

The directors are pleased to present the Group's Interim Report and condensed accounts for the six months ended 30th June 2004 (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 2004, and the consolidated balance sheet as at 30th June 2004 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 2004

	Note	Unaudited	
		Six months ended 30th June	
		2004	2003
		HK\$'000	HK\$'000
Turnover	2	<b>1,163,556</b>	1,107,471
Cost of sales		<b>(714,088)</b>	(665,445)
Gross profit		<b>449,468</b>	442,026
Other revenues	3	<b>8,557</b>	3,821
Administrative expenses		<b>(10,418)</b>	(11,279)
Operating profit	4	<b>447,607</b>	434,568
Finance costs		<b>(4,971)</b>	(3,193)
Share of profits less losses of			
Jointly controlled entities		<b>38,051</b>	9,844
An associated company		<b>84,028</b>	–
Profit before taxation		<b>564,715</b>	441,219
Taxation	5	<b>(115,543)</b>	(123,753)
Profit after taxation		<b>449,172</b>	317,466
Minority interests		<b>(17,371)</b>	(4,312)
Profit attributable to shareholders		<b>431,801</b>	313,154
Earnings per share	7		
– Basic		<b>HK9.11 cents</b>	HK6.48 cents
– Fully diluted		<b>HK9.00 cents</b>	HK6.47 cents

**CONSOLIDATED BALANCE SHEET**

AS AT 30TH JUNE 2004

		<b>Unaudited 30th June 2004 HK\$'000</b>	Audited 31st December 2003 HK\$'000
	Note		
<b>Non-current assets</b>			
Property, plant and equipment	8	<b>2,676,939</b>	2,661,761
Investments in jointly controlled entities		<b>619,507</b>	556,566
Investment in an associated company		<b>168,135</b>	84,107
Other non-current assets		<b>1,928</b>	1,928
Deferred tax assets		<b>36,855</b>	23,119
		<b>3,503,364</b>	3,327,481
<b>Current assets</b>			
Inventories		<b>20,713</b>	29,329
Trade receivables	9	<b>115,214</b>	69,089
Deposits, prepayments and other receivables		<b>28,990</b>	35,741
Bank balances and cash		<b>1,253,975</b>	1,007,646
		<b>1,418,892</b>	1,141,805
<b>Current liabilities</b>			
Trade payables	10	<b>36,384</b>	92,064
Other payables and accruals		<b>324,794</b>	173,063
Amount due to the ultimate holding company		<b>1,171</b>	1,171
Taxation payable		<b>72,223</b>	28,537
Deferred charge		<b>38,701</b>	51,311
Current portion of long term borrowings	12	<b>10,140</b>	20,280
		<b>483,413</b>	366,426
Net current assets		<b>935,479</b>	775,379
Total assets less current liabilities		<b>4,438,843</b>	4,102,860
Financed by:			
Share capital	11	<b>47,341</b>	47,565
Reserves		<b>3,664,464</b>	3,252,849
Proposed dividend		<b>–</b>	95,130
Shareholders' funds		<b>3,711,805</b>	3,395,544
Minority interests		<b>139,425</b>	137,653
Long term borrowings	12	<b>354,120</b>	354,120
Deferred tax liabilities		<b>233,493</b>	215,543
		<b>4,438,843</b>	4,102,860

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	<b>Unaudited</b>	
	<b>Six months ended 30th June</b>	
	<b>2004</b>	<b>2003</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net cash inflow from operating activities	<b>639,772</b>	569,918
Net cash used in investing activities	<b>(224,892)</b>	(354,352)
Net cash used in financing activities	<b>(125,588)</b>	(222,433)
Increase/(decrease) in cash and cash equivalents	<b>289,292</b>	(6,867)
Cash and cash equivalents at 1st January	<b>665,949</b>	258,426
Effect of foreign exchange rate changes	<b>–</b>	(1,579)
Cash and cash equivalents at 30th June	<b>955,241</b>	249,980
Cash and cash equivalents at 30th June	<b>955,241</b>	249,980
Add: Deposits maturing after three months	<b>298,734</b>	692,214
Bank balances and cash at 30th June	<b>1,253,975</b>	942,194

