

# 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"), Thailand and Peru.

The oil operation in the PRC is conducted through production sharing arrangements with PetroChina Company Limited ("PetroChina"), a listed subsidiary of 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 presently has two production sharing arrangements in the PRC. 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 31 and 32.

## 2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

### (a) Basis of preparation

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

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (a) Basis of preparation (continued)

In current year, the Group adopted the following Statements of Standard Accounting Practice (“SSAPs”) issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001 except stated otherwise:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 14 (revised)	:	Leases (effective for periods commencing on or after 1st July 2000)
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The effects of adopting these new/revised standards are set out in the accounting policies below.

### (b) Group accounting

#### (i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net assets of the acquired subsidiary and joint venture at the date of acquisition. Goodwill is amortised using the straight line method over its estimated useful life.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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 unamortised goodwill or negative goodwill which was not previously charged or recognised in the consolidated profit and loss account.

# Notes to the Accounts

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (b) Group accounting (continued)

#### (i) Consolidation (continued)

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (ii) Joint ventures

A joint venture 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 year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

#### (iii) 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:

- (1) the assets that the Group controls and the liabilities that the Group incurs; and

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (b) Group accounting (continued)

#### (iii) Accounting for production sharing contracts (continued)

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

#### (iv) 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 balance sheet of subsidiaries and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

### (c) Fixed assets

Fixed assets comprising furniture and fixtures and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight line basis. The principal annual rates are as follows:

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.

# Notes to the Accounts

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (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.

### (e) Impairment of fixed assets and oil properties and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset or an oil property 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.

### (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 sales proceeds less estimated selling expenses.

### (g) 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.

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call and within three months of maturity with banks and bank overdrafts, less advances from banks repayable within three months from the date of the advance.

### (i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### (j) 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.

### (k) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Rental 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.

### (l) 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.

# Notes to the Accounts

## 2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### (m) Retirement benefit costs

With effect from 1st December 2000, a mandatory provident fund scheme has been set up for all the eligible employees of the Group in Hong Kong. The Group's contributions to the scheme are expensed as incurred.

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 benefit 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.

### (n) Dividends

In accordance with the revised SSAP 9, 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. As detailed in note 26, this change has resulted in an increase in opening retained profit at 1st January 2001 by HK\$204,458,000 (1st January 2000: nil) which is the reversal of the provision for 2000 proposed final dividend previously recorded as a liability as at 31st December 2000 although not declared until after the balance sheet date.

Dividend income is recognised when the right to receive the dividend is established. The Company's profit for the year ended 31st December 2000 and dividends receivable from subsidiaries as at 31st December 2000 were reduced by HK\$754,290,000 (see note 26) as a result of the changed policy.

### (o) 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.

### 3 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the exploration and production of crude oil in the PRC, Thailand and Peru. Revenues recognised during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Turnover		
Sale of crude oil	1,477,639	1,789,261
Others	124	1,187
	<u>1,477,763</u>	<u>1,790,448</u>
Other revenues		
Interest income	31,883	12,789
Refund of PRC income tax resulting from reinvestment of profits generated from oil production sharing contracts	92,511	4,615
Others	–	51
	<u>124,394</u>	<u>17,455</u>
Total revenues	<u><u>1,602,157</u></u>	<u><u>1,807,903</u></u>

#### Primary reporting format – geographical segments

The Group operates crude oil exploration and production in three main geographical areas, namely Mainland China, South East Asia and South America.

There are no sales or other transactions between the geographical segments.

#### Secondary reporting format – business segments

The principal business segment of the Group is engaged in the crude oil exploration and production. Other operations of the Group mainly comprise sales and leasing of wet berths, which are not of sufficient size to be reported separately.

There are no sales or other transactions between the business segments.



# Notes to the Accounts

## 3 TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

### Primary reporting format – geographical segments

	Mainland China 2001 HK\$'000	South East Asia 2001 HK\$'000	South America 2001 HK\$'000	Total 2001 HK\$'000
Turnover	1,406,633	49,069	22,061	1,477,763
Segment results	582,782	12,548	2,521	597,851
Unallocated income				10,761
Operating profit				608,612
Finance costs				(369)
Share of losses of jointly controlled entities	(1,161)	–	–	(1,161)
Profit before taxation				607,082
Taxation				(149,161)
Profit after taxation				457,921
Minority interests				(545)
Profit attributable to shareholders				457,376
Segment assets	2,679,815	204,643	405,988	3,290,446
Investments in jointly controlled entities	46,111	–	–	46,111
Unallocated assets				284,054
Total assets				3,620,611
Segment liabilities	204,211	16,036	147,617	367,864
Unallocated liabilities				347,687
Total liabilities				715,551
Capital expenditure	362,223	21,758	5,759	389,740
Unallocated capital expenditure				94
Depreciation	283,456	15,935	4,882	304,273
Unallocated depreciation				502

