# **NOTES TO THE ACCOUNTS**

#### **1** Basis of preparation

These unaudited condensed interim accounts have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" and Appendix 16 of the Rules Governing the Listing of Securities ("Listing Rules") of the Stock Exchange of Hong Kong Limited ("Stock Exchange") except that, in this first year of implementation of the standard, as permitted by Listing Rules on Stock Exchange, no comparative figures have been presented for the condensed consolidated cash flow statement.

Except for the change in accounting policy for proposed dividends as described in note 2 below, and the adoption of SSAP 21 "Accounting for interests in joint ventures" in relation to the Group's investments in jointly controlled entities, 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 2000.

The Group's accounting policy for investments in jointly controlled entities is as follows:

"A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the Period, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

### 2 Prior year adjustment

In accordance with the revised SSAP 9 "Events after the balance sheet date", the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy. A separate component of equity, "Proposed dividend", has been added on the face of the consolidated balance sheet to specify the provision for the 2000 proposed final dividend of HK\$204,458,000, which was previously recorded as liability as at 31st December 2000. A corresponding decrease of current liabilities by HK\$204,458,000 has been reflected in the comparative 31st December 2000 balance sheet. Changes to headings used in the profit and loss account relating to dividends and retained profit for the Period have also been made to reflect the changes resulting from SSAP 9 (revised).

## 3 Turnover and contribution to profit before taxation

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Turnover represents principally proceeds from the sale of crude oil (net of sales tax).

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

	Unaudited		
	Six months ended 30th June		
	2001	2000	
	HK\$'000	HK\$'000	
(a) Analysis by principal activity			
(i) Turnover			
Sale of crude oil	777,674	799,454	
Others	45	163	
	777,719	799,617	
(ii) Contribution to profit before taxation			
Sale of crude oil	349,796	433,106	
Others	(897)	(107)	
	348,899	432,999	
Net corporate income/(expenses)	23,344	(14,519)	
	372,243	418,480	

		Unaudited Six months ended 30th June	
	2001	2000	
	HK\$'000	HK\$'000	
(b) Analysis by geographical segment			
(i) Turnover			
Mainland China	751,373	782,358	
Thailand	26,301	17,096	
Hong Kong	45	163	
	777,719	799,617	
<ul><li>(ii) Contribution to profit before taxation, and before corporate expenses</li></ul>			
Mainland China	343,403	428,781	
Thailand	5,801	4,325	
Hong Kong	(305)	(107)	
	348,899	432,999	

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#### 4 Other revenues

	Unaudited		
	Six months ended 30th June		
	<b>2001</b> 200		
	HK\$'000	HK\$'000	
Bank interest income Refund of PRC income tax resulting from reinvestment of profits generated from oil production	12,740	2,040	
sharing contract	31,608	-	
Others	-	23	
	44,348	2,063	

### 5 Profit before taxation

Profit before taxation is arrived at after charging depletion and depreciation of oil properties amounted to HK\$129,291,000 (six months ended 30th June 2000: HK\$132,330,000).

## 6 Taxation

	Unaudited	
	Six months ended 30th June	
	<b>2001</b> 200	
	HK\$'000	HK\$'000
PRC income tax	02.000	
Current Deferred	83,260 16,078	127,524 10,534
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	99,338	138,058

## 6 Taxation (continued)

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the six months ended 30th June 2001 (six months ended 30th June 2000: nil).

Pursuant to an approval from Karamay Tax Bureau on 9th February 2001, the taxable income in respect of the oil production under the Xinjiang Contract is entitled to preferential PRC income tax rate of 15% for three years commencing from 1st January 2000 to 31st December 2002. For the six months ended 30th June 2000, PRC income tax was provided at the rate of 30% on the taxable income for the Period.

The taxable income in respect of the oil production under the Leng Jiapu Contract is subjected to the income tax rate of 33% (six months ended 30th June 2000: 33%) for the Period.

### 7 Interim dividend

The directors do not declare the payment of an interim dividend in respect of the six months ended 30th June 2001 (six months ended 30th June 2000: nil).

### 8 Earnings per share

The calculation of earnings per share is based on the profit for the Period of HK\$272,905,000 (six months ended 30th June 2000: HK\$280,422,000) and the weighted average number of shares 5,126,004,290 (six months ended 30th June 2000: 5,300,233,512 shares) in issue during the Period.

Diluted earnings per share is not presented as the effect of dilution resulting from the exercise of options, which were outstanding at 30th June 2001, is insignificant.

### 9 Trade receivables

The Group grants a credit period of 30 to 60 days to its customers. All the trade receivables were aged under three months as at 30th June 2001 and 31st December 2000.

