

The directors of CNPC (Hong Kong) Limited (“the Company”) are pleased to present the Interim Report and condensed accounts of the Company and its subsidiaries (“the Group”) for the six months ended 30th June 2003 (“the Period”). The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th June 2003, and the consolidated balance sheet as at 30th June 2003 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 1 to 17 of this report.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	Note	Unaudited	
		Six months ended 30th June	
		2003	2002
		HK\$'000	HK\$'000
Turnover	2	1,107,471	738,133
Cost of sales		(665,445)	(513,507)
Gross profit		442,026	224,626
Other revenues	3	5,237	14,010
Administrative expenses		(12,695)	(12,406)
Operating profit	4	434,568	226,230
Finance costs		(3,193)	(485)
Share of results of jointly controlled entities		9,844	5,088
Profit before taxation		441,219	230,833
Taxation	5	(123,753)	(70,598)
Profit after taxation		317,466	160,235
Minority interests		(4,312)	(552)
Profit attributable to shareholders		313,154	159,683
Earnings per share	7		
– Basic		HK6.48 cents	HK3.24 cents
– Fully diluted		HK6.47 cents	HK3.23 cents

CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2003

	Note	Unaudited 30th June 2003 HK\$'000	Audited 31st December 2002 HK\$'000
Non-current assets			
Property, plant and equipment	8	2,676,661	2,700,235
Investments in jointly controlled entities		509,590	364,426
Other non-current assets		1,928	1,928
Deferred tax assets		18,853	–
		3,207,032	3,066,589
Current assets			
Inventories		22,331	31,864
Trade receivables	9	218,078	48,407
Deposits, prepayments and other receivables		43,865	53,006
Bank balances and cash		942,194	950,640
		1,226,468	1,083,917
Current liabilities			
Trade payables	10	22,050	54,675
Other payables and accruals		334,745	162,308
Amount due to the ultimate holding company		1,171	1,171
Amounts due to minority shareholders		2,011	218
Deferred charge		65,226	77,847
Taxation payable		91,610	45,593
Short term loan from a related company		7,800	–
Loan from a minority shareholder		54,608	54,608
		579,221	396,420
Net current assets		647,247	687,497
Total assets less current liabilities		3,854,279	3,754,086
Financed by:			
Share capital	11	47,931	48,812
Reserves		3,170,669	2,912,508
Proposed dividend		–	170,842
Shareholders' funds		3,218,600	3,132,162
Minority interests		123,038	118,726
Long term borrowings	12	312,000	319,800
Deferred taxation		200,641	183,398
		3,854,279	3,754,086

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	Unaudited	
	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Net cash inflow from operating activities	569,918	(134,681)
Net cash (used in)/from investing activities	(354,352)	62,497
Net cash used in financing activities	(222,433)	(32,816)
Decrease in cash and cash equivalents	(6,867)	(105,000)
Cash and cash equivalents at 1st January	258,426	523,993
Effect of foreign exchange rate changes	(1,579)	(697)
Cash and cash equivalents at 30th June	249,980	418,296
Cash and cash equivalents at 30th June	249,980	418,296
Add: Deposits maturing after three months	692,214	380,254
Bank balances and cash at 30th June	942,194	798,550

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	Unaudited					
	Share capital	Contributed surplus	Share premium	Exchange reserve	Retained profit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2003	48,812	134,323	1,397,379	(6,120)	1,557,768	3,132,162
2002 final dividend paid	-	-	-	-	(170,065)	(170,065)
Translation differences	-	-	-	1,086	-	1,086
Repurchase of own shares	(881)	-	(56,856)	-	-	(57,737)
Profit for the Period retained	-	-	-	-	313,154	313,154
At 30th June 2003	47,931	134,323	1,340,523	(5,034)	1,700,857	3,218,600
At 1st January 2002	49,300	134,323	1,423,559	(5,850)	1,303,728	2,905,060
2001 final dividend paid	-	-	-	-	(98,601)	(98,601)
Translation differences	-	-	-	2,640	-	2,640
Profit for the period retained	-	-	-	-	159,683	159,683
At 30th June 2002	49,300	134,323	1,423,559	(3,210)	1,364,810	2,968,782

NOTES TO THE ACCOUNTS

1 Basis of preparation

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”), and Appendix 16 of the Rules Governing the Listing of Securities (“Listing Rules”) of the Stock Exchange of Hong Kong Limited (“HKSE”).