**3 TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)****Primary reporting format – geographical segments**

	Mainland China 2000 HK\$'000	South East Asia 2000 HK\$'000	South America 2000 HK\$'000	Total 2000 HK\$'000
Turnover	1,748,019	42,429	–	1,790,448
Segment results	927,631	3,324	–	930,955
Unallocated income				2,128
Operating profit				933,083
Finance costs				(3,474)
Profit before taxation				929,609
Taxation				(249,879)
Profit attributable to shareholders				<u>679,730</u>
Segment assets	3,099,375	201,427	–	3,300,802
Unallocated assets				197,930
Total assets				<u>3,498,732</u>
Segment liabilities	406,463	21,720	–	428,183
Unallocated liabilities				252,495
Total liabilities				<u>680,678</u>
Capital expenditure	221,929	30,987	–	252,916
Unallocated capital expenditure				3
Depreciation	257,395	11,198	–	268,593
Unallocated depreciation				489

# Notes to the Accounts

## 3 TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

### Secondary reporting format – business segments

	Turnover	Segment results	Segment assets	Capital expenditure
	2001	2001	2001	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of crude oil	1,477,639	600,135	3,271,173	389,740
Others	124	(2,284)	19,273	
	<u>1,477,763</u>	<u>597,851</u>	<u>3,290,446</u>	
Unallocated income		<u>10,761</u>		
Operating profit		<u>608,612</u>		
Investments in jointly controlled entities			46,111	
Unallocated assets			<u>284,054</u>	
Total assets			<u>3,620,611</u>	
Unallocated capital expenditure				<u>94</u>
Total capital expenditure				<u>389,834</u>

## 3 TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

### Secondary reporting format – business segments (continued)

	Turnover	Segment results	Segment assets	Capital expenditure
	2000	2000	2000	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of crude oil	1,789,261	932,549	3,280,089	252,916
Others	1,187	(1,594)	20,713	
	<u>1,790,448</u>	<u>930,955</u>	<u>3,300,802</u>	
Unallocated income		<u>2,128</u>		
Operating profit		<u>933,083</u>		
Unallocated assets			<u>197,930</u>	
Total assets			<u>3,498,732</u>	
Unallocated capital expenditure				<u>3</u>
Total capital expenditure				<u>252,919</u>

# Notes to the Accounts

## 4 OPERATING PROFIT

Operating profit is stated after charging the following:

	2001 HK\$'000	2000 HK\$'000
Auditors' remuneration	2,242	1,981
Depreciation of fixed assets	502	489
Depletion and depreciation of oil properties	304,273	268,593
Loss on disposal of fixed assets	4	—
Operating lease rental expense in respect of land and buildings	753	970
Write-off of oil producing properties	—	801
Staff costs (note)	13,700	9,973
Retirement benefit costs	673	479
	<u>673</u>	<u>479</u>

*Note:* The amount includes the Group's share of the staff costs in connection with the Xinjiang Contract and Leng Jiapu Contract amounting to approximately HK\$6,876,000 (2000: HK\$4,943,000).

## 5 FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on short term loan from a related company	369	—
Interest on loan from the immediate holding company	—	3,474
	<u>369</u>	<u>3,474</u>

## 6 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Fees	200	200
Salaries and other emoluments	3,206	2,240
Retirement benefit costs	401	244
	<u>3,807</u>	<u>2,684</u>

Directors' fees disclosed above include HK\$200,000 (2000: HK\$200,000) paid to independent non-executive directors.

During the year, 115,000,000 options were granted to the directors under the Group's executive share option scheme.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2001	2000
Nil – HK\$1,000,000	3	4
HK\$1,000,001 – HK\$1,500,000	2	1
	<u>5</u>	<u>5</u>

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

# Notes to the Accounts

## 6 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 three (2000: two) directors whose emoluments are reflected in the analysis presented above. The emoluments received and receivable by the remaining two (2000: three) highest paid individuals during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other emoluments	1,654	2,016
Retirement benefits costs	183	195
	<u>1,837</u>	<u>2,211</u>

The emoluments fell within the following bands:

	Number of individuals	
Emolument bands	2001	2000
Nil – HK\$1,000,000	1	2
HK\$1,000,001 – HK\$1,500,000	1	1
	<u>2</u>	<u>3</u>

## 7 TAXATION

	2001 HK\$'000	2000 HK\$'000
Overseas taxation	121,377	233,022
Deferred taxation ( <i>note 27</i> )	27,784	16,857
	<u>149,161</u>	<u>249,879</u>

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2000: nil).

## 7 TAXATION (CONTINUED)

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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% (2000: 15%) 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 subjected to the income tax rate of 33% (2000: 33%) for the year.