## **10** Trade payables

The aging analysis of trade payables as at 30th June 2001 and 31st December 2000 is as follows:

	Unaudited	Audited
	30th June	31st December
	2001	2000
	HK\$'000	HK\$'000
Within three months	29,818	54,316
Between three to six months	4,232	4,326
Over six months	5,469	8,900
	39,519	67,542

## **11 Share capital**

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	Unaudited 2001 HK\$'000
Authorised:	
8,000,000,000 shares of HK\$0.01 each	80,000
Issued and fully paid:	
At 1st January	51,903
Repurchase of own shares	(1,177)
At 30th June	
5,072,563,512 (31st December 2000: 5,190,283,512)	
shares of HK\$0.01 each	50,726

### **11** Share capital (continued)

During the Period, 117,720,000 shares (year ended 31st December 2000: 109,950,000 shares) of HK\$0.01 each were repurchased and cancelled by the Company and no new shares (year ended 31st December 2000: nil) were issued.

As at 30th June 2001, 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 185,000,000 shares of the Company. Details of outstanding options are as follow:

Date of issue	Exercise price HK\$	Options outstanding as at 30th June 2001	Expiry date
16th June 1997	1.390	5,000,000	15th June 2002
16th June 1997	1.310	20,000,000	15th June 2002
16th June 1997	1.310	20,000,000	15th June 2002
3rd March 1998	1.610	5,000,000	3rd March 2003
12th May 1999	0.910	20,000,000	11th May 2004
8th March 2001	0.410	20,000,000	7th March 2006
8th March 2001	0.410	20,000,000	7th March 2006
26th April 2001	0.610	5,000,000	25th April 2006
26th April 2001	0.610	20,000,000	25th April 2006
26th April 2001	0.610	10,000,000	25th April 2006
26th April 2001	0.610	30,000,000	25th April 2006
26th April 2001	0.610	10,000,000	25th April 2006
		185,000,000	

## Reserves

	Contributed	Share	Exchange	Retained	Takal
	surplus	premium	reserve	profit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2001 Effect of adopting SSAP 9	134,323	1,587,438	(6,420)	846,352	2,561,693
(revised)				204,458	204,458
At 1st January 2001	104 000	1 507 400	(6.400)	1 050 010	0.766.151
as restated	134,323	1,587,438	(6,420)	1,050,810	2,766,151
2000 final dividend paid					
and payable	-	-	-	(204,458)	(204,458)
Translation differences	-	-	636	-	636
Repurchase of own shares	-	(70,187)	-	-	(70,187)
Profit for the Period retained				272,905	272,905
At 30th June 2001	134,323	1,517,251	(5,784)	1,119,257	2,765,047

## **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:

		Unaudited		
		Six months ended 30th June		
	Note	2001	2000	
		HK\$'000	HK\$'000	
Sale of crude oil	(i)	216,277	267,795	
Operating management fee	(ii)	89,262	68,021	
Assistance fee		105	105	

Notes:

- (i) The oil price is set by CNPC with reference to 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:

		Unaudited Six months ended 30th June	
	Note	2001	2000
	Note	HK\$'000	HK\$'000
Sale of crude oil	(i)	535,096	514,563
Operating management fee	(ii)	107,478	70,490
Drilling fee	(iii)	17,619	-
Operations and support services fee		378	302
Assistance fee		137	136
Surveying fee	(iii)	1,242	-
Perforation fee		777	-
Quantifying fee	(iii)	1,828	-
Construction fee		-	2,827
Purchase of equipment	(iii)	6,246	6,585

#### Notes:

- (i) The oil price is set by CNPC with reference to 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, surveying quantifying and purchase of equipment 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:

		Unaudited		
		Six months ended 30th June		
	Note	2001	2000	
		HK\$'000	HK\$'000	
Lease rental of rig and logging equipment	(i)	3,034	4,101	
Lease rental of cementing equipment	(i)	297	-	
Purchase of consumables		-	305	

Note:

- (i) Rental is governed by agreements entered into on 28th June 1994 and 10th May 1998.
- (d) Rental expense amounted to HK\$280,000 (six months ended 30th June 2000: HK\$280,000) was paid to a fellow subsidiary in accordance with a lease agreement at a monthly rate of HK\$46,650 for the six months ended 30th June 2000 and 2001.

## **14 Commitments**

(a) Capital commitments

	Unaudited 30th June 2001 HK\$'000	Audited 31st December 2000 HK\$'000
Contracted but not provided for		
Development cost under the Leng Jiapu Contract	190,038	316,802
Development cost under the Xinjiang Contract	14,163	-
Investment in joint ventures		27,909
	204,201	344,711

(b) Commitments under operating leases

At 30th June 2001, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited	
	30th June	31st December
	2001	2000
	HK\$'000	HK\$'000
Expiring in the first year	2,467	1,605
Expiring in the second to fifth year inclusive	921	1,523
	3,388	3,128

#### **15 Subsequent events**

On 8th September 2001, Goldstein International Limited, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with China Petroleum Technology Development Co, a fellow subsidiary of the Company, for the acquisition of 50% equity interest in SAPET Development Corporation at total consideration of approximately US\$15,481,000 (approximately HK\$120,000,000). The transaction will be subjected to approval from shareholders other than Sun World Limited, the immediate holding company of the Company, and its associates.