

1 PRINCIPAL ACTIVITIES

The principal activities of the Group are the exploration and production of crude oil and natural gas in the People's Republic of China ("PRC"), South America, Central Asia and South East Asia.

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 PetroChina.

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 Liaohé, 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"). The accounts have been prepared under the historical cost convention.

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 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

Certain presentation changes have been made upon the adoption of SSAP 1 (revised) and SSAP 15 (revised). Other changes to the Group's accounting policies and effect of adopting these new and revised standards are set out in the accounting policies below.

(b) Group accounting

(i) Consolidation

The consolidated accounts comprise the accounts of the Company and its subsidiaries made up to 31st December. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

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.

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.

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

(ii) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Group accounting (continued)

(iii) *Jointly controlled entities*

A jointly controlled entity is a joint venture 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 and also goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

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

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

(c) **Property, plant and equipment**

Property, plant and equipment comprise oil and gas properties, furniture and fixtures and motor vehicles.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Property, plant and equipment (continued)

(i) Oil and gas properties

Oil and gas 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 productive oil and gas 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 and gas properties) is provided on a straight-line basis at annual rates of between 16.67% and 20%.

Major costs incurred in restoring oil and gas 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. The Group did not incur and does not anticipate to incur any material dismantlement, restoration or abandonment costs given the nature of its onshore producing activities and current regulations governing such activities.

(ii) Furniture and fixtures and motor vehicles

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	20% to 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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Property, plant and equipment (continued)

(iii) *Impairment 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 included in oil and gas properties, furniture and fixtures and motor vehicles 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 an asset 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.

(d) Other non-current assets

Other non-current assets held for the long-term are stated at cost less provision for any impairment losses.

(e) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(f) Inventories

Inventories consist of crude oil and marina club debentures and wet berths held for sales. Inventories are stated at the lower of cost and net realisable value. Cost of crude oil, calculated on a weighted average basis, 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 with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(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) Revenue recognition

Revenue from the sale of crude oil and gas 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.

Dividend income is recognised when the right to receive payment is established.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(I) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. This is a new policy applied upon the adoption of SSAP 34, however, the accounts for the prior periods have not been restated as the effect of this new policy is not material to the accounts.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Equity compensation benefits*

Share options are granted to directors and employees. If the options are granted at the market price of the shares on the date of the grant and are exercisable at that price, no compensation cost is recognised. If the options are granted at a discount on the market price, a compensation cost is recognised in the profit and loss account based on the discount. This is a new policy applied upon the adoption of SSAP 34, however, the accounts for the prior periods have not been restated as the effect of this new policy is not material to the accounts.

When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (par value) and share premium.

(iii) *Pension obligation*

The Group operates defined contribution provident fund schemes for its employees, the assets of which are held separately from those of the Group in independently administered funds. The Group's contributions under the schemes are charged to the profit and loss account as incurred. The amount of the Group's contributions is based on specified percentages of the basic salaries of employees. Any contributions forfeited by employees who leave the Group, relating to unvested benefits, are used to reduce the Group's ongoing contributions otherwise payable.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(m) 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 overseas operation expressed in foreign currencies is 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.

(n) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that geographical segments be presented as the primary reporting format and business segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash, and mainly exclude investments in jointly controlled entities. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segments reporting, turnover are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

(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, REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in the exploration and production of crude oil and natural gas in the PRC, South America, Central Asia and South East Asia. Revenues recognised during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Sale of crude oil and natural gas	1,663,409	1,477,639
Others	182	124
	<u>1,663,591</u>	<u>1,477,763</u>
Other revenues		
Interest income	16,748	31,883
Refund of PRC income tax resulting from reinvestment of profits generated from oil production sharing contracts	39,988	92,511
	<u>56,736</u>	<u>124,394</u>
Total revenues	<u>1,720,327</u>	<u>1,602,157</u>

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)**Primary reporting format – geographical segments****For the year ended 31st December 2002**