## 8 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$1,121,085,000 (2000: loss of HK\$4,081,000).

## 9 DIVIDEND

	2001 HK\$'000	2000 HK\$'000
Proposed final dividend of HK\$0.02 (2000: HK\$0.04) per share ( <i>note (b)</i> )	<u>98,601</u>	<u>204,458</u>

- (a) The previously recorded final dividend proposed and declared after the balance sheet date but accrued in the accounts for the year ended 31st December 2000 was HK\$204,458,000. Under the Group's new accounting policy as described in note 2(n), this has been written back against reserves as at 1st January 2001 in note 26 and is now charged in the period in which it was proposed.
- (b) At a meeting held on 22nd April 2002 the directors proposed a final dividend of HK\$0.02 per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2002.



## Notes to the Accounts

### 10 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$457,376,000 (2000: HK\$679,730,000).

The basic earnings per share is based on the weighted average of 5,046,366,854 (2000: 5,282,064,964) shares in issue during the year. The diluted earnings per share is based on 5,062,716,060 shares which is the weighted average number of shares in issue during the year plus the weighted average of 16,349,206 shares deemed to be issued at no consideration if all the options issued during the year had been exercised. The diluted earnings per share for the year 2000 was not presented as the potential shares are anti-dilutive.

### 11 RETIREMENT BENEFIT COSTS

The Group had been operating a defined contribution scheme for its employees in Hong Kong from September 1999 up to November 2000. With effect from 1st December 2000, a Mandatory Provident Fund scheme ("MPF Scheme") has been set up for employees, including executive directors of the Company, in Hong Kong, in accordance with the Mandatory Provident Scheme Ordinance. Under the MPF Scheme, the Group's contributions are at 7.5% of employees' relevant income for non-executive staff and 12.5% of employees' relevant income for executive staff. The employees also contribute 5% of relevant income to the MPF Scheme from 31st December 2000. The MPF contributions, excluding the voluntary contributions from employer, are fully and immediately vested in the employees as accrued benefits once they are paid, while the MPF voluntary portion of contributions from employer is vested based on the vesting scales as stated in the Participation Agreement.

The Group's contribution to the MPF Scheme charged to the profit and loss account during the year amounted to approximately HK\$624,000 (2000: since 1st December HK\$51,000).

## 12 FIXED ASSETS

## Group

	<b>Furniture and fixtures</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
Cost			
At 1st January 2001	1,868	1,710	3,578
Additions	94	–	94
Disposals	(12)	–	(12)
	<u>1,950</u>	<u>1,710</u>	<u>3,660</u>
At 31st December 2001	1,950	1,710	3,660
Accumulated depreciation			
At 1st January 2001	911	1,459	2,370
Charge for the year	401	101	502
Disposals	(8)	–	(8)
	<u>1,304</u>	<u>1,560</u>	<u>2,864</u>
At 31st December 2001	1,304	1,560	2,864
Net book value			
At 31st December 2001	<u>646</u>	<u>150</u>	<u>796</u>
At 31st December 2000	<u>957</u>	<u>251</u>	<u>1,208</u>

# Notes to the Accounts

## 12 FIXED ASSETS (CONTINUED)

Company	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost			
At 1st January 2001	1,817	403	2,220
Additions	94	—	94
Disposals	(12)	—	(12)
At 31st December 2001	1,899	403	2,302
Accumulated depreciation			
At 1st January 2001	860	152	1,012
Charge for the year	401	101	502
Disposals	(8)	—	(8)
At 31st December 2001	1,253	253	1,506
Net book value			
At 31st December 2001	646	150	796
At 31st December 2000	957	251	1,208

## 13 OIL PROPERTIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Cost		
At 1st January	2,617,203	2,374,678
Translation differences	(3,829)	(9,337)
Additions	389,740	252,916
Acquisition of a subsidiary	352,446	—
Disposals	—	(1,054)
At 31st December	3,355,560	2,617,203
Accumulated depletion and depreciation		
At 1st January	618,519	361,034
Translation differences	(2,083)	(10,855)
Charge for the year	304,273	268,593
Acquisition of a subsidiary	5,990	—
Disposals	—	(253)
At 31st December	926,699	618,519
Net book value		
At 31st December	2,428,861	1,998,684

# Notes to the Accounts

## 14 INVESTMENTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares		
– at 1991 directors' valuation	156,034	156,034
– at cost	195	–
Provision for impairment losses	(110,087)	(110,087)
	46,142	45,947
Amounts due from subsidiaries less provision	1,950,246	1,715,408
Dividends receivable	377,145	–
	<u>2,373,533</u>	<u>1,761,355</u>

Details of principal subsidiaries, which in the directors' opinion, materially affect the results and/or net assets of the Group are given in note 33.

