Notes to the Accounts

1 PRINCIPAL ACTIVITIES

The principal activities of the Group are the exploration and production of crude oil in the People's Republic of China ("PRC") and Thailand.

The oil operation in the PRC is conducted through production sharing arrangements with operational entities owned and operated by China National Petroleum Corporation ("CNPC"), the Company's ultimate holding company, whereby the Group is entitled to a fixed percentage of production in accordance with the respective oil production sharing contracts entered into with these entities.

The Group has two production sharing arrangements. On 1st July 1996, the Group entered into an oil production sharing contract (the "Xinjiang Contract") to develop and produce crude oil in Xinjiang Uygur Autonomous Region, the PRC. On 30th December 1997, the Group entered into another oil production sharing contract (the "Leng Jiapu Contract") to develop and produce crude oil in Liaohe, Liaoning Province, the PRC. Further details in relation to these contracts and the Group's share of results and net assets in these arrangements are shown in notes 30 and 31.

2 PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with the accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention.

(a) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Consolidation (continued)

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Accounting for production sharing contracts

Production sharing contracts constitute jointly controlled operations. The Group's interests in production sharing contracts are accounted for in the consolidated accounts on the following bases:

(i) the assets that the Group controls and the liabilities that the Group incurs; and

(ii) the share of expenses that the Group incurs and its share of revenue from the production according to the terms stipulated in these contracts.

(c) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation.

Depreciation is provided at rates sufficient to write off their cost over their estimated useful lives on a straight line basis at the following annual rates:

Furniture and fixtures	25%
Motor vehicles	25%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their estimated useful lives to the Group.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Fixed assets and depreciation (continued)

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(d) Oil properties

Oil properties are accounted for using the successful-efforts costing method whereby costs including lease acquisition costs, lease of equipment and drilling costs associated with exploration efforts which result in the discovery of proved reserves and costs associated with production wells are capitalised.

Exploration costs are capitalised when incurred pending determination of commercial reserves. Should the efforts be determined unsuccessful, such costs are then taken to the profit and loss account.

Depletion and depreciation of capitalised costs of oil producing properties is calculated on the unit-of-production basis over the total proved reserves of the relevant area.

Depreciation of other equipment, furniture and fixtures (capitalised in oil properties) is provided on a straight line basis at annual rates of between 16.67% and 20%.

Major costs incurred in restoring oil properties to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over the total proved reserves of the relevant area.

The carrying amounts of oil properties are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have been discounted in determining the recoverable amount.

The gain or loss on disposal of an oil property is the difference between the net sales proceeds and the carrying amount of the relevant oil property, and is recognised in the profit and loss account.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(e) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sale proceeds less estimated selling expenses.

(g) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Rentals payable net of any incentives received from the lessors are charged to the profit and loss account over the periods of the respective leases on a straight line basis.

(h) Deferred taxation

Deferred taxation is 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 is expected to be payable or recoverable in the foreseeable future.

(i) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising therefrom are dealt with as a movement in reserves.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Retirement benefits costs

The Group operated a defined contribution scheme for its employees in Hong Kong. Contributions to the scheme by the Group and employees were calculated on 5% to 12.5% of employee's basic salaries, and were expensed as incurred. The assets of the scheme were held separately from those of the Group in an independently administered fund. On 1st December 2000, the scheme was terminated with all its underlying assets transferred to a provident fund scheme registered under the Mandatory Provident Fund Scheme Ordinance.

The Group also contributes to employee pension schemes established by municipal governments in respect of joint ventures in the PRC. The municipal governments undertake to assume the retirement benefits obligations of all existing and future retired employees of these joint ventures. Contributions to these schemes are charged to the profit and loss account as incurred.

(k) Revenue recognition

Revenue from the sale of crude oil is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from the sale of marina club debentures and wet berths is recognised at the time the transfer of marina club debentures and wet berths is approved by the relevant issuing organisation.

