

# Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st December 2000.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are the exploration and production of crude oil in the People's Republic of China ("PRC") and Thailand.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 2000 are set out in the consolidated profit and loss account on page 24.

The directors recommend the payment of a final dividend of HK4 cents per share for the year ended 31st December 2000, totalling HK\$204,458,000.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 24 to the accounts.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$10,000 (1999: nil).

## FIXED ASSETS

Details of the movements in fixed assets and oil properties are set out in notes 12 and 13 to the accounts, respectively.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 59.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, 109,950,000 shares of HK\$0.01 each of the Company were repurchased by the Company through The Stock Exchange of Hong Kong Limited ("Stock Exchange"), 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\$	
October	81,360,000	0.620	0.520	47,105
December	28,590,000	0.470	0.445	13,164
	<u>109,950,000</u>			<u>60,269</u>

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

## DIRECTORS

The directors during the year and up to the date of this report were:

Mr Wang Mingcai	(appointed on 18th January 2001)
Mr Li Hualin	(appointed on 18th January 2001)
Mr Xu Tianshu	
Mr Lin Jingao	
Dr Lau Wah Sum	
Mr Aubrey Li Kwok Sing	
Mr Zhang Ruchun	(resigned on 18th January 2001)

In accordance with Articles 89 & 97 of the Company's Bye-Laws, Messrs Wang Mingcai, Li Hualin and Lin Jingao retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## DIRECTORS (CONTINUED)

None of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation.

Dr Lau Wah Sum, Independent Non-Executive Director, was appointed for a two-year term expiring on 31st December 2000. The appointment was further extended for another two years to 31st December 2002.

Mr Aubrey Li Kwok Sing, Independent Non-Executive Director, was appointed for a two-year term expiring on 29th July 2000. The appointment was further extended for another two years to 31st July 2002.

The terms of office of the Independent Non-Executive Directors are subject to retirement as required by the Company's Bye-Laws.

## BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

### Directors

#### **Mr Wang Mingcai** *(Executive Chairman)*

Age 55, graduated from Petroleum University of Beijing in 1970 with Bachelor's Degree in Petroleum Geology and was awarded the Certificate of Mastery in English from Zhongshan University in 1987. Mr Wang has more than 30 years' experience in the petroleum industry. He worked at Liaohe Oil Field as Engineer and Project Manager; Senior Engineer and Project Manager of China Offshore Oil Nanhai East Corp and Senior Oil Reservoir Engineer of the ACT (with Agip, Chevron and Texaco) Operation group. From 1993, Mr Wang has been assigned to be responsible for China National Petroleum Corporation ("CNPC") overseas projects. He was the President of CNPC International Venezuela Ltd and presently is the President of SAPET Development Corporation, U.S.A.. Mr Wang joined the Company as Executive Chairman in January 2001.

#### **Mr Li Hualin** *(Executive Vice-Chairman & Managing Director)*

Age 38, after graduated from South West Petroleum University in 1983 with Bachelor's Degree in Oil and Gas Exploration and Prospecting Engineering, Mr Li joined CNPC in the same year. He was the Deputy Director of CNPC office at Houston in the U.S.A.; Chairman & General Manager of CNPC Canada Ltd in Canada and Deputy General Manager of China National Oil and Gas Exploration and Development Corporation. In 2000, Mr Li was awarded the degree of Master of Business Administration from The University of Nebraska. He joined the Company as Executive Vice-Chairman & Managing Director in January 2001.

## BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

### Directors (continued)

#### **Mr Xu Tianshu** *(Executive Director)*

Age 34, graduated from China Petroleum University with Bachelor and Master Degree of Science in Management Engineering. Mr Xu joined CNPC in 1990. He worked at the former Shanghai Petroleum Exchange and Beijing Petroleum Exchange as Director of a division and Deputy Director of Petroleum Economy Division of CNPC Economy and Information Research Centre. He joined the Company in July 1998 and was appointed as Executive Director in December 1998.

#### **Mr Lin Jingao** *(Non-Executive Director)*

Age 56, graduated from the Beijing College of Petroleum, Department of Economics in 1967. Mr Lin has more than 30 years' experience in petroleum economics and financial management. He has worked at Sichuan Petroleum Administration Bureau as Deputy Chief of Economic Research. Since August 1994, Mr Lin worked as the Chief Financial Controller and Deputy Director of CNPC's Finance Department. In 1997, he joined the Company and CNPC Hong Kong (Holdings) Limited as Non-Executive Director.