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Unaudited					
	Share capital HK\$'000	Contributed surplus HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000
At 1st January 2004	47,565	134,323	1,313,079	(3,530)	1,904,107	3,395,544
2003 final dividend paid	-	-	-	-	(94,682)	(94,682)
Translation differences	-	-	-	(92)	-	(92)
Repurchased of own shares	(224)	-	(20,542)	-	-	(20,766)
Profit for the Period retained	-	-	-	-	431,801	431,801
At 30th June 2004	<b>47,341</b>	<b>134,323</b>	<b>1,292,537</b>	<b>(3,622)</b>	<b>2,241,226</b>	<b>3,711,805</b>
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	<b>47,931</b>	<b>134,323</b>	<b>1,340,523</b>	<b>(5,034)</b>	<b>1,700,857</b>	<b>3,218,600</b>

## 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 25, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants, and Appendix 16 of the Rules Governing the Listing of Securities ("Listing Rules") of the Stock Exchange of Hong Kong Limited (the "HKSE").

These condensed accounts should be read in conjunction with the 2003 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 2003.

### 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 ("PRC"), the Sultanate of Oman, Peru, the Azerbaijan Republic and Thailand. Turnover represents principally proceeds from the sale of crude oil and natural gas (net of sales tax).

## 2 Segmental information (continued)

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

	PRC 2004 HK\$'000	South America 2004 HK\$'000	Central and South East Asia 2004 HK\$'000	Middle East 2004 HK\$'000	Total 2004 HK\$'000
Turnover	837,857	176,078	149,621	–	1,163,556
Segment results	372,767	56,983	23,624	305	453,679
Unallocated costs					(6,072)
Operating profit					447,607
Finance costs					(4,971)
Share of profits less losses of Jointly controlled entities	20,670	–	(30,619)	48,000	38,051
An associated company	–	–	84,028	–	84,028
Profit before taxation					564,715
Taxation					(115,543)
Profit after taxation					449,172
Minority interests					(17,371)
Profit attributable to shareholders					431,801

## 2 Segmental information (continued)

	PRC 2003 HK\$'000	South America 2003 HK\$'000	Central and South East Asia 2003 HK\$'000	Middle East 2003 HK\$'000	Total 2003 HK\$'000
Turnover	858,880	124,403	124,188	–	1,107,471
Segment results	392,128	23,610	28,479	(5)	444,212
Unallocated costs					(9,644)
Operating profit					434,568
Finance costs					(3,193)
Share of profits less losses of Jointly controlled entities	(1,843)	–	11,687	–	9,844
An associated company	–	–	–	–	–
Profit before taxation					441,219
Taxation					(123,753)
Profit after taxation					317,466
Minority interests					(4,312)
Profit attributable to shareholders					<u>313,154</u>

## 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK'000	2003 HK\$'000
Sale of crude oil and natural gas	1,163,477	1,107,352	453,814	445,156
Others	79	119	(135)	(944)
	<u>1,163,556</u>	<u>1,107,471</u>	<u>453,679</u>	<u>444,212</u>
Unallocated costs			(6,072)	(9,644)
Operating profit			<u>447,607</u>	<u>434,568</u>

## 3 Other revenues

	Six months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Bank interest income	<u>8,557</u>	<u>3,821</u>

## 4 Operating profit

Operating profit is arrived at after charging depletion and depreciation of oil properties amounted to approximately HK\$243,604,000 (six months ended 30th June 2003: HK\$247,655,000).



## 5 Taxation

	Six months ended 30th June	
	2004	2003
	HK\$'000	HK\$'000
Overseas taxation	120,010	111,417
Deferred taxation	2,814	12,336
Share of taxation attributable to a jointly controlled entity	(7,281)	–
	<b>115,543</b>	123,753

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the six months ended 30th June 2004 (six months ended 30th June 2003: 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 6th July 2004, the taxable income in respect of the oil production under the Xinjiang Contract is entitled to preferential PRC income tax rate of 15% for six years from 1st January 2003 to 31st December 2008. The Group is applying 15% income tax rate for the Xinjiang Contract for the six months ended 30th June 2004 in accordance to the Notice (No. [2004]8) 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 2003: 33%) for the Period.