Rental income is recognised on a straight line accrual basis over the terms of the respective leases.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(l) Related parties

Related parties are companies or operational entities, outside the Group, which are owned and operated, whether directly or indirectly, by CNPC or PetroChina Company Limited, a listed subsidiary of CNPC.

3 TURNOVER AND SEGMENT INFORMATION

Turnover represents proceeds from the sale of crude oil (net of sales tax), sale of marina club debentures and web berths and the leasing of wet berths.

Analyses of the Group's turnover and contribution to profit before taxation by principal activity and by geographical segment are as follows:

(a) Analysis by principal activity

	2000	1999
	HK$'000	HK$'000
(i) Turnover		
Sale of crude oil	**1,789,261**	1,083,275
Others	**1,187**	673
	1,790,448	1,083,948
(ii) Contribution to profit before taxation		
Sale of crude oil	**944,291**	364,383
Others	**220**	415
	944,511	364,798
Corporate expenses (net)	**(14,902)**	(24,641)
	929,609	340,157

3 TURNOVER AND SEMENT INFORMATION (CONTINUED)

(b) Analysis by geographical segment

	2000 HK$'000	1999 HK$'000
(i) Turnover		
Mainland China	**1,748,019**	1,061,480
Thailand	**41,242**	21,795
Hong Kong	**1,187**	673
	1,790,448	1,083,948
(ii) Contribution to profit before taxation		
Mainland China	**939,351**	364,399
Thailand	**4,940**	(16)
Hong Kong	**220**	415
	944,511	364,798
Corporate expenses (net)	**(14,902)**	(24,641)
	929,609	340,157

4 OTHER REVENUES

	2000 HK$'000	1999 HK$'000
Bank interest income	**12,789**	8,125
Refund of PRC income tax resulting from reinvestment of profits generated from the Xinjiang Contract	**4,615**	4,607
Others	**51**	225
	17,455	12,957

5 FINANCE COST

The amount represents interest expense on loan from the immediate holding company (note 21).

6 PROFIT BEFORE TAXATION

	2000 HK$'000	1999 HK$'000
Profit before taxation is arrived at after charging the following:		
Auditors' remuneration	**1,981**	1,981
Depreciation of fixed assets	**489**	418
Depletion and depreciation of oil properties	**268,593**	176,536
Operating lease rental expense in respect of land and buildings	**970**	970
Wirte-off of oil producing properties	**801**	–
Staff costs *(note)*	**9,973**	8,407
Retirement benefits costs	**479**	558

Note: The amount includes the Group's share of the staff costs of the PRC joint ventures amounting to approximately HK$4,943,000 (1999: HK$2,231,000).

7 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Details of the emoluments paid to the directors are as follows:

	2000 HK$'000	1999 HK$'000
Fees	**200**	200
Salaries and other emoluments	**2,240**	3,500
Retirement benefits costs	**244**	304
	2,684	4,004

The emoluments of the directors fell within the following bands:

	Number of directors	
Emolument bands (HK$)	2000	1999
Nil – 1,000,000	**4**	4
1,000,001 – 1,500,000	**1**	2
	5	6

Remuneration paid to independent non-executive directors for the year represents fees amounting to HK$200,000 (1999: HK$200,000).

None of the directors has waived the right to receive their emoluments.

7 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONTINUED)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (1999: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (1999: two) highest paid individuals during the year are as follows:

	2000	1999
	HK$'000	HK$'000
Salaries and other emoluments	**2,016**	1,632
Retirement benefits costs	**195**	141
	2,211	1,773

	Number of individuals	
Emolument bands (HK$)	**2000**	1999
Nil – 1,000,000	**2**	1
1,000,001 – 1,500,000	**1**	1
	3	2

8 TAXATION

	2000	1999
	HK$'000	HK$'000
Hong Kong profits tax		
Underprovision in prior years	**–**	75
PRC income tax		
Current	**233,022**	77,802
Deferred (note 25)	**16,857**	40,446
	249,879	118,323

8 TAXATION (CONTINUED)

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (1999: nil).

Pursuant to an approval from the 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% (1999: 30%) for three years commencing from 1st January 2000 to 31st December 2002.