These condensed accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2002 with the exception of changes in accounting policy to comply with SSAP 12 (revised) “Income Taxes” issued by the HKSA, which is effective for accounting period commencing on or after 1st January 2003.

The changes to the Group’s accounting policy and the effect of adopting this revised standard is set out below.

(a) *Deferred taxation*

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

1 Basis of preparation (Continued)

(a) Deferred taxation (Continued)

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP12 represents a change in accounting policy. There has been no material impact of adopting this policy to the financial statements of the Group.

2 Segmental information

The Group is principally engaged in the exploration and production of crude oil and natural gas in the People's Republic of China (the "PRC"), South America, Middle East, Central Asia and South East Asia. Turnover represents principally proceeds from the sale of crude oil and natural gas (net of sales tax).

An analysis of the Group's turnover and profit attributable to shareholders for the Period by geographical segment is as follows:

	PRC 2003 HK\$'000	South America 2003 HK\$'000	Middle East, Central and South East Asia 2003 HK\$'000	Total 2003 HK\$'000
Turnover	858,880	124,403	124,188	1,107,471
Segment results	392,128	23,610	28,474	444,212
Unallocated costs				(9,644)
Operating profit				434,568
Finance costs				(3,193)
Share of results of jointly controlled entities	(1,843)	–	11,687	9,844
Profit before taxation				441,219
Taxation				(123,753)
Profit after taxation				317,466
Minority interests				(4,312)
Profit attributable to shareholders				313,154

2 Segmental information (Continued)

	PRC 2002 HK\$'000	South America 2002 HK\$'000	Central and South East Asia 2002 HK\$'000	Total 2002 HK\$'000
Turnover	572,205	121,730	44,198	738,133
Segment results	206,201	12,031	14,769	233,001
Unallocated costs				(6,771)
Operating profit				226,230
Finance costs				(485)
Share of results of jointly controlled entities	5,088	–	–	5,088
Profit before taxation				230,833
Taxation				(70,598)
Profit after taxation				160,235
Minority interests				(552)
Profit attributable to shareholders				159,683

2 Segmental information (Continued)

An analysis of the Group's turnover and segment results for the Period by business segment is as follows:

	Turnover		Segment results	
	2003 HK\$'000	2002 HK\$'000	2003 HK'000	2002 HK\$'000
Sale of crude oil and natural gas	1,107,352	738,051	445,156	233,947
Others	119	82	(944)	(946)
	1,107,471	738,133	444,212	233,001
Unallocated costs			(9,644)	(6,771)
Operating profit			434,568	226,230

3 Other revenues

	Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
Bank interest income	3,821	8,728
Others	1,416	5,282
	5,237	14,010

4 Operating profit

Operating profit is arrived at after charging depletion and depreciation of oil properties amounted to approximately HK\$247,655,000 (six months ended 30th June 2002: HK\$167,098,000).

5 Taxation

	Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
Overseas taxation	111,417	47,021
Deferred taxation	12,336	23,577
	123,753	70,598

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the six months ended 30th June 2003 (six months ended 30th June 2002: nil).

Taxation on overseas profit has been calculated on the estimated assessable profit for the Period at the rates of taxation prevailing in the countries in which the Group operates.

Pursuant to an approval from Karamay Tax Bureau on 9th February 2001, the taxable income in respect of the oil production under the Xinjiang Contract is entitled to preferential PRC income tax rate of 15% for three years from 1st January 2000 to 31st December 2002. From 2003 onwards, the entitlement of preferential income tax rate of 15% has to be approved by Karamay Tax Bureau annually. The Group is currently applying 15% income tax rate for the Xinjiang Contract for the year ending 31st December 2003 in accordance with the Notice (No. [2001]202) issued by the National Tax Bureau of the PRC.

The taxable income in respect of the oil production under the Leng Jiapu Contract is subject to the income tax rate of 33% (six months ended 30th June 2002: 33%) for the Period.

6 Dividend

The directors do not declare the payment of an interim dividend in respect of the six months ended 30th June 2003 (six months ended 30th June 2002: nil).

7 Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders for the Period of HK\$313,154,000 (six months ended 30th June 2002: HK\$159,683,000).