## 6 Interim Dividend

Given the continuous cash requirement for business expansion, the Board has resolved not to declare an interim dividend for the Period.

## 7 Earnings per share

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders for the Period of HK\$431,801,000 (six months ended 30th June 2003: HK\$313,154,000).

The basic earnings per share is based on the weighted average number of 4,742,266,717 (six months ended 30th June 2003: 4,829,693,485) shares in issue during the Period. The diluted earnings per share is based on 4,798,347,798 (six months ended 30th June 2003: 4,842,610,152) shares which is the weighted average number of shares in issue during the Period plus the weighted average number of 56,081,081 (six months ended 30th June 2003: 12,916,667) shares which would be issued at no consideration on the exercise of all dilutive options.

## 8 Property, plant and equipment

	HK\$'000
Opening net book amount as at 1st January 2004	2,661,761
Additions	258,807
Depletion and depreciation	<u>(243,629)</u>
Closing net book amount as at 30th June 2004	<u><u>2,676,939</u></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:

	<b>30th June 2004 HK\$'000</b>	31st December 2003 HK\$'000
Within three months	<b><u><u>115,214</u></u></b>	69,089

## 10 Trade payables

The ageing analysis of trade payables is as follows:

	<b>30th June 2004 HK\$'000</b>	31st December 2003 HK\$'000
Within three months	<b>25,329</b>	82,321
Between three to six months	<b>2,152</b>	2,749
Over six months	<b>8,903</b>	6,994
	<b>36,384</b>	92,064

## 11 Share capital

	<b>30th June 2004 HK\$'000</b>	31st December 2003 HK\$'000
Authorised:		
8,000,000,000 shares of HK\$0.01 each	<b>80,000</b>	80,000
Issued and fully paid:		
At 1st January	<b>47,565</b>	48,812
Repurchase of own shares	<b>(224)</b>	(1,347)
Exercise of share options	<b>–</b>	100
At 30th June		
4,734,093,512 (31st December 2003: 4,756,503,512) shares of HK\$0.01 each	<b>47,341</b>	47,565

During the period, 22,410,000 shares (year ended 31st December 2003: 134,710,000 shares of HK\$0.01 each) were repurchased and cancelled by the Company in the Period and no new shares (year ended 31st December 2003: nil) was issued.

## 11 Share capital (continued)

As at 30th June 2004 and 31st December 2003, 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 132,000,000 and 100,000,000 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	0.41	40,000,000	7th March 2006
26th April 2001	0.61	60,000,000	25th April 2006
8th January 2004	1.362	7,000,000	7th January 2009
25th June 2004	0.94	25,000,000	24th June 2009
		<u>132,000,000</u>	

## 12 Long term borrowings

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Bank loan, unsecured (note a)	312,000	312,000
Loan from a related company (note b)	52,260	62,400
	<u>364,260</u>	<u>374,400</u>
Current portion	(10,140)	(20,280)
	<u>354,120</u>	<u>354,120</u>

## 12 Long term borrowings (continued)

Notes:

- (a) The bank loan, denominated in US Dollars, bears interest at London Interbank Offered Rate (“LIBOR”) plus 0.4% per annum payable semi-annually in arrears. The bank loan is unsecured and repayable in full on 18th July 2005.
- (b) The loan is borrowed from a related company for working capital purpose. The loan is unsecured, bears interest at LIBOR plus 6.5% per annum and repayable in full in 2006.