The taxable income in respect of the oil production under the Leng Jiapu Contract is subject to the income tax rate of 33% (1999: 33%) for the year.

9 PROFIT AVAILABLE FOR APPROPRIATION

Profit available for appropriation is dealt with in the accounts of the Company to the extent of HK$750,209,000 (1999: HK$148,639,000).

10 DIVIDEND

	2000	1999
	HK$'000	HK$'000
Proposed final dividend of HK4 cents (1999: nil) per share	**204,458**	–

The amount provided for the 2000 proposed final dividend is based on 5,111,443,512 shares in issue as at 24th April 2001.

11 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year of HK$679,730,000 (1999: HK$221,834,000) and the weighted average number of 5,282,064,964 shares (1999: 5,300,233,512 shares) in issue during the year.

Diluted earnings per share is not presented as the potential ordinary shares are anti-dilutive.

12 FIXED ASSETS

	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Group			
Cost			
At 1st January 2000	1,865	1,710	3,575
Additions	3	–	3
At 31st December 2000	1,868	1,710	3,578
Accumulated depreciation			
At 1st January 2000	523	1,358	1,881
Charge for the year	388	101	489
At 31st December 2000	911	1,459	2,370
Net book value			
At 31st December 2000	957	251	1,208
At 31st December 1999	1,342	352	1,694
Company			
Cost			
At 1st January 2000	1,814	403	2,217
Additions	3	–	3
At 31st December 2000	1,817	403	2,220
Accumulated depreciation			
At 1st January 2000	472	51	523
Charge for the year	388	101	489
At 31st December 2000	860	152	1,012
Net book value			
At 31st December 2000	957	251	1,208
At 31st December 1999	1,342	352	1,694

13 OIL PROPERTIES

	Group	
	2000	1999
	HK$'000	HK$'000
Cost		
At 1st January	**2,374,678**	2,129,415
Translation differences	**(9,337)**	(2,060)
Additions	**252,916**	247,780
Write-off/disposals	**(1,054)**	(457)
At 31st December	**2,617,203**	2,374,678
Accumulated depletion and depreciation		
At 1st January	**361,034**	185,723
Translation differences	**(10,855)**	(1,166)
Charge for the year	**268,593**	176,536
Write-off/written back on disposals	**(253)**	(59)
At 31st December	**618,519**	361,034
Net book value		
At 31st December	**1,998,684**	2,013,644

14 SUBSIDIARIES

	Company	
	2000	1999
	HK$'000	HK$'000
Unlisted shares, at 1991 directors' valuation	**156,034**	156,034
Provision for diminution in value	**(110,087)**	(110,087)
	45,947	45,947
Amounts due from subsidiaries less provision	**1,715,408**	1,912,319
Dividends receivable	**754,290**	156,579
	2,515,645	2,114,845

Details of principal subsidiaries, which in the directors' opinion, materially affect the results and/or net assets of the Group are set out in note 32.

15 OTHER NON-CURRENT ASSETS

	Group		Company	
	2000	1999	**2000**	1999
	HK$'000	HK$'000	**HK$'000**	HK$'000
Payments on account of proposed joint venture	**19,110**	–	**19,110**	–
Others	**1,928**	8,896	**–**	–
	21,038	8,896	**19,110**	–

16 INVENTORIES

	Group	
	2000	1999
	HK$'000	HK$'000
Crude oil	**7,637**	10,305
Marina club debentures and wet berths	**17,548**	17,762
	25,185	28,067

17 TRADE RECEIVABLES

	Group	
	2000	1999
	HK$'000	HK$'000
Trade receivables	**7,359**	2,934
Amounts due from related parties (note a)	**62,803**	250,280
	70,162	253,214

(a) The amounts represent trade receivables arising from transactions entered into in the normal course of business.

(b) The Group grants a credit period of 30 to 60 days to its customers.

