

# Management Discussion and Analysis

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating results

The Group has recorded a turnover of HK\$1,478 million for the year ended 31st December 2001, representing a decrease of 17.46% as compared with HK\$1,790 million last year. The decrease of turnover was mainly due to the decrease in weighted average oil price from US\$24.64 per barrel to US\$20.68 per barrel.

The profit attributable to shareholders for the year was HK\$457 million, representing a decrease of HK\$223 million or 32.71%, as compared with a profit after taxation of HK\$680 million last year.

### Liquidity and capital resources

On 31st December 2001, the aggregate assets of the Group were HK\$3,621 million, representing an increase of HK\$122 million or 3.48% as compared with 31st December 2000.

The major changes of the aggregate assets are as follows:

	Increase/(decrease) HK\$'000
Fixed assets	(412)
Oil properties	430,177*
Investments in jointly controlled entities	46,111
Other non-current assets	(17,160)**
Other current assets	(24,286)
Bank balances and cash	(312,551)†
Total increase in assets	<u>121,879</u>

\* Increase in oil properties was mainly resulted from new acquisition.

\*\* Regrouping of investment in 華油鋼管有限公司 (「鋼管廠」) to investments in jointly controlled entities.

† Including repurchase of company's shares for cancellation with aggregate amount of HK\$166,482,000.

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

During the year, RMB44 million (approximately HK\$41 million) was injected out of profits into Karamay oil field as development costs.

In 2000, the Group established a sino-foreign joint venture company in the PRC named 鋼管廠 with 華北石油管理局 (the “Bureau”) and injected 50% of its registered capital. In 2000, the Group had injected RMB20 million (approximately HK\$19 million) in 鋼管廠, which was classified as other non-current assets. In January 2001, another RMB20 million (approximately HK\$19 million) was injected in 鋼管廠, being the balance of the capital committed. The total investment was RMB40 million (approximately HK\$38 million).

During the year, 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 its registered capital.

As at 31st December 2001, the Group had net cash of HK\$1,058 million, which the total liabilities were merely 0.2 times of the shareholders’ funds of the Group.

### Use of proceeds

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

Taking into account the cashflow from the operating activities, the Group as at 31st December 2001 has a bank balance and cash of HK\$1,058 million.

### NEW INVESTMENTS

In view of the rapid development in the PRC in recent years, the rise in environmental consciousness, as well as the construction of huge infrastructure project for the transport of natural gas from the western to the eastern region, the demand for large diameter oil pipes and natural gas pipes in China continue to escalate. The Group has identified this strong demand and set up 鋼管廠 with the Bureau, a plant that manufactures wide-diameter oil pipes. To facilitate management, the Group has also acquired the production line of medium to small oil pipes so as to enhance the ability of 鋼管廠 to produce various products in order to meet the market demand and realise the comprehensive cooperation between the Group and the Bureau in the technique of producing pipes. Armed with the Bureau’s rich experience in the manufacture and sales of oil pipes and gas pipes, as well as its patented technology, the joint-venture plant will emerge as a provider of quality oil pipes and gas pipes for both the domestic and foreign markets. The Group will closely observe the demand for oil pipes and gas pipes and adjust its development accordingly.

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In September 2001, the Group acquired from China Petroleum Technology Development Company, a 50% equity interest in SAPET Development Corporation which owns a licence to explore and produce oil in Block 6 and 7 of the Talara oil field in Peru. The acquisition came into effect in late November 2001 and the financial statements have incorporated the contribution from late November 2001 to 31st December 2001 of HK\$543,000 into the Group accounts.

In November 2001, the Group set up a new company Chinnery Assets Limited with a wholly-owned subsidiary of the Group's ultimate holding company. Joint efforts will be made to explore and develop an oil field area in The Union of Myanmar. The area has been partly developed and partly explored. Where there is discovery in the area, capital will be injected for its development. This project involves relatively small investment amount but may yield a high rate of return.