

BUSINESS REVIEW

Turnover for the Period was HK\$777,719,000, representing a decrease of 2.7% over the same period last year. The Group's unaudited profit after taxation for the current period decrease 2.7% to HK\$272,905,000, as compared with HK\$280,422,000 for the corresponding period.

Despite a global price reduction of crude oil, the Group managed to have realised a profit close to that for the same period last year of HK\$280,422,000. Crude oil sales volume increased slightly by 1.5% to 4,600,000 barrels over the previous period, while the weighted average price for crude oil per barrel decreased 4.5% to approximately US\$21.66, as compared with US\$22.68 last year. Overall profit decreased 2.7%.

During the Period under review, the Liaohe Leng Jiapu Contract Area sold a total of 667 thousand tonnes of crude oil, representing an increase in sale volume of approximately 6.3% over last period. On a 70% share basis, profit after taxation attributable to the Group was HK\$204.65 million, or an increase of 14.6%.

Pursuant to the Leng Jiapu Contract, the Group is responsible for 70% of the development costs. A contribution of RMB336 million was made by the Group out of profit during the Period as part of the fund required for drilling of new wells and construction of ground production facilities.

For the reporting period, the Xinjiang Karamay Contract Area sold a total of 374.6 thousand tonnes of crude oil, a decrease of 11.4% compared with the same period of the previous year. On a 54% share basis, profit after taxation attributable to the Group was HK\$68.21 million, or decrease of 34.4%.

Crude oil production of the Sukhothai Concession in Thailand attained a year-on-year growth of 62.7%, reaching approximately 25,000 barrels per month. With increased crude oil production, improved efficiency and reduced cost, the Sukhothai Concession reported a profit of HK\$6,000,000 for the first half of the year.

The Group set up 華油鋼管有限公司 (“Steel Pipe Plant”) with 華北石油管理局 at the end of last year. The Steel Pipe Plant commenced production, with successful delivery by a 41-car designated train of its first batch of 908 tonnes of fully-coated Ø1061 X 14.6 Grade X 70 spiral steel pipes on the morning of 3rd September. The Group thus became the domestic supplier of the first batch of spiral pipes for use in the project for transportation of natural gas from West to East in China. The Group will continue to monitor the demands for oil and gas pipes for proper expansion.

PROSPECTS

An Agreement in respect of the Acquisition of Sapet Development Corporation (“SAPET”) dated 8th September 2001 was entered into between the Group and China Petroleum Technology Development Co. (“CPTDC”), a wholly-owned subsidiary of China National Petroleum Corporation whereby the Group would acquire from CPTDC its 50% equity interests in SAPET. SAPET owns exploration rights in respect of Blocks 6 and 7 of Talara Oilfield in Peru. The SAPET acquisition will be financed by internal resources of the Group. Upon acquisition, SAPET will become a subsidiary of the Group and enhance shareholder's value.

The Group will continue to strengthen the management of the existing Liaohe, Xinjiang and Thailand oil development projects, control their costs, increase their efficiencies and stabilise their incomes. Besides, net cash inflow from Liaohe and Xinjiang oil fields will continue to be applied in tapping business opportunities and investing in projects with lower risk and higher returns. In addition to acquisition of the Peru oilfield new project, the Group at present is actively looking for other high quality assets for injection into the Group, and to develop domestic and foreign oil and oil related businesses.

INTERIM DIVIDEND

Given the continued cash need for continual business expansion, the Board has resolved not to declare an interim dividend for the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating results

The Group has recorded a turnover of HK\$778 million for the period ended 30th June 2001, representing a decrease of 2.7% as compared with HK\$800 million for the same period last year. The decrease of turnover was mainly due to the decrease in weighted average oil price from US\$22.68 per barrel to US\$21.66 per barrel.

The profit after taxation for the Period was HK\$273 million, representing a decrease of HK\$7.5 million or 2.7%, as compared with a profit after taxation of HK\$280 million for the same period.

Liquidity and capital resources

On 30th June 2001, the net assets of the Group were HK\$2,914 million, representing an increase of HK\$14 million or 0.48% as compared with 31st December 2000.

The major changes of the net assets are as follows:

| | Increase/(decrease) HK\$'000 |
|---|--|
| Oil properties | (67,421) |
| Interest in jointly controlled entities | 46,479 |
| Other non-current assets | (19,110)* |
| Other current assets | 111,097 |
| Bank balances and cash | (331,681) |
| Current liabilities | 177,417 |
| Taxation payable | 97,514 |
| Dividend payable | (525) |
| | <hr/> |
| | 13,770 |
| | <hr/> |

* Regrouping of investment in Steel Pipe Plant to interest in jointly controlled entities.

In accordance with the Leng Jiapu Contract, RMB336 million (approximately HK\$317 million) was paid out of profit and re-invested as development of the Leng Jiapu oil field during the Period.

During the period, no additional fund was injected into Karamay oil field as the major development of the oil field was completed.

In 2000, the Group established a sino-foreign joint venture company in the PRC named Steel Pipe Plant with 華北石油管理局 and would inject RMB40 million (approximately HK\$38 million) which representing 50% of its registered capital. In 2000, the Group had injected RMB20 million (approximately HK\$19 million) in Steel Pipe Plant, which was classified as other non-current assets. During the Period, another RMB20 million (approximately HK\$19 million) was injected in Steel Pipe Plant, being the balance of the capital committed. Steel Pipe Plant commenced production in July, 2001.

During the Period, the Group invested RMB9.6 million (approximately HK\$9.1 million) into a sino-foreign joint venture company in the PRC, 北京中油聯合信息技術有限公司, representing 32% of the registered capital.

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 as at 30th June, 2001 has a bank balance of HK\$1.039 million.