

Management Discussions and Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

Operating results

The Group has recorded a turnover of HK\$1,790 million for the year ended 31st December 2000, representing an increase of 65% as compared with HK\$1,084 million for the previous year. The growth of turnover was due to the increase in weighted average oil price increasing from US\$15.0 per barrel to US\$24.6 per barrel.

The profit after taxation for the year was HK\$680 million, representing an increase of HK\$458 million or 206%, as compared with a profit after taxation of HK\$222 million for the previous year. The increase in weighted average oil selling price per barrel leading to the increase in both gross profit and turnover was the main reason for the increase in profit.

Liquidity and capital resources

On 31 December 2000, the aggregate assets of the Group were HK\$3,499 million, representing an increase of HK\$797 million or 30% as compared with the corresponding period of previous year.

The major changes of the assets are as follows:

	Increase/(decrease)
	HK\$'000
Oil property	(14,906)
Other non-current assets	12,142
Net amount due from trade debtor	(183,052)
Bank balances and cash	985,118
	<hr/> 799,302 <hr/>

At the date of the commencement of the Leng Jiapu Contract, the full acquisition cost of RMB1,008 million was paid according to the Leng Jiapu Contract. During the year, RMB245 million was paid as development of the said oil field in accordance with the contract.

According to the production sharing contract for the development of Karamay oil field, from the commencement date of the Contract until 31 December 2000, a total of US\$66,000,000 (approximately HK\$510,000,000) in cash was injected into Karamay oil field for the Infill Development Programme. During the year, RMB15 million was injected out of profits.

As at 31 December 2000, the Group had net cash of HK\$1,371,000,000, while the total liabilities (only comprise of current liabilities with no other liabilities) were merely 0.3 times of the shareholder's funds of the Group.

Use of Proceeds

In the year 2000, the Company did not issue any new share to the public.

Taking into account the cashflow from the operating activities, the Group as at 31 December 2000 had bank balances and cash of HK\$1,371,000,000.

NEW INVESTMENTS

e-commerce

In September 2000, the Group set up a Sino-foreign joint venture, 北京中油聯合信息技術有限公司 (the "Information Company"), in PRC with China Petroleum Economics and Information Research Center, CNPC and Asia Demand, Inc. According to the Agreement, the Group shall contribute RMB9.6 million (approximately HK\$9.1 million) into the Information Company as registered capital, representing 32% of the registered capital. The Group has fully injected the required capital into the Information Company in January 2001.

Manufacture of Steel Pipe

In recent years, western China has been under rapid development, with massive construction of transmission facilities for the transportation of natural gas from the western China to eastern China. These have boosted the demands for large diameter oil and natural gas pipes. At present, the factories in China for large diameter oil pipes are unable to satisfy the emerging market needs.

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In December 2000, the Group capitalized on the business opportunities by setting up a Sino-foreign joint venture, “華油鋼管有限公司” (the “Joint Venture”) with 華北石油管理局 (“管理局”), an operational entity owned and operated by CNPC, the ultimate parent company of the Company. According to the Agreement, the Group and 管理局 shall contribute RMB40,000,000 (approximately HK\$38,000,000) in cash as the registered capital of the Joint Venture respectively, each holding 50% interest in Joint Venture. The Group has fully injected its share of registered capital into the Joint Venture in January 2001.

The Joint Venture will engage in production and sales of welded steel pipes, and provision of the related technical services. With the experience of 管理局 in production and sales of oil pipes and natural gas pipes, the Joint Venture is capable of supplying high quality oil pipes for the domestic and foreign markets.