#### **Dr Lau Wah Sum**, *LLD, JP (Independent Non-Executive Director)*

Age 73, is a registered Investment Adviser and Fellow of the Chartered Institute of Management Accountants. He is currently the President of W S Lau & Associates Limited and Chairman of Equity Holdings Limited. He serves the community as Chairman of The Land Development Corporation, Court Member of the University of Science and Technology of Hong Kong. He also sits on the Board of several listed companies in Hong Kong. He joined the Company as an Independent Non-Executive Director in August 1994.

#### **Mr Aubrey Li Kwok Sing** *(Independent Non-Executive Director)*

Age 51, was appointed as an Independent Non-Executive Director of the Company in 1998. He is a director of Management Capital Limited, a financial advisory and direct investment firm, and has over 27 years' experience in merchant banking and commercial banking. He is also a non-executive director of The Bank of East Asia, Limited, Café de Coral Holdings Limited, China Everbright International Limited and Chinney Alliance Group Limited. Mr Li has a Master of Business Administration from Columbia University and a Bachelor of Science in Civil Engineering from Brown University.

## BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

### Senior Management

#### **Mr Lau Hak Woon** (*General Manager, Finance and Company Secretary*)

Age 48, member of Hong Kong Society of Accountants in Hong Kong; fellow member of The Chartered Association of Certified Accountants in UK and Certified Management Accountant of the Society of Management Accountants of Ontario in Canada. Mr Lau has a Master of Business Administration from Newport University and more than 20 years' experience in accounting and financial management. He joined the Company in 1997. Before joining the Company, he was the Financial Controller of a large trading company in Hong Kong.

## DIRECTORS' INTERESTS IN CONTRACTS

On 15th January 1997, the Company entered into a consultancy agreement with W S Lau & Associates Limited of which Dr Lau Wah Sum is a shareholder and director. Pursuant to the agreement, W S Lau & Associates Limited provides general consultancy services to the Company with effect from 1st January 1997 in return for a consultancy fee of HK\$350,000 per annum. The agreement shall continue until terminated by either party by six months' written notice.

Save for the above, no other contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN SHARES

At 31st December 2000, the interests of the directors and chief executive 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, Li Hualin and Xu Tianshu are directors of Sun World Limited ("Sun World") which beneficially owned 2,862,937,342 shares in the Company as at 31st December 2000. Sun World is a wholly owned subsidiary of CNPC, the Company's ultimate holding company incorporated in the PRC.
- (b) Pursuant to a resolution passed on 23rd October 1991, the directors of the Company may, at their discretion, invite executives of any companies within the Group, including executive directors, to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Company's executive share option scheme.

## DIRECTORS' INTERESTS IN SHARES (CONTINUED)

Details of options granted by the Company are as follows:

Name	Date of issue	Exercise price HK\$	Options outstanding at year end	Expiry date
Lin Jingao	16th June 1997	1.31	20,000,000	15th June 2002
Lau Hak Woon	16th June 1997	1.39	5,000,000	15th June 2002
	3rd March 1998	1.61	5,000,000	3rd March 2003
Xu Tianshu	12th May 1999	0.91	20,000,000	11th May 2004
Zhang Ruchun	16th June 1997	1.31	20,000,000	15th June 2002
(resigned on 18th January 2001)				

Subsequent to the year end, Messrs Wang Mingcai and Li Hualin were granted 20,000,000 options each at an exercise price of HK\$0.41 expiring on 7th March 2006.

Save for the above, at no time during the year was the Company, its fellow subsidiaries or its holding company a party to any arrangements to enable the directors or chief executive 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 31st December 2000, the register of substantial shareholders maintained under section 16(1) of the Securities (Disclosure of Interests) Ordinance, showed that the Company has been notified of the following interests, being 10% or more of the Company's issued share capital:

Name	Number of shares
Sun World	2,862,937,342*

\* 2,513,472,468 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 2,862,937,342 shares held by Sun World.