The basic earnings per share are based on weighted average number of 4,829,693,485 (six months ended 30th June 2002: 4,930,033,512) shares in issue during the Period. The diluted earnings per share is based on 4,842,610,152 (six months ended 30th June 2002: 4,947,924,137) shares which is the weighted average number of shares in issue during the Period plus the weighted average number of 12,916,667 (six months ended 30th June 2002: 17,890,625) shares which would be issued at no consideration on the exercise of all dilutive options.

8 Capital expenditure

	Property, plant and equipment HK\$'000
Opening net book amount as at 1st January 2003	2,700,235
Additions	224,269
Depletion and depreciation	(247,843)
Closing net book amount as at 30th June 2003	<u>2,676,661</u>

9 Trade receivables

The Group grants a credit period of 30 to 60 days to its customers. The ageing analysis of trade receivables is as follows:

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Within three months	218,078	48,407

10 Trade payables

The ageing analysis of trade payables as at 30th June 2003 and 31st December 2002 is as follows:

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Within three months	10,448	35,767
Between three to six months	127	4,106
Over six months	11,475	14,802
	22,050	54,675

11 Share capital

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Authorised:		
8,000,000,000 shares of HK\$0.01 each	80,000	80,000
Issued and fully paid:		
At 1st January	48,812	49,300
Repurchase of own shares	(881)	(488)
At 30th June		
4,793,113,512 (31st December 2002: 4,881,213,512) shares of HK\$0.01 each	47,931	48,812

During the Period, 88,100,000 shares (year ended 31st December 2002: 48,820,000 shares of HK\$0.01 each) were repurchased and cancelled by the Company in the Period except 14,120,000 shares were cancelled in July 2003 and no new share (year ended 31st December 2002: nil) was issued.

11 Share capital (Continued)

As at 30th June 2003 and 31st December 2002, the Company had outstanding options granted under the Company's executive share option scheme to directors and senior executives to subscribe for a total of 110,000,000 and 140,000,000 option shares of the Company respectively.

Details of the outstanding options are as follows:

Date of issue	Exercise price HK\$	Options outstanding at Period end	Expiry date
8th March 2001	0.410	40,000,000	7th March 2006
26th April 2001	0.610	65,000,000	25th April 2006
9th April 2003	0.574	5,000,000	8th April 2008
		110,000,000	

12 Long term borrowings

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Bank loan, unsecured (note)	312,000	312,000
Loan from a related company	–	7,800
	312,000	319,800

Note:

The bank loan, denominated in U.S. Dollars, bears interest at London Interbank Offered Rate plus 0.4% per annum payable semi-annually in arrears. The bank loan is unsecured and repayable in full on 17th July 2005.

13 Related party transactions

The following is a summary of significant related party transactions during the Period carried out in the normal course of the Group's business:

- (a) In connection with the Xinjiang Contract entered into with China National Petroleum Corporation ("CNPC") in July 1996, the Group has entered into the following transactions with related parties:

	Note	Six months ended 30th June	
		2003 HK\$'000	2002 HK\$'000
Sale of crude oil	(i)	212,819	121,243
Operating management fee	(ii)	48,982	32,344
Assistance fee		105	105
Training fee		105	105

Notes:

- (i) The oil price is set by CNPC with reference to the trend of the international oil price.
- (ii) The amount represents fee paid for the provision of operating crews, purchase of materials and supplies, provision of utilities and repair and maintenance services. The provision of the above was partly governed by contracts. The pricing of principal transactions, including those with contracts, is set with reference to the rates used in the region.

In accordance with the Xinjiang Contract, all of the above amounts represent the Group's 54% share of oil production and the respective cost items.

13 Related party transactions (Continued)

- (b) In connection with the Leng Jiapu Contract entered into with CNPC in December 1997, the Group has entered into the following transactions with related parties:

	Note	Six months ended 30th June	
		2003 HK\$'000	2002 HK\$'000
Sale of crude oil	(i)	646,061	450,962
Operating management fee	(ii)	116,969	98,254
Drilling fee	(iii)	173,812	38,579
Purchase of equipment		663	728
Operations and support services fee		514	568
Assistance fee		137	137
Training fee		137	137

Notes:

- (i) The oil price is set by CNPC with reference to the trend of the international oil price.
- (ii) The amount represents fee paid for the provision of operating crews, purchase of materials and supplies, provision of utilities and repair and maintenance services. The provision of the above was partly governed by contracts. The pricing of principal transactions, including those with contracts, is set with reference to the rates used in the region.
- (iii) Prices charged for drilling are in accordance with respective contracts with CNPC.

