
	<hr/>	<hr/>
Total revenue from external customers	88,988	93,507
	<hr/>	<hr/>
Other revenue-unallocated (<i>Note</i>)	4,448	3,909
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Total revenue	93,436	97,416
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Segment result

	Six months ended 30 June	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) from operations		
– Crude oil transportation	53,643	32,299
– Natural gas	12,057	–
– Instant food	–	4,311
– Unallocated revenue (<i>Note</i>)	(6,480)	(9,078)
	<hr/>	<hr/>
Total profit from operations	59,220	27,532
Finance costs	(11,904)	(6,319)
Share of profits of associates	7,479	–
	<hr/>	<hr/>
Profit from ordinary activities before taxation	54,795	21,213
Taxation	(7,513)	(906)
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Profit from ordinary activities after taxation	47,282	20,307
Minority interests	(10,221)	(5,718)
	<hr/>	<hr/>
Profit attributable to shareholders	37,061	14,589

Note: The “Unallocated” segment mainly comprises financial income and corporate expenses.

4 Profit from ordinary activities before taxation

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

	Six months ended 30 June	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	11,904	9,229
Less: Borrowing costs capitalised into construction in progress*	–	(2,910)
	<hr/>	<hr/>
	11,904	6,319
	<hr/>	<hr/>
(b) Other items:		
Cost of inventories	5,012	31,037
Amortisation of negative goodwill	(229)	(173)
Depreciation	10,279	7,866
Amortisation of intangible asset	–	950
	<hr/>	<hr/>

* Borrowing costs were capitalised at a rate of 5.9% per annum for construction in progress in respect of the prior period.



5 Taxation

	Six months ended 30 June	
	2002	2001
	RMB'000	RMB'000
Provision for PRC income tax for the period	<u>7,513</u>	<u>906</u>

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 their first profit-making year, followed by a 50% reduction for the subsequent three years. Provision for PRC income tax for the period represents income tax payable by Xinjiang Xingmei Oil Pipeline Co., Limited ("Xinjiang Xingmei") which is subject to income tax at a reduced 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 period.

6 Dividends

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2002 (2001: RMB Nil).

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB37,061,000 (2001: RMB14,589,000) and the weighted average of 2,987,716,133 ordinary shares (2001: 2,656,339,779 ordinary shares) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of RMB37,061,000 (2001: RMB14,589,000) and the weighted average number of 3,416,929,265 ordinary shares (2001: 2,845,037,706 ordinary shares) after adjusting for the effects of all potential dilutive ordinary shares.

(c) Reconciliations

	Six months ended 30 June	
	2002	2001
	Number of shares	Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	2,987,716,133	2,656,339,779
Deemed issue of ordinary shares for no consideration	<u>429,213,132</u>	<u>188,697,927</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>3,416,929,265</u>	<u>2,845,037,706</u>



8 Fixed assets

	Land use rights and buildings RMB'000	Refilling stations – plant and machinery RMB'000	Natural gas pipeline and ancillary facilities RMB'000	Oil pipeline and ancillary facilities RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Total RMB'000
Cost:								
At 1 January 2002	2,909	–	–	329,977	998	2,289	1,124	337,297
Additions								
– through acquisition of subsidiary	6,492	9,942	95,946	–	74	302	–	112,756
– others	34	–	–	–	244	–	–	278
Transfer from construction in progress	–	–	–	25,375	–	–	–	25,375
Disposal	(82)	–	–	–	(75)	(23)	–	(180)
At 30 June 2002	9,353	9,942	95,946	355,352	1,241	2,568	1,124	475,526
Aggregate depreciation:								
At 1 January 2002	–	–	–	28,433	190	151	154	28,928
Through acquisition of subsidiary	88	333	3,658	–	9	26	–	4,114
Charge for the period	83	71	814	8,996	111	91	113	10,279
Written back on disposal	–	–	–	–	(2)	(2)	–	(4)
At 30 June 2002	171	404	4,472	37,429	308	266	267	43,317
Net book value:								
At 30 June 2002	9,182	9,538	91,474	317,923	933	2,302	857	432,209
At 31 December 2001	2,909	–	–	301,544	808	2,138	970	308,369



9 Construction in progress	At 30 June 2002 RMB'000	At 31 December 2001 RMB'000
Crude oil transportation		
– heat pump station and other pipeline ancillary facilities	125,289	136,768
Natural gas		
– branch pipeline	57,761	–
– refilling station	12,035	–
	<hr/> 195,085 <hr/>	<hr/> 136,768 <hr/>
 10 Goodwill		Negative goodwill RMB'000
Cost:		
At 1 January 2002		8,689
Addition arising on acquisition of subsidiary		1,852
		<hr/>
At 30 June 2002		10,541

Accumulated amortisation:		
At 1 January 2002		432
Amortisation for the period		229
		<hr/>
At 30 June 2002		661

Carrying amount:		
At 30 June 2002		9,880
		<hr/>
At 31 December 2001		8,257
		<hr/>

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



11 Interest in associates

	At 30 June 2002 RMB'000	At 31 December 2001 RMB'000
Share of net assets	106,646	207
Negative goodwill	(800)	–
Loan to associate	26,054	55,948
	<u>131,900</u>	<u>56,155</u>

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 and 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. Other details of the acquisition are set out in note 2(b).