17 TRADE RECEIVABLES (CONTINUED)

The ageing analysis of trade receivables is as follows:

	Group	
	2000	1999
	HK$'000	HK$'000
Within three months	**70,159**	232,930
Between three and six months	**–**	20,284
Over six months	**3**	–
	70,162	253,214

18 BANK BALANCES AND CASH

As at 31st December 2000, the bank balances of the Group of RMB391,655,000 (approximately HK$369,277,000) (1999: RMB134,756,000, approximately HK$126,520,000) and RMB863,166,000 (approximately HK$813,847,000) (1999: RMB260,999,000, approximately HK$245,046,000) were deposited in the bank accounts of the PRC operating entities of the Xinjiang Contract and the Leng Jiapu Contract, respectively. These amounts can be remitted to the Group's bank accounts in Hong Kong through the application of remittance of foreign exchange with The State Administration for Exchange Control.

19 TRADE PAYABLES

	Group	
	2000	1999
	HK$'000	HK$'000
Trade payables	**49,395**	26,196
Amounts due to related parties (note a)	**18,147**	–
	67,542	26,196

(a) The amounts represent trade payables arising from transactions entered into in the normal course of business.

19 TRADE PAYABLES (CONTINUED)

The ageing analysis of trade payables is as follows:

	Group	
	2000	1999
	HK$'000	HK$'000
Within three months	**54,316**	14,956
Between three and six months	**4,326**	5,931
Over six months	**8,900**	5,309
	67,542	26,196

20 OTHER PAYABLES AND ACCRUALS

Amounts due to related parties of HK$153,440,000 (1999: HK$49,370,000) are included in the other payables and accruals which are unsecured, interest free and have no fixed terms of repayment.

21 LOAN FROM THE IMMEDIATE HOLDING COMPANY

The loan from the immediate holding company was unsecured, borne interest at prime rate in Hong Kong for US Dollars borrowing and was fully repaid during the year.

22 DEFERRED CHARGE

	Group	
	2000	1999
	HK$'000	HK$'000
At 1st January	**127,624**	121,170
Translation differences	**842**	(77)
Movement for the year (note 30(a))	**(3,579)**	6,531
At 31st December	**124,887**	127,624
Representing:		
Group's share of investment recovery of oil property recorded by the Joint Development Department ("JDD")	**240,445**	191,688
Depletion and depreciation charge incurred by the Group	**(115,558)**	(64,064)
	124,887	127,624

In accordance with the Xinjiang Contract, with effect from 1st September 1996, the Group is entitled to a 54% share of revenue and expenses arising from the operations recorded by the JDD including a 54% share of the depletion and depreciation of oil property charged for the year in the accounts of JDD. However, pursuant to the terms of the Xinjiang Contract, CNPC contributed all its share of the oil property assets at the commencement of the Xinjiang Contract whereas the Group contributed its share over a period of two years. Due to the timing difference in their respective contributions, the Group has an investment recovery in excess of the depletion and depreciation charge incurred by the Group, resulting in a deferred charge which is carried forward.

23 SHARE CAPITAL

	2000 HK$'000	1999 HK$'000
Authorised:		
8,000,000,000 shares of HK$0.01 each	**80,000**	80,000
Issued and fully paid:		
At 1st January	**53,002**	53,002
Repurchase of own shares	**(1,099)**	–
At 31st December		
5,190,283,512 (1999: 5,300,233,512) shares of HK$0.01 each	**51,903**	53,002

During the year, 109,950,000 shares of HK$0.01 each were repurchased by the Company, 81,360,000 shares of which were cancelled during the year and the remaining 28,590,000 shares were cancelled on 16th January 2001.

At 31st December 2000, the Company had outstanding options granted under the Company's executive share option scheme to directors and a senior executive to subscribe for a total of 70,000,000 shares of the Company. Details of outstanding options are as follow:

Date of issue	**Exercise price HK$**	**Options outstanding at year end**	**Expiry date**
16th June 1997	1.31	20,000,000	15th June 2002
16th June 1997	1.31	20,000,000	15th June 2002
16th June 1997	1.39	5,000,000	15th June 2002
3rd March 1998	1.61	5,000,000	3rd March 2003
12th May 1999	0.91	20,000,000	11th May 2004
		70,000,000	

Subsequent to the year end, a total of 40,000,000 options at exercise price of HK$0.41 expiring on 7th March 2006 were granted by the Company to two directors of the Company.