On 21st November 2001, the Group acquired 50% equity interest in SAPET Development Corporation at a consideration of US\$13,930,421 (approximately HK\$108,660,000) satisfied by cash. As a result, the Group's profit for the year and net assets as at the year end have both been increased by HK\$543,000.

## 15 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–	47,272	–
Share of net assets	<u>46,111</u>	<u>–</u>	<u>–</u>	<u>–</u>

Details of jointly controlled entities are given in note 34.

## Notes to the Accounts

### 16 OTHER NON-CURRENT ASSETS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Payments on account of proposed joint venture	–	19,110	–	19,110
Payments on account of proposed investment	1,950	–	–	–
Others	1,928	1,928	–	–
	<u>3,878</u>	<u>21,038</u>	<u>–</u>	<u>19,110</u>

### 17 INVENTORIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Crude oil	9,577	7,637
Marina club debentures and wet berths	17,022	17,548
	<u>26,599</u>	<u>25,185</u>

### 18 TRADE RECEIVABLES

	Group	
	2001	2000
	HK\$'000	HK\$'000
Trade receivables from third parties	25,725	7,359
Amounts due from related parties ( <i>note (a)</i> )	19,720	62,803
	<u>45,445</u>	<u>70,162</u>

# Notes to the Accounts

## 18 TRADE RECEIVABLES (CONTINUED)

Notes:

- (a) The amounts represent trade receivables arising from transactions entered in the normal course of business.
- (b) The Group granted a credit period of 30 to 60 days to its customers.

The ageing analysis of trade receivables is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Within three months	45,445	70,159
Between three to six months	—	—
Over six months	—	3
	<u>45,445</u>	<u>70,162</u>

## 19 BANK BALANCES AND CASH

As at 31st December 2001, the bank balances of the Group of RMB211,137,000 (approximately HK\$199,073,000) (2000: RMB391,655,000, approximately HK\$369,277,000) and RMB559,802,000 (approximately HK\$527,817,000) (2000: RMB863,166,000, approximately HK\$813,847,000) 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.

**20 TRADE PAYABLES**

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Trade payables to third parties	<b>16,737</b>	49,395
Amounts due to related parties ( <i>note</i> )	<b>12,523</b>	18,147
	<b>29,260</b>	<b>67,542</b>

*Note:* The amounts represent trade payables arising from transactions entered in the normal course of business.

The ageing analysis of trade payables is as follows:

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within three months	<b>18,489</b>	54,316
Between three to six months	<b>7,489</b>	4,326
Over six months	<b>3,282</b>	8,900
	<b>29,260</b>	<b>67,542</b>

**21 OTHER PAYABLES AND ACCRUALS**

Amounts due to related parties of HK\$16,520,000 (2000: HK\$153,440,000) are included in the other payables and accruals which are unsecured, interest free and have no fixed terms of repayment.



# Notes to the Accounts

## 22 DEFERRED CHARGE

	Group	
	2001 HK\$'000	2000 HK\$'000
At 1st January	124,887	127,624
Translation differences	–	842
Movement for the year ( <i>note 31(a)</i> )	(24,321)	(3,579)
At 31st December	<u>100,566</u>	<u>124,887</u>
Representing:		
Group's share of investment recovery of oil properties recorded by the Joint Development Department ("JDD")	284,643	240,445
Depletion and depreciation charge incurred by the Group	<u>(184,077)</u>	<u>(115,558)</u>
	<u>100,566</u>	<u>124,887</u>

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 properties 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 SHORT TERM LOAN FROM A RELATED COMPANY

The loan from a related company is unsecured, carries interest at 6-month London Interbank Offered Rate plus 0.6508% and is repayable in 5 equal semi-annual instalments from the date of the third anniversary of the date of drawdown up to November 2002.

## 24 LOAN FROM A MINORITY SHAREHOLDER

The loan from the minority shareholder, China Petroleum Technology Development Company, is unsecured, interest free and is repayable on demand except for HK\$15,654,000 which carries interest at 7% per annum and is repayable by one time payment of principal and interest on 7th December 2002 or by instalments before maturity.

**25 SHARE CAPITAL**

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Authorised:		
8,000,000,000 shares of HK\$0.01 each	<b><u>80,000</u></b>	<u>80,000</u>
Issued and fully paid:		
At 1st January	<b>51,903</b>	53,002
Repurchase of own shares	<b><u>(2,603)</u></b>	<u>(1,099)</u>
At 31st December		
4,930,033,512 (2000: 5,190,283,512) shares of HK\$0.01 each	<b><u>49,300</u></b>	<u>51,903</u>

During the year, 260,250,000 shares of HK\$0.01 each were repurchased by the Company and all of these shares were cancelled during the year.