## 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:

		<b>Six months ended 30th June</b>	
		<b>2004</b>	2003
	Note	<b>HK\$’000</b>	HK\$’000
Sale of crude oil	(i)	<b>229,716</b>	212,699
Operating management fee	(ii)	<b>59,592</b>	48,982
Assistance fee		<b>105</b>	105
Training fee		<b>105</b>	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	<b>Six months ended 30th June</b>	
		<b>2004</b>	2003
		<b>HK\$'000</b>	HK\$'000
Sale of crude oil	(i)	<b>608,141</b>	646,061
Operating management fee	(ii)	<b>125,227</b>	116,969
Drilling fee	(iii)	<b>154,259</b>	173,812
Purchase of equipment		<b>3,787</b>	663
Operations and support services fee		<b>729</b>	514
Assistance fee		<b>137</b>	137
Training fee		<b>137</b>	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	
	2004	2003
	HK\$'000	HK\$'000
Lease rental of drilling equipment (note)	<u>7,327</u>	<u>–</u>

Note:

Rental is governed by agreements entered into on 20th January 2004.

- (d) No technical services fees (six months ended 30th June 2003: HK\$1,524,000) was paid to China Petroleum Technology Development Co. by SAPET Development Corporation during the Period. Such fee was charged in accordance with the terms stipulated in the technical services contract.
- (e) Rental expense amounting to HK\$187,000 (six months ended 30th June 2003: HK\$280,000) was paid to a fellow subsidiary in accordance with a lease agreement at a monthly rate of HK\$31,000 for the six months ended 30th June 2004 (six months ended 30th June 2003: HK\$47,000).
- (f) Interest expense amounting to HK\$2,486,000 (six months ended 30th June 2003: HK\$335,000) was paid to China Petroleum Finance Company Limited, a subsidiary of CNPC (note 12).

**14 Commitments***(a) Capital commitments*

	<b>30th June 2004 HK\$'000</b>	31st December 2003 HK\$'000
Authorised but not contracted for Property, plant and equipment	<b>599</b>	–
Contracted but not provided for		
Development cost under the Leng Jiapu Contract	–	316,802
Development cost under the Xinjiang Contract	–	53,887
Development cost for Onshore Exploration Block No. L21/43 in Thailand (note)	<b>102,492</b>	102,492
Development cost for the Azerbaijan Republic Kursangi and Karabagli oil held Property, plant and equipment	<b>26,613 4,809</b>	84,138 –
	<b>133,914</b>	557,319

Note: The amount represents the remaining minimum work obligation, as required to be incurred before the end of the Petroleum Exploration Period, 17th July 2009, in the Petroleum Concession awarded by the Minister of Energy in Thailand.



## 14 Commitments (continued)

### (b) Commitments under operating leases

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

	<b>30th June 2004 HK\$'000</b>	31st December 2003 HK\$'000
Not later than one year	<b>1,123</b>	867
Later than one year and not later than five years	<b>1,857</b>	2,224
Later than five years	<b>924</b>	1,056
	<b>3,904</b>	4,147

## BUSINESS REVIEW

As compared with the corresponding period of last year, the Group's turnover for the Period amounted to HK\$1,163,556,000, up by 5.06%. The Group's unaudited profit attributable to shareholders for the Period was HK\$431,801,000, representing an increase of 37.89% over the profit of HK\$313,154,000 for the same period of last year.

During the Period, the sales volume of crude oil was 6,150,000 barrels, a slight decrease of 0.51% as compared with the corresponding period of last year. With a rebound of the international crude oil price offsetting the drop in sales volume, the weighted average price of crude oil per barrel was approximately US\$26.58, increased by 6.40% over the price of US\$24.98 per barrel for the same period of last year, the overall profit was eventually increased by 37.89%.

In accordance with generally accepted accounting principle ("GAAP"), exploration cost shall be treated as expenses. During the Period, exploration cost incurred in oil fields of HK\$32,951,000 (corresponding period of 2003: nil), of which HK\$13,622,000 was expended as cost of sales and of HK\$19,329,000 was taken up via equity accounting in our share of profits less losses of jointly controlled entities.

### Liaoheng Leng Jiapu Oil Field in the People's Republic of China (the "PRC")

The Liaoheng Leng Jiapu Contract Area sold totally 664,000 tonnes of crude oil for the Period, representing a 6.5% decrease compared with the same period of last year. On a 70% share basis, profit after tax attributable to the Group was HK\$179,464,000, or an increase of 8.26% compared with same period last year.