In accordance with the Leng Jiapu Contract, all of the above amounts represent the Group's 70% share of oil production and the respective cost items.

13 Related party transactions (Continued)

- (c) In connection with the oil concession in Thailand, the Group entered into the following transactions with related parties:

	Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
Lease rental of rig and logging and cementing equipment	–	3,457

- (d) Technical services fees amounting to HK\$1,524,000 (six months ended 30th June 2002: HK\$1,783,000) was paid to China Petroleum Technology Development Co. by SAPET Development Corporation during the Period. Such fee was charged in accordance with the term agreed in the Technical Services Contract by the two parties.
- (e) Rental expense amounted to HK\$280,000 (six months ended 30th June 2002: HK\$280,000) was paid to a fellow subsidiary in accordance with a lease agreement at a monthly rate of HK\$46,650 for the six months ended 30th June 2002 and 2003.
- (f) Interest expense amounting to HK\$335,000 (six months ended 30th June 2002: HK\$485,000) was paid to China Petroleum Finance Company Limited, a subsidiary of CNPC.

14 Commitments

(a) Capital commitments

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Contracted but not provided for Development cost under the Leng Jiapu Contract	178,272	317,198
Development cost under the Xinjiang Contract	–	19,878
	178,272	337,076

(b) Commitments under operating leases

At 30th June 2003, the Group had total future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Not later than one year	950	743
Later than one year and not later than five years	222	400
Later than five years	–	170
	1,172	1,313

15 Subsequent event

On 17th July 2003, CNPCHK (Thailand) Limited (“CNPCHK (Thailand)”), an indirect wholly-owned subsidiary of the Company, was awarded the Petroleum Concession by the Minister of Energy of Thailand. Under the Petroleum Concession, CNPCHK (Thailand) has been granted the right to carry out exploration, development and production of petroleum on Onshore Exploration Block No. L21/43, which has an approximate total area of 3,148 square kilometres.

The Petroleum Exploration Period for exploration of crude oil and natural gas under the Petroleum Concession is six years commencing from 17th July 2003, which period may be extended with the approval of the Department of Mineral Fuels of Thailand. At any time during the period, CNPCHK (Thailand) may, upon discovery of petroleum, apply to the Ministry of Energy of Thailand to commence commercial production.

During the Petroleum Exploration Period, CNPCHK (Thailand) is required to carry out certain physical work obligations with a minimum expenditure obligation of US\$13,140,000 (approximately HK\$102,492,000) in aggregate.

The period for production of crude oil and natural gas under the Petroleum Concession is 20 years commencing from commercial production. Subject to the approval of the Department of Mineral Fuels of Thailand, the petroleum production period may be renewed for a further period of up to 10 years.

BUSINESS REVIEW

As compared with the corresponding period of last year, the Group's turnover for the Period amounted to HK\$1,107,471,000, up by 50.04%. The Group's unaudited profit attributable to shareholders for the Period was HK\$313,154,000, representing an increase of 96.11% over the profit of HK\$159,683,000 for the same period of last year.

During the Period, the sales volume of crude oil amounted to 6,182,000 barrels, a growth of 20.70% as compared with the corresponding period of last year. Due to a rebound of the international crude oil price, the weighted average price of crude oil per barrel was approximately US\$24.98, increased by 37.37% over the price of US\$18.18 per barrel for the same period of last year. The overall profit was increased by 96.11%.

Liaohe Leng Jiapu Oil Field

The Liaohe Leng Jiapu Contract Area sold 711,000 tonnes of crude oil for the Period, representing a 6.11% increase compared with the same period of last year. On a 70% share basis, profit after tax attributable to the Group was HK\$195,616,000, or an increase of 78.12%.

According to the Leng Jiapu Contract, the Group is responsible for 70% of the development costs and thus a contribution of RMB336,000,000 was made out of profit and investment recovery by the Group during the Period for exploration, drilling and construction of ground production facilities.