At 31st December 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 the outstanding options are as follows:

<b>Date of issue</b>	<b>Exercise price</b>	<b>Options outstanding</b>	
		<b>at year end</b>	<b>Expiry date</b>
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
8th March 2001	0.41	40,000,000	7th April 2006
26th April 2001	0.61	<u>75,000,000</u>	25th April 2006
		<b><u>185,000,000</u></b>	

# Notes to the Accounts

## 26 RESERVES

	Contributed surplus HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000
<b>Group</b>					
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	—	—	—	679,730	679,730
At 31st December 2000	<u>134,323</u>	<u>1,587,438</u>	<u>(6,420)</u>	<u>1,050,810</u>	<u>2,766,151</u>
Representing:					
2000 final dividend proposed					204,458
Reserves at 31st December 2000					<u>2,561,693</u>
At 31st December 2000					<u>2,766,151</u>
At 1st January 2001,					
as previously reported	134,323	1,587,438	(6,420)	846,352	2,561,693
Effect of adopting SSAP 9 (revised) (note 2(n))	—	—	—	204,458	204,458
At 1st January 2001, as restated	134,323	1,587,438	(6,420)	1,050,810	2,766,151
Translation differences	—	—	570	—	570
Repurchase of own shares	—	(163,879)	—	—	(163,879)
Profit for the year	—	—	—	457,376	457,376
2000 final dividend paid	—	—	—	(204,458)	(204,458)
At 31st December 2001	<u>134,323</u>	<u>1,423,559</u>	<u>(5,850)</u>	<u>1,303,728</u>	<u>2,855,760</u>
Representing:					
2001 final dividend proposed					98,601
Reserves at 31st December 2001					<u>2,757,159</u>
At 31st December 2001					<u>2,855,760</u>
Company and subsidiaries	134,323	1,423,559	(5,850)	1,304,889	2,856,921
Jointly controlled entities	—	—	—	(1,161)	(1,161)
At 31st December 2001	<u>134,323</u>	<u>1,423,559</u>	<u>(5,850)</u>	<u>1,303,728</u>	<u>2,855,760</u>

## 26 RESERVES (CONTINUED)

	Contributed surplus HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000
<b>Company</b>					
At 1st January 2000	133,795	1,646,608	–	183,340	1,963,743
Repurchase of own shares	–	(59,170)	–	–	(59,170)
Loss for the year	–	–	–	(4,081)	(4,081)
At 31st December 2000	<u>133,795</u>	<u>1,587,438</u>	<u>–</u>	<u>179,259</u>	<u>1,900,492</u>
Representing:					
2000 final dividend proposed					204,458
Reserves at 31st December 2000					<u>1,696,034</u>
At 31st December 2000					<u>1,900,492</u>
At 1st January 2001,					
as previously reported	133,795	1,587,438	–	729,091	2,450,324
Effect of adopting SSAP 9 (revised) (note 2(n))					
– dividend proposed	–	–	–	204,458	204,458
– dividend income	–	–	–	(754,290)	(754,290)
At 1st January 2001, as restated	<u>133,795</u>	<u>1,587,438</u>	<u>–</u>	<u>179,259</u>	<u>1,900,492</u>
Repurchase of own shares	–	(163,879)	–	–	(163,879)
Profit for the year	–	–	–	1,121,085	1,121,085
2000 final dividend paid	–	–	–	(204,458)	(204,458)
At 31st December 2001	<u>133,795</u>	<u>1,423,559</u>	<u>–</u>	<u>1,095,886</u>	<u>2,653,240</u>
Representing:					
2001 final dividend proposed					98,601
Reserves at 31st December 2001					<u>2,554,639</u>
At 31st December 2001					<u>2,653,240</u>

# Notes to the Accounts

## 26 RESERVES (CONTINUED)

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\$1,229,681,000 (2000: HK\$313,054,000) as at 31st December 2001.

## 27 DEFERRED TAXATION

	Group	
	2001 HK\$'000	2000 HK\$'000
Deferred tax liabilities		
At 1st January	82,647	65,322
Translation differences	–	468
Acquisition of a subsidiary	23,127	–
Transfer from profit and loss account ( <i>note 7</i> )	27,784	16,857
At 31st December	<u>133,558</u>	<u>82,647</u>

Deferred tax liabilities are provided for the excess of depreciation allowances claimed for tax purposes in the PRC and Peru over the depletion and depreciation of oil properties of the Group.

**27 DEFERRED TAXATION (CONTINUED)**

As at 31st December 2001, the Group's overseas subsidiaries had tax losses carried forward for the Thailand income tax purposes amounting to HK\$107,106,000 (2000: HK\$109,659,000). The tax losses are available to reduce future taxable income, if any, however, the deferred tax effect amounting to HK\$53,553,000 (2000: HK\$54,830,000) has not been accounted for as the losses would not, in the opinion of the directors, be utilised in the foreseeable future.