According to the Leng Jiapu Contract, the Group is responsible for 70% of the development costs and thus an aggregate contribution of RMB336,000,000 (approximately HK\$316,801,000) (corresponding period of 2003: RMB336,420,000 (approximately HK\$317,198,000)) was made out of profit and investment recovery by the Group during the Period for exploration, drilling and construction of ground production facilities in order to stabilise the production.

### Xinjiang Karamay Oil Field in the PRC

The Xinjiang Karamay Contract Area produced totally 347,000 tonnes of crude oil, of which 8,632 tonnes were kept for its own use. In the Period, 337,000 tonnes of crude oil were sold, representing an increase of approximately 7.08% compared with the corresponding period of previous year. On a 54% share basis, profit after tax attributable to the Group was HK\$90,236,000, or an increase of 7.62% compared with the corresponding period of last year.

According to the Xinjiang Contract, the Group is responsible for 54% of the development costs and a contribution of RMB55,887,000 (approximately HK\$52,694,000) (corresponding period of 2003: RMB21,000,000 (approximately HK\$19,800,000)) was made during the Period as part of the fund required for stabilising the production.

### K&K Oil Fields in the Azerbaijan Republic (the "Azerbaijan")

The Group owned 25% interest in the K&K oil fields in the Azerbaijan. The Group shared 589,000 barrels of oil during the Period (corresponding period of 2003: 565,000 barrels), and profit after tax attributable to the Group amounted to HK\$26,313,000, increased by 104.96% as compared with the corresponding period last year.

### 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 shared 496,000 barrels of oil during the Period, increased by 65.33% compared with 300,000 barrels in corresponding period last year, and profit after tax attributable to the Group amounted to HK\$48,000,000, an increase of HK\$36,313,000 or 310.71% over the corresponding period previous year.

### 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. During the Period, 660,000 barrels of crude oil and 754,019,000 cu.ft. of natural gas were generated from the oil fields (corresponding period of 2003: 552,000 barrels and 370,210,000 cu.ft. respectively). The Group shared HK\$17,369,000 profit after tax and minority interests, representing a growth of HK\$9,492,000, or 120.50%, over that of the corresponding period last year.

### Oil fields in Thailand (Sukhothai and L21/43)

The sales volume of the Sukhothai Concession in Thailand for the first half year was 116,000 barrels, showing a reduction of 19.38% compared with the same period of last year. A profit after tax of HK\$11,264,000 was recorded for the Period, representing a 32.08% decrease compared with the same period of last year. The Group will continue to identify potential of the oil fields and stabilize production to improve efficiency.

In July 2003, the Group was granted the exploration right in the L21/43 Concession located in central Thailand by the Thailand Government. The overall exploration, including seismic analysis and other exploration works, commenced in 2004 and the Group anticipated to achieve satisfactory result. Exploration cost of HK\$13,622,000 (corresponding period of 2003: nil) for the Period was treated as expenses under GAAP.

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

The Group held 50% interest in the rights of exploration of an oil field in the Union of Myanmar. The overall exploration work commenced at the beginning of 2004, in hope of fruitful results in the near future. Seismic analysis and other exploration works performed during the Period, and exploration cost attributable to the Group of HK\$3,840,000 (corresponding period of 2003: nil) was included in expenses for the Period.

## Gobustan Oil Field in the Azerbaijan

In March 2003, the procedure to acquire 31.41% equity interest in Commonwealth Gobustan Limited (“CGL”) was completed by the Group. CGL owns 80% participating interest in an oil field in the South-West of Gobustan, the Azerbaijan. The Group has started to formulate future plans for exploration, development and operation, and participate in the management of the oil field. The overall exploration work, including seismic analysis, commenced at the beginning of 2004. The exploration cost attributable to the Group for the Period of HK\$15,489,000 (corresponding period of 2003: nil) was included in expenses.