24 RESERVES

	Contributed surplus HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Retained profit HK$'000	Total HK$'000
Group					
At 1st January 1999	134,323	1,646,608	(19,791)	149,246	1,910,386
Translation differences	–	–	1,112	–	1,112
Profit for the year retained	–	–	–	221,834	221,834
At 31st December 1999	134,323	1,646,608	(18,679)	371,080	2,133,332
At 1st January 2000	134,323	1,646,608	(18,679)	371,080	2,133,332
Translation differences	–	–	12,259	–	12,259
Repurchase of own shares	–	(59,170)	–	–	(59,170)
Profit for the year retained	–	–	–	475,272	475,272
At 31st December 2000	134,323	1,587,438	(6,420)	846,352	2,561,693
Company					
At 1st January 1999	133,795	1,646,608	–	34,701	1,815,104
Profit for the year retained	–	–	–	148,639	148,639
At 31st December 1999	133,795	1,646,608	–	183,340	1,963,743
At 1st January 2000	133,795	1,646,608	–	183,340	1,963,743
Repurchase of own shares	–	(59,170)	–	–	(59,170)
Profit for the year retained	–	–	–	545,751	545,751
At 31st December 2000	133,795	1,587,438	–	729,091	2,450,324

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition.

Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is distributable to shareholders. Accordingly, total distributable reserves of the Company amount to HK$862,886,000 (1999: HK$317,135,000) as at 31st December 2000.

25 DEFERRED TAXATION

	Group	
	2000	1999
	HK$'000	HK$'000
At 1st January	**65,322**	24,914
Translation differences	**468**	(38)
Transfer from profit and loss account (note 8)	**16,857**	40,446
At 31st December	**82,647**	65,322

Deferred taxation is provided for the excess of depreciation allowances claimed for tax purposes in the PRC over the depletion and depreciation of oil properties as recorded by the Group.

As at 31st December 2000, the Group's overseas subsidiaries had tax losses carried forward for the Thailand income tax purposes amounting to HK$109,659,000 (1999: HK$111,099,000). The tax losses are available to reduce future taxable income, if any, however, the deferred tax effect amounting to HK$54,830,000 (1999: HK$55,949,000) has not been accounted for as the losses would not, in the opinion of the directors, be utilised in the foreseeable future.

26 RELATED PARTY TRANSACTIONS

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

(a) In connection with the Xinjiang Contract entered into in July 1996, the Group has entered into the following transactions with related parties:

	Note	2000 HK$'000	1999 HK$'000
Sale of crude oil	(i)	**594,526**	351,123
Operating management	(ii)	**157,598**	222,105
Operations and support services fee		–	251
Assistance fee		**211**	210
Construction work		–	36,491
Perforation fee		–	1,438
Development costs		–	7,033

Notes:

(i) The oil price was set by CNPC with reference to the trend of the international oil price.

(ii) In 1999, the amount represented operating costs paid in accordance with the terms of the operating contract on the basis of RMB455 per tonne of oil produced and a bonus of RMB10 for each tonne of crude oil produced in excess of 804,000 tonnes. The operating contract was expired on 31st July 2000.

Subsequent to the expiry of the operating contract, various fees were 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, was 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.

26 RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Note	2000 HK$'000	1999 HK$'000
Sale of crude oil	(i)	**1,153,493**	710,357
Operating management	(ii)	**223,627**	174,529
Drilling fee	(iii)	**86,265**	85,542
Operations and support services fee		**713**	427
Assistance fee		**272**	272
Surveying fee	(iv)	**4,815**	1,584
Perforation fee	(v)	**5,321**	5,441
Quantifying fee	(vi)	**2,007**	980
Construction work	(vii)	**4,884**	14,471
Purchase of equipment	(viii)	**8,468**	9,998

Notes:

(i) The oil price was set by CNPC with reference to the trend of the international oil price.