**28 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	2001 HK\$'000	2000 HK\$'000
Sale of crude oil	(i)	<u>410,688</u>	<u>594,526</u>
Operating management	(ii)	172,841	157,598
Perforation fees	(iii)	1,335	—
Construction work	(iv)	2,058	—
Purchases of equipment	(v)	3,771	—
Assistance fee		211	211
Training fee		<u>211</u>	<u>211</u>

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 perforation fees were charged at RMB2,051 (approximately HK\$1,933) per standard shoot metre which was in accordance with the terms of the perforation contract.

# Notes to the Accounts

## 28 RELATED PARTY TRANSACTIONS (CONTINUED)

- (iv) The fees paid for construction services in respect of the construction of oil pipes were governed by contracts which were set with reference to the rates used in the region.
- (v) Purchases of equipment, such as oil pumps and steam injection machines, were made for the development of oil properties 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 Xinjiang Contract, all of the above amounts represent the Group's 54% share of oil production and the respective cost items.

- (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	2001 HK\$'000	2000 HK\$'000
Sale of crude oil	(i)	<b>995,945</b>	<b>1,153,493</b>
Operating management	(ii)	<b>229,706</b>	223,627
Drilling fees	(iii)	<b>91,375</b>	86,265
Surveying fees	(iv)	<b>8,309</b>	4,815
Perforation fees	(v)	<b>3,187</b>	5,321
Quantifying fees	(vi)	<b>3,347</b>	2,007
Construction work	(vii)	<b>76,887</b>	4,884
Purchases of equipment	(viii)	<b>11,491</b>	8,468
Operations and support services fee		<b>931</b>	713
Assistance fee		<b>272</b>	272
Training fee		<b>272</b>	272

**28 RELATED PARTY TRANSACTIONS (CONTINUED)***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 RMB850 (approximately HK\$801) to RMB1,439 (approximately HK\$1,357) (2000: RMB982 to RMB1,022) per metre.
- (iv) The surveying fees were paid at RMB0.82 (approximately HK\$0.77) (2000: RMB0.82) 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) (2000: RMB278) 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 RMB15.1 (approximately HK\$14.2) to RMB27.7 (approximately HK\$26.1) (2000: RMB19.4 to RMB27.7) per metre.
- (vii) The fees paid for construction services in respect of the construction of oil pipes were governed by contracts which were set with reference to the rates used in the region.
- (vii) Purchases of equipment, such as oil pumps and steam injection machines, were made for the development of oil properties 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.



# Notes to the Accounts

## 28 RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Note	2001 HK\$'000	2000 HK\$'000
Lease rental of rig and logging equipment	(i)	4,574	6,311
Lease rental of cementing equipment	(ii)	297	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) Rental expense amounting to HK\$560,000 (2000: HK\$560,000) was paid to a fellow subsidiary in accordance with a lease agreement at a monthly rate of HK\$46,650.
- (e) Interest expense amounting to HK\$369,000 (2000: nil) was paid to China Petroleum Finance Company Limited, a subsidiary of CNPC (note 23).
- (f) Technical services fees amounting to HK\$539,500 (2000: nil) was paid to CPTDC by SAPET since the date of its acquisition in current year. Such fee was charged in accordance with the terms agreed in the Technical Services Contract by the two parties.

**29 COMMITMENTS****(a) Capital commitments**

	<b>Group</b>		<b>Company</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Contracted but not provided for				
Development cost under the Leng Jiapu Contract	<b>237,601</b>	316,802	—	—
Development cost under the Xinjiang Contract	<b>42,963</b>	—	—	—
Investment in production sharing contracts in the Union of Myanmar	<b>5,070</b>	—	—	—
Investment in joint ventures	—	27,909	—	27,909
	<b>285,634</b>	<b>344,711</b>	<b>—</b>	<b>27,909</b>
Authorised but not contracted for				
Investment in oil fields in the Azerbaijan Republic	<b>202,800</b>	—	—	—
Investment in joint ventures	<b>37,715</b>	—	<b>37,715</b>	—
	<b>240,515</b>	<b>—</b>	<b>37,715</b>	<b>—</b>

**(b) Lease commitments**

At 31st December, the Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Not later than one year	<b>1,815</b>	1,605	<b>560</b>	560
Later than one year and not later than five years	<b>373</b>	1,523	<b>373</b>	933
	<b>2,188</b>	<b>3,128</b>	<b>933</b>	<b>1,493</b>

# Notes to the Accounts

## 30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of operating profit to net cash inflow from operating activities