## Oil field in the Republic of Kazakhstan (Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt))

In December 2003, the Group successfully acquired 40% equity interest in CNPC International (Caspian) Limited (“Caspian”), which owned 25.12% equity interest in CNPC International Aktobe Petroleum Joint-Stock Company (“Aktobe”). As a result of the acquisition, the Group indirectly owns 10.05% interest of Aktobe. The shares of which are listed and traded on the Kazakhstan Securities Exchange, Aktobe also owns the Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt) oil fields in Kazakhstan. During the Period, Caspian received dividend of HK\$102,971,000 from Aktobe and generated a profit of HK\$84,028,000 for the Group.

## 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, North China can produce high quality steel pipes to satisfy the demand of the project for transportation of natural gas from West to East of the PRC and other pipe projects. In 2003, the Group agreed to set up a branch factory in the Yangzhou Han Jiang Industrial Park, the PRC, to enhance its competitiveness and capture a larger market share in the eastern part of the PRC. In the first half of 2004, North China had a total output of 67,000 tonnes (corresponding period of 2003: 16,000 tonnes) steel pipe and re-processing of 76,000 tonnes (corresponding period of 2003: 73,000 tonnes) steel pipe, generated a profit of HK\$20,774,000 for the Group, representing a growth of HK\$13,610,000 or 189.98% as compared with same period last year.

## Biaxially Oriented Polypropylene (“BOPP”) project

The BOPP film factory jointly established with 大慶石油管理局 has completed its trial production with satisfactory results in 2003 and have begun commercial production in 2004. Profit after tax attributable to the Group for the Period was HK\$948,000 (corresponding period of 2003: nil). With the PRC’s accession to the World Trade Organisation, demand for packaging materials will gradually increase and this operation is expected to bring stable revenue to the Group.

## BUSINESS PROSPECTS

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 generate stable income. The Group will continue to explore new business opportunities, increase oil reserves, invest in different regions on projects with lower risk and reasonable return and develop petroleum-related business in the PRC and overseas.

With Leng Jiapu Oil Field and Karamay Oil Field entering a mature stage, it is difficult to maintain a substantial growth in production volume. The Group will adopt the international advanced technology for heavy oil production such as horizontal well, progressive cavity pump production with sand and miscible phase recovery in order to maintain a stable production volume from the existing oil fields. In order to improve efficiency and stabilise income, the Group will also focus on strengthening the management of the existing oil development projects, controlling costs. The pace of exploration and development of the newly acquired overseas oil field projects will be accelerated to generate revenue as soon as possible. The Group will also make appropriate new acquisitions with a view to increase crude oil reserve and production, enhance revenue and increase shareholders’ return. With a sound financial position and an appropriate level of leverage, the Group aims at developing into an international petroleum corporation.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating results

The Group has recorded a turnover of HK\$1,163,556,000 for the period ended 30th June 2004, representing an increase of 5.06% as compared with HK\$1,107,471,000 same period last year. The increase of turnover was mainly due to the increase weighted average crude oil selling price from US\$24.98 per barrel same period last year to US\$26.58 per barrel this Period.

The profit after taxation and minority interest attributable to shareholders for the Period was HK\$431,801,000, representing an increase of HK\$118,647,000 or 37.89%, as compared with a profit after taxation and minority interest attributable to shareholders of HK\$313,154,000 for same period last year.

### Liquidity and capital resources

As at 30th June 2004, the aggregate assets of the Group were HK\$4,922,256,000, representing an increase of HK\$452,970,000 or 10.14% as compared with 31st December 2003.

The major changes of the assets are as follows:

	<b>Increase/(decrease)</b> HK\$'000
Property, plant and equipment	15,178
Investment in jointly controlled entities	62,941*
Investment in an associated company	84,028
Deferred tax assets	13,736
Other current assets	30,758+
Bank balances and cash	<u>246,329</u>
Total increase in assets	<u><u>452,970</u></u>

\* Profits of the project in Oman of HK\$48,000,000.

+ Increase in trade receivables.

The gearing ratio of the Group maintained at 9.81% as at 30th June 2004 compared with 11.03% as at 31st December 2003. It is computed by dividing the total borrowings of HK\$364,260,000 (31st December 2003: HK\$374,400,000) by the shareholders' funds of HK\$3,711,805,000 (31st December 2003: HK\$3,395,544,000).