On 30 April 2002, the Group acquired an equity interest of 49% in Sky Global for a total consideration of RMB100 million. Further details of the acquisition are set out in note 2(a).

Loan to an associate at 30 June 2002 is advanced to Sky Global. The loan is unsecured, interest free and will not be repayable within one year.

The balance of interest in associates as at 30 June 2002 and 31 December 2001 represents the Group's interest in Sky Global and Oriental Energy respectively.

12 Trade and other receivables

	At 30 June 2002 RMB'000	At 31 December 2001 RMB'000
Trade debtors (<i>note (i)</i>)	8,112	39,104
Amount due from associate (<i>note (ii)</i>)	9,000	3,000
Loans receivable (<i>note (iii)</i>)	–	59,755
Prepayments, deposits and other receivables (<i>note (iv)</i>)	58,958	83,380
	<u>76,070</u>	<u>185,239</u>

Notes:

- (i) All the trade 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 6 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) Amount due from associate is unsecured, interest bearing at 6% per annum and is due for repayment in October 2002.



- (iii) Loans receivable as at 31 December 2001 were repaid in full during the period.
- (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 Jilin KeMao at any time before 14 May 2003.

13 Cash and bank balances

	At 30 June 2002 RMB'000	At 31 December 2001 RMB'000
Fixed deposits with banks		
– maturing after three months from placement	53,578	44,372
– maturing within three months from placement	–	23,156
Cash at bank and in hand	108,382	17,503
	161,960	85,031

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: RMB 58,000,000) granted to the Group.

14 Bank loans

At 30 June 2002, the bank loans were repayable as follows:

	At 30 June 2002 RMB'000	At 31 December 2001 RMB'000
Within 1 year or on demand	96,800	108,000
After 1 year but within 2 years	–	140,000
After 2 years but within 5 years	180,000	100,000
After 5 years	200,000	30,000
	380,000	270,000
	476,800	378,000

As at 30 June 2002, the bank loans of the Group were secured as follows:

- (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 of RMB46,800,000 (2001: RMB58,000,000) granted to the Group;



- (ii) certain of the oil pipeline and ancillary facilities with a total estimated carrying value of RMB211,000,000 (2001: RMB236,000,000) were pledged to a bank for bank loans of RMB150,000,000 (2001: RMB150,000,000) granted to the Group; and
- (iii) corporate guarantees issued by an associate, Jimei Gas and certain related companies in the amounts of RMB80,000,000 and RMB190,000,000 respectively in respect of bank loans of RMB270,000,000 granted by certain banks to the Group.

15 Trade and other payables

	At 30 June 2002 RMB'000	At 31 December 2001 RMB'000
Trade creditors	5,104	5,064
Amount due to related company	4,367	–
Accrued expenses and other payables	<u>31,955</u>	<u>18,943</u>
	<u>41,426</u>	<u>24,007</u>

Amount due to related company is unsecured, interest free and repayable on demand. The related company is the minority shareholder of the Company's subsidiary, Lejion Gas.

The ageing analysis of trade creditors are as follows:

	At 30 June 2002 RMB'000	At 31 December 2001 RMB'000
Due within 3 months or on demand	2,521	5,064
Due after 3 months	<u>2,583</u>	<u>–</u>
	<u>5,104</u>	<u>5,064</u>

16 Other loans

	At 30 June 2002 RMB'000	At 31 December 2001 RMB'000
Loan from ultimate holding company	–	26,671
Loan from minority shareholder of subsidiary	<u>13,987</u>	<u>–</u>
	<u>13,987</u>	<u>26,671</u>

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

The loan from minority shareholder of subsidiary is unsecured, interest free and will not be repayable within one year.



17 Share capital

	At 30 June 2002		At 31 December 2001	
	No. of ordinary shares	Amount	No. of ordinary shares	Amount
<i>Note</i>	'000	RMB'000	'000	RMB'000
Issued and fully paid:				
At 1 January	2,937,500	31,388	250,000	26,750
Shares issued under share option scheme	(a) 50,000	530	197,300	2,120
Issue of shares on subscription	(b) 44,084	467	23,750	2,518
Subdivision of shares	–	–	2,466,450	–
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June/31 December	3,031,584	32,385	2,937,500	31,388

Notes:

- (a) On 22 February 2002, 50,000,000 ordinary shares of HK\$0.01 each were issued at a price of HK\$0.084 each, upon the exercise of share options under the Company's share option scheme.
- (b) On 30 April 2002, 44,083,936 ordinary shares of HK\$0.01 each were allotted and issued to Mr. Sun Tian Gang at a price of HK\$1.07 each pursuant to a subscription agreement in order to satisfy part of the consideration for acquisition of 50% equity interest of Sky Global (Note 2(a)).