(ii) Various fees were 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, was set with reference to the rates used in the region.

(iii) The drilling fees were charged in accordance with the terms of the oil drilling contracts which ranged from RMB982 (approximately HK$926) to RMB1,022 (approximately HK$964) (1999: RMB908 to RMB929) per metre.

(iv) The surveying fees were paid at RMB0.82 (approximately HK$0.77) (1999: RMB0.72) per conditioned metre which was in accordance with the terms of the surveying contracts.

(v) The perforation fees were charged at RMB278 (approximately HK$262) (1999: RMB266) per standard shoot which was in accordance with the terms of the perforation contract.

(vi) The quantifying fees were charged in accordance with the terms of the quantifying contracts which ranged from RMB19.4 (approximately HK$18.29) to RMB27.7 (approximately HK$26.12) (1999: RMB15.7 to RMB19.6) per metre.

(vii) The fees paid for construction services in respect of building of oil pipes were governed by contracts which were set with reference to the rates used in the region.

26 RELATED PARTY TRANSACTIONS (CONTINUED)

(viii) Purchases of equipment, such as oil pumps and steam injection machines, were made for the development of oil property in the contract area. The prices charged were governed by contracts which were set with reference to the rates used in the region.

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.

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

	Note	**2000** HK$'000	1999 HK$'000
Lease rental of rig and logging equipment	(i)	**6,311**	–
Lease rental of cementing equipment	(ii)	**271**	–
Purchase of consumables		**305**	–

Notes:

(i) Lease rental of rig and logging equipment was charged in accordance with the terms of the drilling rig lease agreement at the rate of US$6,652 (approximately HK$51,000) per day.

(ii) Lease rental of cementing equipment was charged in accordance with the terms of the cementing equipment lease agreement at the rate of US$595 (approximately HK$4,600) per day.

(d) Interest expense amounting to HK$3,474,000 (1999: HK$6,323,000) was paid to the immediate holding company (note 21).

(e) Rental expense amounting to HK$560,000 (1999: HK$560,000) was paid to a fellow subsidiary in accordance with a lease agreement at a monthly rate of HK$46,650.

27 CONTINGENCIES

The Company was the subject of an investigation by an Inspector appointed by the Financial Secretary on 12th August 1992 under the Hong Kong Companies Ordinance. The investigation by the Inspector was completed and the Company received a copy of the Inspector's Report dated 28th August 1993.

The completed investigation by the Inspector of the affairs of the Company since 1st January 1990 and the on-going investigations by the Commercial Crime Bureau ("CCB") may uncover losses suffered by the Company or claims by or against it, and to that extent there may be contingent assets or liabilities to be brought into account. The directors are, however, of the opinion, that based on the evidence made available to them there are no contingent liabilities that would have a material effect on the financial position of the Company. No recognition of any contingent assets that may exist has been made in the accounts as the recovery is uncertain. The contents of the Inspector's Report is still being investigated by CCB and the Company will, on advice, and in the light of any new facts which may still emerge, take such action as the directors deem appropriate having regard to the best interests of the Company.

28 COMMITMENTS

(a) Capital commitments

	Group		Company	
	2000	1999	**2000**	1999
	HK$'000	HK$'000	**HK$'000**	HK$'000
Contracted but not provided for				
Development cost under the Leng Jiapu Contract	**316,802**	14,000	**–**	–
Investments in joint ventures	**27,909**	–	**27,909**	–
	344,711	14,000	**27,909**	–

28 COMMITMENTS (CONTINUED)

(b) Lease commitments

	Group		Company	
	2000	1999	**2000**	1999
	HK$'000	HK$'000	**HK$'000**	HK$'000
Operating lease commitments in respect of land and buildings at 31st December payable in the next twelve months, analysed according to the period in which the lease expires, are as follows:				
Expiring in the first year	**–**	410	**–**	–
Expiring in the second to fifth year inclusive	**925**	746	**560**	746
	925	1,156	**560**	746