	2001 HK\$'000	2000 HK\$'000
Operating profit	608,612	933,083
Depletion and depreciation of oil properties	304,273	268,593
Depreciation of fixed assets	502	489
Loss on disposal of fixed assets	4	—
Write-off of oil producing properties	—	801
Interest income	(31,883)	(12,789)
Decrease in other non-current assets	—	7,063
(Increase)/decrease in inventories	(1,328)	2,882
Decrease in trade and other receivables	48,070	181,543
(Decrease)/increase in trade and other payables	(189,035)	166,808
Decrease in amount due to the ultimate holding company	—	(490)
Decrease in loan from the immediate holding company	—	(93,874)
Decrease in amount due to a fellow subsidiary	—	(270)
Decrease in deferred charge	(24,321)	(2,737)
Exchange difference	2,470	14,535
Net cash inflow from operating activities	<u>717,364</u>	<u>1,465,637</u>

**30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)****(b) Purchase of a subsidiary**

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Net assets acquired		
Oil properties	346,456	—
Inventories	86	—
Trade and other receivables	22,370	—
Bank balances and cash	33,579	—
Trade and other payables	(28,283)	—
Loans	(49,920)	—
Taxation payable	(9,476)	—
Deferred taxation	(23,127)	—
Amount due to a minority shareholder	(4,103)	—
Loan from a minority shareholder	(70,262)	—
Minority interests	(108,660)	—
	<u>108,660</u>	<u>—</u>
Satisfied by		
Cash	<u>108,660</u>	<u>—</u>

The subsidiary acquired during the year contributed HK\$7,940,000 to the Group's net operating cash flows, paid HK\$294,000 in respect of the net returns on investments and servicing of finance, utilised HK\$5,759,000 for investing activities, obtained HK\$2,114,000 fund advance from financing activities while no payment was made in respect of taxation.

# Notes to the Accounts

## 30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

### (c) Analysis of the net outflow in respect of the purchase of a subsidiary

	2001 HK\$'000	2000 HK\$'000
Cash consideration	108,660	—
Bank balances and cash in hand acquired	(33,579)	—
Net cash outflow in respect of the purchase of a subsidiary	<u>75,081</u>	<u>—</u>

### (d) Analysis of changes in financing during the year

	Share capital including share premium		Minority interests		Balances with minority shareholders	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
As 1st January	1,639,341	1,699,610	—	—	—	—
Acquisition of a subsidiary	—	—	108,660	—	74,365	—
Minority interests' share of profits net losses and exchange reserve	—	—	545	—	—	—
Cash inflows/(outflows) from financing	(166,482)	(60,269)	195	—	3,089	—
As 31st December	<u>1,472,859</u>	<u>1,639,341</u>	<u>109,400</u>	<u>—</u>	<u>77,454</u>	<u>—</u>

### 31 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 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.

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.

# Notes to the Accounts

## 31 OIL PRODUCTION SHARING CONTRACT – XINJIANG 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 Xinjiang Contract:

	2001 HK\$'000	2000 HK\$'000
<b>(a) Results for the year</b>		
Turnover	<b>410,688</b>	594,526
Operating profit	<b>134,832</b>	333,927
Operating profit is arrived at after charging/(crediting) the following:		
Depletion and depreciation of oil properties	<b>74,868</b>	51,134
Deferred charge ( <i>note 22</i> )	<b>(24,321)</b>	(3,579)
<b>(b) Assets and liabilities</b>		
Oil properties	<b>540,503</b>	570,227
Current assets	<b>221,053</b>	433,196
Current liabilities (excluding amount due to a group company)	<b>(146,390)</b>	(206,036)
Amount due to a group company	<b>(162,733)</b>	(335,055)
Net assets	<b>452,433</b>	462,332
<b>(c) Commitments</b>		
Authorised but not contracted for	<b>42,963</b>	–

### 32 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 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.



# Notes to the Accounts

## 32 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:

	2001 HK\$'000	2000 HK\$'000
<b>(a) Results for the year</b>		
Turnover	<u>995,945</u>	<u>1,153,493</u>
Operating profit	<u>387,124</u>	<u>605,424</u>
Operating profit is arrived at after charging the following:		
Depletion and depreciation of oil properties	<u>208,191</u>	<u>206,111</u>
<b>(b) Assets and liabilities</b>		
Oil properties	1,375,333	1,266,842
Current assets	542,871	825,649
Current liabilities (excluding amount due to a group company)	(134,138)	(258,046)
Amount due to a group company	<u>(501,993)</u>	<u>(497,334)</u>
Net assets	<u>1,282,073</u>	<u>1,337,111</u>
<b>(c) Commitments</b>		
Authorised but not contracted for	<u>237,601</u>	<u>316,802</u>