Xinjiang Karamay Oil Field

The Xinjiang Karamay Contract Area produced 347,000 tonnes of crude oil, of which 33,000 tonnes were kept for its own use in order to cut cost. In the Period, 315,000 tonnes of crude oil were sold, representing an increase of approximately 9.76% compared with the corresponding period of previous year. On a 54% share basis, profit after tax attributable to the Group was HK\$83,846,000, or an increase of approximately 131.52% compared with the corresponding period of last year.

Sukhothai Concession in Thailand

As a result of the relentless effort of the Group in increasing efficiency as well as in reducing costs, the Sukhothai Concession in Thailand maintained a monthly sales volume of more than 20,000 barrels and recorded a profit after tax of HK\$16,585,000 for the Period, representing a 32.23% increase compared with the same period of last year. The Group will continue to identify potential of the oil fields to improve efficiency.

Talara Oil Field in Peru

The Group held 50% interest in the rights to explore and produce crude oil and natural gas in Block VI and VII of the Talara oil field in Peru. For the Period, the Group shared HK\$7,877,000 profit after tax and minority interests.

Oil Field in the Union of Myanmar (Tetma Block IOR-3, Tuyintaung Block RSF-2 and Gwegyo-Ngashandaung Block RSF-3)

The Group held 35% interest in the rights of exploration of an oil field in the Union of Myanmar. The acquisition formalities were approved by the government of the Union of Myanmar in March 2002. The overall exploration work has commenced in hope of fruitful results in the near future.

Kursangi and Karabagli (“K&K”) Oil Fields in the Azerbaijan Republic

In 2002, the procedures to acquire a total of 25% participating interest in K&K oil fields in the Azerbaijan Republic were completed and the Group started to formulate future plans for development and operation, and participate in the management of the oil fields. For the Period, the Group shared a profit after tax of HK\$12,838,000.

Gobustan Oil Field in the Azerbaijan Republic

In March 2003, the procedure to acquire 31.41% equity interest in Commonwealth Gobustan Limited was completed. The company owns 80% participating interest in an oil field in the South-West of Gobustan, the Azerbaijan Republic. The Group has started to formulate future plans for exploration, development and operation, and participate in the management of the oil field.

Oil Field in Sultanate of Oman (Block 5)

The Group held 25% interest in an oil field Block 5 located in Sultanate of Oman. The Group is formulating production enhancement program of the oil field. For the Period, the Group shared a profit after tax of HK\$11,688,000.

Steel pipes manufacturing

華油鋼管有限公司 (“North China”), which was set up by the Group together with 華北石油管理局 (the “Bureau”), has commenced production in full scale. Leveraging on the experience of the Bureau in the manufacture and sale of oil pipes and gas pipes and the production of high quality steel pipes, it produces high quality steel pipes to satisfy the demand of the project for transportation of natural gas from West to East of China and other pipe projects. In December 2002, the Group agreed to set up a branch factory in the Shanghai Pudong Economic Development Zone, the PRC, to enhance its competitiveness and capture a larger market share in the eastern part of the PRC. Due to market changes, North China plans to move the branch factory to other location.

BOPP project

The biaxially oriented polypropylene film factory jointly established with 大慶石油管理局 has commenced its trial production with satisfactory results in the mid of 2003 and will have commercial production near the end of 2003. With the PRC's accession to WTO, demand for packaging materials will gradually increase and this operation is expected to bring stable revenue to the Group.

BUSINESS PROSPECTS

The Group will continue to strengthen the management of the existing development projects, control costs, increase efficiencies, stabilise incomes and increase crude oil reserve and revenue.

The Group has deployed its own capital and syndicated loans to expand its business. Investments have been made in oil fields in Peru, the Union of Myanmar, the Azerbaijan Republic and Sultanate of Oman, as well as steel pipes and BOPP manufacturing plants. As most of the oil projects just acquired have not yet put in full operation, there was only limited contribution to the Group's profit. However, with the commencement of overall exploration and development programs, the projects will be significant to the Group's future performance.

The positioning of the Group's future development remains unchanged, it still focuses on investing in petroleum up-stream business as well as other petroleum-related businesses that brings steady income. By utilizing the net cashflow generated from the existing oil fields and the finance facilities from the syndicated loans, the Group will continue to explore new business opportunities, increase oil reserves, investing in different regions on projects with lower risks and reasonable return and developing petroleum-related business in the PRC and overseas. With a healthy financial position and supplemented with an appropriate level of leverage, the Group will expand rapidly into an international petroleum corporation with an aim to increase shareholders' return.