29 NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before taxation to net cash inflow from operating activities

	2000 HK$'000	1999 HK$'000
Profit before taxation	**929,609**	340,157
Depletion and depreciation of oil property	**268,593**	176,536
Depreciation of fixed assets	**489**	418
Write-off/(gain) on disposal of		
Fixed assets	**–**	(2)
Oil producing properties	**801**	(6)
Net interest income	**(9,315)**	(1,802)
Decrease in other non-current assets	**7,063**	4,299
Decrease/(increase) in inventories	**2,882**	(9,437)
Decrease/(increase) in trade and other receivables	**181,543**	(232,065)
(Decrease)/increase in loan from		
the immediate holding company	**(93,874)**	93,874
Increase in trade and other payables	**166,808**	35,057
Decrease in amount due to the ultimate holding company	**(490)**	(188,526)
(Decrease)/increase in amount due to a fellow subsidiary	**(270)**	270
(Decrease)/increase in deferred charge	**(2,737)**	6,454
Exchange difference	**14,535**	1,874
Net cash inflow from operating activities	**1,465,637**	227,101

30 OIL PRODUCTION SHARING CONTRACT – XINJIANG CONTRACT

Pursuant to the Xinjiang Contract, the Group agreed to fund an enhanced oil recovery programme (the "Infill Development Programme") to be implemented under the Xinjiang Contract thereby reducing the inter-well spacing and improving oil recovery in the area as defined in the Xinjiang Contract (the "Contract Area"), at an estimated cost of US$66.0 million (approximately HK$510 million), in exchange for a 54% share in the oil production from the Contract Area.

Pursuant to the Xinjiang Contract, the Group shall bear all the costs required for the Infill Development Programme and share in the production from the Contract Area which shall be allocated (after deduction of local taxes and corporate income tax) firstly towards operating costs recovery and thereafter in the proportion of 54% to the Group and 46% to CNPC towards investment recovery and profit.

30 OIL PRODUCTION SHARING CONTRACT – XINJIANG CONTRACT (CONTINUED)

The Xinjiang Contract provides twelve consecutive years of production sharing commencing from the completion of the Infill Development Programme or such earlier date as may be determined by the Joint Management Committee (the "JMC") set up by the Group and CNPC pursuant to the Xinjiang Contract to oversee oil operations in the Contract Area. The JMC resolved that the Group is entitled to oil production sharing as from 1st September 1996.

In connection with the Xinjiang Contract, the Group has also entered into an Entrustment Contract with an operational entity wholly owned and operated by CNPC, whereby the latter was entrusted to take up the responsibility as an operator. The Entrustment Contract was expired on 31st July 2000 and the Group has resumed the responsibility as an operator under the Xinjiang Contract thereafter.

Set out below is the summary of assets, liabilities and results for the year recognised in the consolidated accounts in relation to the Group's interest in the Xinjiang Contract:

	2000	1999
	HK$'000	HK$'000
(a) Results for the year		
Turnover	**594,526**	351,123
Operating profit	**333,927**	67,003
Operating profit is arrived at after charging/(crediting) the following:		
Depletion and depreciation of oil properties	**51,134**	47,513
Deferred charge (note 22)	**(3,579)**	6,531
(b) Assets and liabilities		
Oil properties	**570,227**	611,279
Current assets	**433,196**	134,243
Current liabilities (excluding amount due to group company)	**(206,036)**	(154,225)
Amount due to group company	**(335,055)**	(96,066)
Net assets	**462,332**	495,231

31 OIL PRODUCTION SHARING CONTRACT – LENG JIAPU CONTRACT

Pursuant to the Leng Jiapu Contract, the Group agreed to acquire 70% of the production sharing interest for RMB1,008 million (approximately HK$942 million) and to fund its share of cost of the development carried out for the realisation of oil production (the "Development Operations") in the area as defined in the Leng Jiapu Contract (the "Contract Area"), at an estimated cost of US$65.5 million (approximately HK$506 million) in the first two years of the development period and be further responsible for 70% of the development costs after the first two years, in exchange for a 70% share in the oil production from the Contract Area.