18 Reserves

	Share premium <i>RMB'000</i>	Contributed surplus <i>RMB'000</i>	Warrant reserve <i>RMB'000</i>	General reserve <i>RMB'000</i>	Enterprise expansion reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2001	14,658	43,721	–	16,337	8,169	32,138	115,023
Shares issued by private placement	93,147	–	–	–	–	–	93,147
Shares issued under share option scheme							
– before share subdivision	235	–	–	–	–	–	235
– after share subdivision	15,453	–	–	–	–	–	15,453
Share issue expenses	(537)	–	–	–	–	–	(537)
Disposal of subsidiaries	–	42,995	–	(16,337)	(8,169)	(18,489)	–
Placement of warrants	–	–	5,809	–	–	–	5,809
Warrant issue expenses	–	–	(549)	–	–	–	(549)
Profit for the year	–	–	–	–	–	43,728	43,728
At 31 December 2001	122,956	86,716	5,260	–	–	57,377	272,309
At 1 January 2002	122,956	86,716	5,260	–	–	57,377	272,309
Shares issued under share option scheme net of expenses	3,885	–	–	–	–	–	3,885
Issue of shares on subscription	49,533	–	–	–	–	–	49,533
Profit for the period	–	–	–	–	–	37,061	37,061
At 30 June 2002	176,374	86,716	5,260	–	–	94,438	362,788

19 Commitments

(a) Capital commitments

Capital commitments outstanding not provided for in the financial statements were as follows:

	At 30 June 2002 <i>RMB'000</i>	At 31 December 2001 <i>RMB'000</i>
Contracted for		
– Group's commitments	9,781	–
– Group's share of associate's commitments	892	–
Authorised but not contracted for	8,936	8,075
	19,609	8,075



(b) *Operating lease commitments*

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2002 RMB'000	At 31 December 2001 RMB'000
Within 1 year	2,231	2,830
After 1 year but within 5 years	3,008	264
	5,239	3,094

20 **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 service for a period of 20 years.

During the period, revenue from the provision of crude oil transportation service to the minority shareholder and its related companies amounted to RMB39,643,000 (30 June 2001: RMB24,552,000). The balance due to minority shareholder as at 30 June 2002 amounted to RMB18,106,000 (31 December 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 Jilin City Shine Gem Gas Pipeline Co. Ltd. ("Shine Gem"), a related 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 RMB11,575,000 for the two month period ended 30 June 2002. The balance due to the related company as at 30 June 2002 amounted to RMB13,959,000. Further details of this balance are set out in note 20 (iv) (e).

(iii) *Guarantees*

As at 30 June 2002, Shine Gem and 吉林京源石油開發有限公司, companies in which a director of the Company has beneficial interests, have given guarantees to a bank to secure bank loans granted to Xinjiang Xingmei in the amounts of RMB70,000,000 (31 December 2001: RMB70,000,000) and RMB120,000,000 (31 December 2001: RMB Nil) respectively.

In addition, Jimei Gas has given a guarantee to a bank to secure a bank loan granted to Xinjiang Xingmei in the amount of RMB80,000,000 (31 December 2001: RMB Nil).

(iv) *Loans*

(a) As at 30 June 2002, Xinjiang Xingmei advanced a loan to Jimei Gas in the amount of RMB9,000,000 (31 December 2001: RMB Nil) which is unsecured, interest bearing at 6% per annum and due for repayment in October 2002.



- (b) 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 period.
- (c) As at 30 June 2002, a director of the Company who owns 51% equity interest in Sky Global advanced a loan to Sky Global (of which the remaining 49% equity interest is held by the Group), in the amount of RMB27,116,000 which is unsecured, interest free and will not be repayable within one year.
- (d) As at 30 June 2002, the Group advanced a loan of RMB26,054,000 to its associate, Sky Global which is unsecured, interest free and will not be repayable within one year.
- (e) As at 30 June 2002, a director of the Company advanced a loan to Jimei Gas in the amount of RMB2,000,000 which is unsecured, interest free and repayable on demand.
- (f) As at 30 June 2002, Shine Gem advanced loans to Jimei Gas in the total amount of RMB13,959,000 which are unsecured, interest free except for an amount of RMB10,000,000 which carries interest at 7.56% per annum and will not be repayable within one year.

21 Comparative figures

Comparative figures have been restated and reclassified based on the change in accounting policy and adoption of new accounting standards as set out in note 1(b) in the interim financial report.

22 Approval of interim financial report

The interim financial report was approved and authorised for issue by the Board on 30 August 2002.