As at 30th June 2004, 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\$316,801,000) (corresponding period of 2003: RMB336,420,000 (approximately HK\$317,198,000)) was paid out of profit and re-invested as development costs of the Leng Jiapu oil field during the Period.

During the Period, RMB55,887,000 (approximately HK\$52,694,000) (corresponding period of 2003: RMB21,000,000 (approximately HK\$19,800,000)) was injected out of profits into Karamay oilfield as development costs.

On 17th July 2003, the Group was awarded the Petroleum Concession No 1/2546/58 of the onshore exploration block number L21/43 by the Ministry of Energy of Thailand. The block is in exploration phase and HK\$13,622,000 (corresponding period of 2003: nil) was incurred for exploration activities of the block during the Period.

The oilfield in the Union of Myanmar is in exploration phase and the Group shared HK\$3,840,000 (corresponding period of 2003: nil) of the exploration expenses during the Period.

The Group also shared exploration expenses of HK\$15,489,000 in the Azerbaijan Gobustan Oilfield through the jointly controlled entity, Commonwealth Gobustan Limited.

The Company repurchased its own share 22,410,000 shares (corresponding period of 2003: 88,100,000 shares) with the amount of HK\$20,766,000 (corresponding period of 2003: HK\$57,737,000) during the Period.

In June 2004, 2003 final dividend of HK\$0.02 per share amounting HK\$95,130,000 (corresponding period of 2003: HK\$0.035 per share amounting HK\$170,064,000) was distributed to the shareholders of the Group.

### 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\$1,253,975,000 as at 30th June 2004.

The Group is in a sound financial position and is able to invest in new projects without financial difficulty.

## EMPLOYEE

On 30th June 2004, the Group had approximately 339 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, 22,410,000 shares of HK\$0.01 each of the Company were repurchased through HKSE and cancelled by the Company, 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\$	
May	<u>22,410,000</u>	0.95	0.89	<u>20,766</u>

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 2004, the interests of the directors in the shares of the Company, (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under section 352 of the SFO 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 2,653,957,342 shares in the Company as at 30th June 2004. 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 respectively.



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

Name	Date of grant	Exercise price HK\$	Options held at 1st January 2004	Options granted during the period	Options cancelled during the period	Options lapsed during the period	Options held at 30th June 2004	Expiry date
<b>Directors</b>								
Wang Mingcai	8th March 2001	0.41	20,000,000	-	-	-	20,000,000	7th March 2006
	26th April 2001	0.61	30,000,000	-	-	-	30,000,000	25th April 2006
Li Hualin	8th March 2001	0.41	20,000,000	-	-	-	20,000,000	7th March 2006
	26th April 2001	0.61	20,000,000	-	-	-	20,000,000	25th April 2006
Lin Jingao	26th April 2001	0.61	10,000,000	-	-	-	10,000,000	25th April 2006
Lau Wah Sum	8th January 2004	1.362	-	3,500,000	-	-	3,500,000	7th January 2009
Aubrey Li Kwok Sing	8th January 2004	1.362	-	3,500,000	-	-	3,500,000	7th January 2009
Cheng Cheng	25th June 2004	0.94	-	20,000,000	-	-	20,000,000	24th June 2009
<b>Employee:</b>	25th June 2004	0.94	-	5,000,000	-	-	5,000,000	24th June 2009
			<b>100,000,000</b>	<b>32,000,000</b>	<b>-</b>	<b>-</b>	<b>132,000,000</b>	

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 2004, the register of substantial shareholders maintained under section 336 of the SFO, showed that the Company has 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	2,653,957,342*

\* All shares are registered under the name of HKSCC Nominees Limited.

Sun World is a wholly owned subsidiary of CNPC and CNPC is accordingly deemed to have interest in the 2,653,957,342 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 2004.

## 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 2004.

By Order of the Board  
**Wang Mingcai**  
*Executive Chairman*

Hong Kong, 17th September 2004