Pursuant to the Leng Jiapu Contract, the Group shall bear 70% of the costs required for the Development Operations in the Contract Area and share in the production from the Contract Area which shall be allocated (after deduction of local taxes and corporate income tax) firstly towards operating costs recovery and thereafter in the proportion of 70% to the Group and 30% to CNPC towards investment recovery and profit.

The Leng Jiapu Contract provides twenty consecutive years of production sharing commencing from the completion of the Development Operations. The production sharing period commenced on 1st March 1998.

In connection with the Leng Jiapu Contract, the Group has also entered into an Entrustment Contract with an operational entity owned and operated by CNPC, whereby the latter is entrusted to take up the responsibility as an operator. Under the Entrustment Contract, a Joint Development Management Organisation was established for the performance of the contractual responsibilities under the operatorship.

31 OIL PRODUCTION SHARING CONTRACT – LENG JIAPU CONTRACT (CONTINUED)

Set out below is the summary of assets, liabilities and results for the year recognised in the consolidated accounts in relation to the Group's interest in the Leng Jiapu Contract:

	2000	1999
	HK$'000	HK$'000
(a) Results for the year		
Turnover	**1,153,493**	710,357
Operating profit	**605,424**	297,396
Operating profit is arrived at after charging the following:		
Depletion and depreciation of oil property	**206,111**	118,513
(b) Assets and liabilities		
Oil properties	**1,266,842**	1,249,082
Current assets	**825,649**	498,793
Current liabilities (excluding amount due to group company)	**(258,046)**	(162,594)
Amount due to group company	**(497,334)**	(293,217)
Net assets	**1,337,111**	1,292,064
(c) Commitments		
Authorised but not contracted for	**316,802**	14,000

32 PRINCIPAL SUBSIDIARIES

As at 31st December 2000

	Place of incorporation	Particulars of issued shares held	Percentage of equity shares held By the Company	Percentage of equity shares held By the Group
Investment holding				
Operated in Hong Kong				
First South China Capital Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100
Fore-Tech Company Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100
FSC (B.V.I.) Limited	British Virgin Islands	50,000 ordinary shares of US$1 each	100	100
FSC Investment Holdings Limited	Hong Kong	2,223,966,170 ordinary shares of HK$0.10 each	–	100
Operated in Thailand				
Thai Offshore Petroleum Limited	Thailand	1,750,000 ordinary shares of Baht100 each (fully paid up) 1,250,000 ordinary shares of Baht100 each (25% paid up)	–	74
Oil exploration and production				
Operated in Thailand				
Central Place Company Limited	Hong Kong	160 ordinary shares of HK$10 each	–	100
Sino-Thai Energy Limited	Thailand	1,200,000 ordinary shares of Baht100 each	–	100

32 PRINCIPAL SUBSIDIARIES (CONTINUED)

As at 31st December 2000

	Place of incorporation	Particulars of issued shares held	Percentage of equity shares held By the Company	Percentage of equity shares held By the Group
Oil exploration and production (continued)				
Sino-U.S. Petroleum Inc.	United States of America	1,000 ordinary shares of US$1 each	–	100
Thai Energy Resources Limited	Thailand	1,000 ordinary shares of Baht 100 each	–	74
Operated in the PRC				
Hafnium Limited	British Virgin Islands	1 ordinary share of US$1 each	100	100
Beckbury International Limited	British Virgin Islands	1 ordinary share of US$1 each	100	100
Marina club debentures and wet berths holding				
Operated in Hong Kong				
Marina Ventures Hong Kong Limited	Hong Kong	1,000 ordinary shares of HK$1 each	–	65

33 IMMEDIATE AND ULTIMATE HOLDING COMPANIES

The directors of the Company consider Sun World Limited and China National Petroleum Corporation, companies incorporated in the British Virgin Islands and the PRC respectively, as being the Company's immediate and ultimate holding company, respectively.

34 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 24th April 2001.