

LIQUIDITY AND CAPITAL RESOURCES

As at 31st December 2002, the aggregate assets of the Group were HK\$4,151 million, representing an increase of HK\$530 million or 14.64% as compared with 31st December 2001.

The major changes of the assets are as follows:

| | Increase/(decrease) HK\$'000 |
|--|---------------------------------|
| Property, plant and equipment | 270,578* |
| Interests in jointly controlled entities | 318,315** |
| Other current assets | 48,743 |
| Bank balances and cash | (107,741)+ |
| | <hr/> |
| Net increase in assets | 529,895 |
| | <hr/> |

* Increase in oil properties resulted from new acquisition.

** Increase investment in North China, Qingdao Qingxin Plastic Limited Liability Company ("Qingxin") and Oman oil field.

+ Decrease in cash resulted from cash outflow for new acquisitions.

In accordance with the Leng Jiapu Contract, RMB283 million (approximately HK\$267 million) was paid out of profit and re-invested as development costs of the Leng Jiapu oil field during the year.

During the year, RMB33 million (approximately HK\$31 million) was injected out of profits into Karamay oil field as development costs.

According to the Farmout Agreement signed on 16th November 2001 in relation to an oil field in the Union of Myanmar, the Group has totally paid US\$325,000 during the year.

At 31st December 2002, the total borrowings of the Group, denominated in United States Dollars, amounted to HK\$374 million (2001: HK\$120 million) and are fully repayable within 3 years.

At 31st December 2002, the gearing ratio of the Group was 11.96% (2001: 4.14%), calculated by dividing the total borrowings of HK\$374 million (2001: HK\$120 million) by shareholders' funds of HK\$3,131 million (2001: HK\$2,905 million).

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 2002 had bank balances and cash of HK\$951 million.

NEW INVESTMENTS

In February 2002, the Group contributed an additional amount of RMB40 million to the registered capital of North China, representing 50% of its registered capital, to finance the purchase of a steel pipe manufacturing factory from the Bureau. In December 2002, the Group contributed another RMB40 million to North China for setting up a branch factory in the Shanghai Pudong Economic Development Zone, the PRC.

On 23rd January 2002, the Group entered into an agreement with the European Bank for Reconstruction and Development at a consideration of US\$26 million to acquire 15% participating interest 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. The consideration was paid in March 2002. The Group acquired another 10% participating interest in the above-mentioned oil field at a consideration of US\$14 million from Delta Hess (K & K) Limited on 22nd November 2002 and paid on the same day.

In April 2002, the Group entered into an agreement with Mazoon Petrogas SAOC at a consideration of US\$25 million to acquire 50% of the issued share capital of Mazoon Petrogas (B.V.I.) Limited which holds 50% interest in the Petroleum Agreement with the right to explore for petroleum in the Contract Area in the Sultanate of Oman. The consideration was paid in July 2002.

In December 2002, the Group acquired 25% equity interest in the registered capital of Qingxin which engages in the production of certain petro-chemical products including biaxially oriented polypropylene film in the Qingdao Economic Development Zone, the PRC.