INTERIM DIVIDEND

Given the continued cash need for continual business expansion, the Board has resolved not to declare an interim dividend for the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating results

The Group has recorded a turnover of HK\$1,107,471,000 for the Period, representing an increase of 50.04% as compared with HK\$738,133,000 same period last year. The increase of turnover was mainly due to the increase in sales volume and weighted average crude oil selling price from US\$18.18 per barrel same period last year to US\$24.98 per barrel this year.

The profit attributable to shareholders for the Period was HK\$313,154,000, representing an increase of HK\$153,471,000 or 96.11%, as compared with a profit attributable to shareholders of HK\$159,683,000 for same period last year.

Liquidity and capital resources

As at 30th June 2003, the aggregate assets of the Group were HK\$4,433,000,000, representing an increase of HK\$283,000,000 or 6.82% as compared with 31st December 2002.

The major changes of the assets are as follows:

	Increase/(decrease) HK\$'000
Property, plant and equipment	(23,574)
Interests in jointly controlled entities	145,164*
Deferred tax assets	18,853**
Other current assets	150,997*
Bank balances and cash	(8,446)
	<hr/>
Total increase in assets	<u>282,994</u>

* Acquisition of Gobustan project and shareholder's loan to Qingdao Qingxin Plastic Limited Liability Company.

** Reclassification of deferred tax assets pursuant to the provisions in SSAP 12 (revised).

* Increase in trade receivables.

The gearing ratio of the Group is maintained at 11.63% as at 30th June 2003 compared with 11.96% as at 31st December 2002. It is calculated by dividing the total of borrowings of HK\$374,000,000 (31st December 2002: HK\$374,000,000) by the shareholders' funds of HK\$3,219,000,000 (31st December 2002: HK\$3,132,000,000).

As at 30th June 2003, a bank borrowing denominated in United States Dollars amounted to HK\$312,000,000 is fully repayable before 17th July 2005.

In accordance with the Leng Jiapu Contract, RMB336,000,000 (approximately HK\$317,000,000) was paid out from profit and investment recovery of the project and re-invested as development costs to the Leng Jiapu oil field during the Period.

During the Period, RMB21,000,000 (approximately HK\$20,000,000) was paid out from profits of the project and injected into Karamay oil field as development costs.

Pursuant to the Shareholders' Agreement, the Group has made a shareholder's advance of US\$3,600,000 (approximately HK\$27,000,000) to the jointly controlled entity, Qingdao Qingxin Plastic Limited Liability Company, on 29th May 2003.

Dividend of RMB9,000,000 (approximately HK\$8,500,000) for the year 2002 was received from North China during the Period.

In June 2003, 2002 final dividend of HK\$0.035 per share amounting HK\$170,000,000 was distributed to the shareholders of the Group.

On 24th January 2003, the Group entered into the Sales and Purchase Agreement to purchase 31.41% issued share capital of Commonwealth Gobustan Limited ("CGL") which has 80% participating interest in the Agreement on the Exploration, Development and Production Sharing for Three Blocks of the South-West Gobustan in the Azerbaijan Republic. The Group also agreed to purchase 30% of the aggregate amount of all outstanding loans advanced to CGL by the original shareholder. A total of US\$12,800,000 (approximately HK\$100,000,000) was paid during the Period representing the acquisition consideration of US\$10,500,000 (approximately HK\$82,000,000) and the loan of US\$2,300,000 (approximately HK\$18,000,000).

Use of proceeds

During the Period, the Company did not issue any new share to the public.

Taking into account the cashflow from the operating activities, the Group has a bank balance and cash of HK\$942,000,000 as at 30th June 2003.

EMPLOYEE

On 30th June 2003, the Group had approximately 345 staff (excluding the staff under entrustment contracts) globally. Remuneration package and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the staff. In addition, the Group set up a share option scheme, pursuant to which the directors and employees of the Company were granted options to subscribe shares of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Period, 88,100,000 shares of HK\$0.01 each of the Company were repurchased by the Company through HKSE, details of which are as follows:

Month	Number of shares repurchased	Price per share		Aggregate amount paid HK\$'000
		Highest price HK\$	Lowest price HK\$	
		April	11,600,000	
May	14,540,000	0.65	0.59	9,096
June	61,960,000	0.70	0.64	42,078
	<u>88,100,000</u>			<u>57,737</u>

All of the shares repurchased were cancelled in the Period except 14,120,000 shares were cancelled in July 2003.