**33 PRINCIPAL SUBSIDIARIES****As at 31st December 2001**

	<b>Place of incorporation and kind of legal entity</b>	<b>Particulars of issued shares held</b>	<b>Percentage of equity shares held</b>	
			<b>By the Company</b>	<b>By the Group</b>
<b>Investment holding</b>				
<b>Operated in Hong Kong</b>				
FSC (B.V.I.) Limited	British Virgin Islands, limited liability company	50,000 ordinary shares of US\$1 each	100	100
FSC Investment Holdings Limited	Hong Kong, limited liability company	2,223,966,170 ordinary shares of HK\$0.10 each	—	100
<b>Operated in Peru</b>				
Goldstein International Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1 each	100	100
<b>Operated in Thailand</b>				
Thai Offshore Petroleum Limited	Thailand, limited liability company	1,750,000 ordinary shares of Baht100 each (fully paid up) 1,250,000 ordinary shares of Baht100 each (25% paid up)	—	74

# Notes to the Accounts

## 33 PRINCIPAL SUBSIDIARIES (CONTINUED)

As at 31st December 2001

	Place of incorporation and kind of legal entity	Particulars of issued shares held	Percentage of equity shares held	
			By the Company	By the Group
<b>Oil exploration and production</b>				
<b>Operated in the PRC</b>				
Hafinum Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1 each	100	100
Beckbury International Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1 each	100	100
<b>Operated in Peru</b>				
SAPET Development Corporation (date of acquisition: 21st November 2001)	United States, limited liability company	100 ordinary shares of US\$50 each	—	50*
SAPET Development Peru Inc (date of acquisition: 21st November 2001)	United States, limited liability company	100 ordinary shares no par value	—	50*
<b>Operated in Thailand</b>				
Central Place Company Limited	Hong Kong, limited liability company	160 ordinary shares of HK\$10 each	—	100
Sino-Thai Energy Limited	Thailand, limited liability company	1,200,000 ordinary shares of Baht100 each	—	100

\* Subsidiaries not audited by PricewaterhouseCoopers

**33 PRINCIPAL SUBSIDIARIES (CONTINUED)****As at 31st December 2001**

	<b>Place of incorporation and kind of legal entity</b>	<b>Particulars of issued shares held</b>	<b>Percentage of equity shares held</b>	
			<b>By the Company</b>	<b>By the Group</b>
<b>Oil exploration and production (continued)</b>				
Sino-U.S. Petroleum Inc.	United States of America, limited liability company	1,000 ordinary shares of US\$1 each	—	100
Thai Energy Resources Limited	Thailand, limited liability company	1,000 ordinary shares of Baht 100 each	—	74
<b>Marina club debentures and wet berths holding</b>				
<b>Operated in Hong Kong</b>				
Marina Ventures Hong Kong Limited	Hong Kong, limited liability company	1,000 ordinary shares of HK\$1 each	—	65

## Notes to the Accounts

### 34 JOINTLY CONTROLLED ENTITIES

As at 31st December 2001

	Place of incorporation	Principal activities and place of operation	Percentage of interest in ownership and profit sharing
North China Petroleum Steel Pipe Co., Ltd 華油鋼管有限公司	PRC	Manufacturing of steel pipe in Mainland China	50%
北京中油聯合信息技術 有限公司	PRC	Operation of a web portal in Mainland China	32%

### 35 SUBSEQUENT EVENTS

- (a) On 23rd January 2002, Fortunemate Assets Limited (“FAL”), a wholly owned subsidiary of the Company, entered into an agreement with the European Bank for Reconstruction and Development (“the Vendor”), a third party, to acquire a 15% interest:
- (i) in the right to rehabilitate, explore, develop, share production and export of crude oil for the Kursangi and Karabagli oil fields in the Azerbaijan Republic (“Assigned Interest”); and
  - (ii) in Salyan Oil Limited’s issued capital (“Salyan Oil Shares”). Salyan Oil Limited carries out petroleum operations under the Joint Operating Agreement between the Vendor and the other existing holders of the remaining shareholding interests,

at a total consideration of US\$26,000,000 (approximately HK\$202,800,000).

On the same date, China National Oil and Gas Exploration and Development Corporation (“CNODC”), a wholly owned subsidiary of CNPC, entered into a separate conditional Sale and Purchase Agreement to acquire the Vendor’s another 15% of the Assigned Interest and Salyan Oil Shares at a consideration of US\$26,000,000 (approximately HK\$202,800,000).

### 35 SUBSEQUENT EVENTS (CONTINUED)

- (b) On 7th February 2002, an additional amount of RMB40,000,000 (approximately HK\$38,000,000) in cash was contributed to the registered capital of 華油鋼管有限公司, an entity jointly controlled by the Company and 華北石油管理局 (the “Bureau”) to finance the purchase of assets and liabilities relating to the steel pipe production line of a factory wholly owned by the Bureau. The Bureau is an operational entity owned and operated by CNPC.

### 36 COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of changes in accounting policy for dividends, details of which are set out in notes 2(n) and 9.

### 37 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.

### 38 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 22nd April 2002.