# Report of the Directors

(Continued)

## DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year and up to the date of this report, the following director is considered to have interests in the businesses which compete or likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Rules Governing the Listing of Securities on The Stock Exchange ("Listing Rules") as set out below:

<b>Name of director</b>	<b>Name of entity which businesses are considered to compete or likely to compete with the businesses of the Group</b>	<b>Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group</b>	<b>Nature of interest of director in entity</b>
Mr Wang Mingcai	SAPET Development Corporation, U.S.A.	Exploration and production of crude oil in Peru	President

As the board of directors of the Company is independent from the board of the above mentioned company, and none of the directors can control the board of the Company. The Group is therefore capable of carrying on its business independently of, and at arm's length from the said competing businesses.

## PRE-EMPTIVE RIGHTS

No pre-emptive rights exist under Bermuda Law in relation to issues of new shares of the Company.

## TRANSFER OF CNPC'S INTERESTS IN OIL PRODUCTION SHARING CONTRACTS

As mentioned in note 1 to the accounts, the Group presently has two oil production sharing contracts, namely the Xinjiang Contract and the Leng Jiapu Contract, both of which are production sharing arrangements with operational entities owned and operated by CNPC.

According to the transfer agreement dated 10th March 2000 entered into between CNPC and PetroChina Company Limited ("PetroChina"), a subsidiary of CNPC also listed in Hong Kong, CNPC had transferred its interests in the Xinjiang Contract and the Leng Jiapu Contract to PetroChina in December 1999.

## TRANSFER OF CNPC'S INTERESTS IN OIL PRODUCTION SHARING CONTRACTS (CONTINUED)

In the opinion of the directors, the Group's interests in the Xinjiang Contract and the Leng Jiapu Contract remain unaltered and there has been no significant adverse effect to the overall financial position of the Group.

## CONNECTED TRANSACTIONS

On 11th September 2000, the Company entered into an agreement with China Petroleum Economics and Information Research Centre, an operational entity owned and operated by CNPC, and AsiaDemand, Inc., a third party, regarding the establishment of a sino-foreign joint venture company (the "Information Company"). The Company shall contribute RMB9,600,000 (approximately HK\$9,100,000) to the registered capital of the Information Company, representing 32% of its registered capital.

On 11th December 2000, the Company entered into an agreement with 華北油田管理局, an operational entity owned and operated by CNPC, to establish of a sino-foreign joint venture company, 華油鋼管有限公司 ("鋼管廠"). The Company shall contribute RMB40,000,000 (approximately HK\$38,000,000) to the registered capital of 鋼管廠, representing 50% of its registered capital.

In addition to the above, the Group entered into certain transactions with related parties as set out in note 26 to the accounts which also constitute connected transactions under the Chapter 14 of the Listing Rules.

The Independent Non-Executive Directors, Dr Lau Wah Sum and Mr Aubrey Li Kwok Sing, have reviewed the above transactions and confirmed that these transactions are in the ordinary and usual course of business, on normal commercial terms and are fair and reasonable so far as the interests of the shareholders of the Company are concerned.

## MANAGEMENT CONTRACTS

Save for the Entrustment Contracts as mentioned in notes 30 and 31 to the accounts in relation to the management of the oil production under the Xinjiang Contract and the Leng Jiapu Contract, no other contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentage of the Group's purchases and sales attributable to major suppliers and customers are as follows:

Percentage of purchases attributable to the Group's largest supplier	39%
Percentage of purchases attributable to the Group's five largest suppliers	68%
Percentage of sales attributable to the Group's largest customer	65%
Percentage of sales attributable to the Group's five largest customers	99%

Liaohe Petroleum Exploration Bureau ("LPEB") is the Group's largest supplier.

Liaohe Petroleum Company ("LPC") is the Group's largest customer.

LPEB is an operational entity owned and operated by CNPC.

LPC is an operational entity owned and operated by PetroChina.

Save for the above, none of the directors, their associates or any shareholders which to the knowledge of the directors owns more than 5% of the Company's share capital has an interest in the major suppliers or customers noted above.

## CORPORATE GOVERNANCE

During the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

## AUDIT COMMITTEE

Pursuant to the Listing Rules, an audit committee, comprising two independent non-executive directors, namely Dr Lau Wah Sum and Mr Aubrey Li Kwok Sing, was established on 8th December 1998.

By reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the board of directors of the Company on the same date. The principal activities of the audit committee include the review and supervision of the Group’s financial reporting process and internal controls.

## AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

PricewaterhouseCoopers replaced Price Waterhouse in 1999 following the merger with Coopers & Lybrand.

On behalf of the board

**Wang Mingcai**

*Executive Chairman*

Hong Kong, 24th April 2001