Save for the foregoing, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the Period.

DIRECTORS' INTERESTS IN SHARES

At 30th June 2003, the interests of the directors in the shares of the Company, as recorded in the register maintained under section 29 of the Securities (Disclosure of Interests) Ordinance or as notified to the Company were as follows:

- (a) Messrs Wang Mingcai and Li Hualin are directors of Sun World Limited ("Sun World") which beneficially owned 2,730,487,342 shares in the Company as at 30th June 2003. Sun World is a wholly owned subsidiary of CNPC, the Company's ultimate holding company incorporated in the PRC.
- (b) Share options are granted to directors under the executive share option scheme approved by the board of directors on 23rd October 1991 and 3rd June 2002.

Details of the share options granted by the Company are as follows:

Name	Date of grant	Exercise price HK\$	Options held at 1st January 2003	Options granted during the Period	Options cancelled during the Period	Options lapsed during the Period	Options held at 30th June 2003	Expiry date
Lin Jingao	26th April 2001	0.610	10,000,000	-	-	-	10,000,000	25th April 2006
Lau Hak Woon	3rd March 1998	1.610	5,000,000	-	-	(5,000,000)	-	3rd March 2003
	26th April 2001	0.610	5,000,000	-	-	-	5,000,000	25th April 2006
	9th April 2003	0.574	-	5,000,000	-	-	5,000,000	8th April 2008
Xu Tianshu	12th May 1999	0.910	20,000,000	-	(20,000,000)	-	-	11th May 2004
(Resigned on 3rd January 2003, Note 1)	26th April 2001	0.610	10,000,000	-	(10,000,000)	-	-	25th April 2006
Li Hualin	8th March 2001	0.410	20,000,000	-	-	-	20,000,000	7th March 2006
	26th April 2001	0.610	20,000,000	-	-	-	20,000,000	25th April 2006
Wang Mingcai	8th March 2001	0.410	20,000,000	-	-	-	20,000,000	7th March 2006
	26th April 2001	0.610	30,000,000	-	-	-	30,000,000	25th April 2006

Note:

- Mr Xu Tianshu resigned as a director of the Company on 3rd January 2003 and pursuant to the 1991 Share Option Scheme his share options were cancelled on 3rd January 2003.

Save for the above, at no time during the Period was the Company, its fellow subsidiaries or its holding company a party to any arrangements to enable the directors or chief executives or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 30th June 2003, the register of substantial shareholders maintained under section 336 of the Securities and Futures Ordinance, showed that the Company had been notified of the following interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

Name	Number of shares
Sun World	2,730,487,342

* 2,381,022,468 shares are registered under the name of HKSCC Nominees Limited.

Sun World is a wholly owned subsidiary of CNPC, accordingly CNPC is deemed to be interested in the 2,730,487,342 shares held by Sun World.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of HKSE at any time during the six months ended 30th June 2003.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30th June 2003.

SUBSEQUENT EVENT

On 17th July 2003, CNPCHK (Thailand), an indirect wholly-owned subsidiary of the Company, was awarded the Petroleum Concession by the Minister of Energy of Thailand. Under the Petroleum Concession, CNPCHK (Thailand) has been granted the right to carry out exploration, development and production of petroleum on Onshore Exploration Block No. L21/43, which has an approximate total area of 3,148 square kilometres.

The Petroleum Exploration Period for exploration of crude oil and natural gas under the Petroleum Concession is six years commencing from 17th July 2003, which period may be extended with the approval of the Department of Mineral Fuels of Thailand. At any time during the period, CNPCHK (Thailand) may, upon discovery of petroleum, apply to the Ministry of Energy of Thailand to commence commercial production.

During the Petroleum Exploration Period, CNPCHK (Thailand) is required to carry out certain physical work obligations with a minimum expenditure obligation of US\$13,140,000 (approximately HK\$102,492,000) in aggregate.

By Order of the Board
Wang Mingcai
Executive Chairman

Hong Kong, 9th September 2003