	PRC	South America	Central and South East Asia	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenues	<u>1,263,217</u>	<u>259,158</u>	<u>141,216</u>	<u>–</u>	<u>1,663,591</u>
Segment results	<u>450,142</u>	<u>36,794</u>	<u>13,565</u>	<u>(331)</u>	<u>500,170</u>
Interest income					16,748
Unallocated costs					<u>(21,312)</u>
Operating profit					495,606
Finance costs					(5,757)
Share of profits less losses of jointly controlled entities	9,036	–	(25)	–	<u>9,011</u>
Profit before taxation					498,860
Taxation					<u>(136,704)</u>
Profit after taxation					362,156
Minority interests					<u>(9,515)</u>
Profit attributable to shareholders					<u>352,641</u>
Segment assets	2,818,933	359,148	535,162	19,500	3,732,743
Investments in jointly controlled entities	159,337	–	10,089	195,000	364,426
Unallocated assets					<u>53,337</u>
Total assets					<u>4,150,506</u>
Segment liabilities	231,935	82,729	31,350	–	346,014
Unallocated liabilities					<u>672,330</u>
Total liabilities					<u>1,018,344</u>
Capital expenditure	304,486	6,502	335,448	–	646,436
Depletion and depreciation	<u>311,666</u>	<u>37,987</u>	<u>27,656</u>	<u>–</u>	<u>377,309</u>

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)**Primary reporting format – geographical segments (continued)****For the year ended 31st December 2001**

	PRC	South America	Central and South East Asia	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenues	<u>1,406,633</u>	<u>22,061</u>	<u>49,069</u>	<u>1,477,763</u>
Segment results	<u>582,782</u>	<u>2,521</u>	<u>12,548</u>	597,851
Interest income				31,883
Unallocated costs				<u>(21,122)</u>
Operating profit				608,612
Finance costs				(369)
Share of losses of jointly controlled entities	(1,161)	—	—	<u>(1,161)</u>
Profit before taxation				607,082
Taxation				<u>(149,161)</u>
Profit after taxation				457,921
Minority interests				<u>(545)</u>
Profit attributable to shareholders				<u>457,376</u>
Segment assets	2,679,815	405,988	204,643	3,290,446
Investments in jointly controlled entities	46,111	—	—	46,111
Unallocated assets				<u>284,054</u>
Total assets				<u>3,620,611</u>
Segment liabilities	204,211	147,617	16,036	367,864
Unallocated liabilities				<u>347,687</u>
Total liabilities				<u>715,551</u>
Capital expenditure	362,223	5,759	21,758	389,740
Depletion and depreciation	<u>283,456</u>	<u>4,882</u>	<u>15,935</u>	<u>304,273</u>

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)**Secondary reporting format – business segments****For the year ended 31st December 2002**

	Segment revenues HK\$'000	Segment results HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
Sale of crude oil and natural gas	1,663,409	502,044	3,710,418	646,436
Others	182	(1,874)	22,325	–
	<u>1,663,591</u>	<u>500,170</u>	<u>3,732,743</u>	<u>646,436</u>
Interest income		16,748		
Unallocated costs		(21,312)		
Operating profit		<u>495,606</u>		
Investments in jointly controlled entities			364,426	
Unallocated assets			<u>53,337</u>	
Total assets			<u>4,150,506</u>	

For the year ended 31st December 2001

	Segment revenues HK\$'000	Segment results HK\$'000	Total assets HK\$'000	Capital expenditure 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>	<u>389,740</u>
Interest income		31,883		
Unallocated costs		(21,122)		
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>	

4 OPERATING PROFIT

Operating profit is stated after charging the following:

	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	844,998	678,765
Depletion and depreciation of property, plant and equipment	377,812	304,775
Loss on disposal of property, plant and equipment	12	4
Operating lease rental expense in respect of land and buildings	753	753
Staff costs, including directors emoluments (note 10)	19,142	14,324
Auditors' remuneration	2,846	2,242
	<u>2,846</u>	<u>2,242</u>

5 FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on short term loan from a related company	1,287	369
Interest on long term borrowings wholly repayable within five years	4,470	—
	<u>5,757</u>	<u>369</u>

6 TAXATION

	2002 HK\$'000	2001 HK\$'000
Company and subsidiaries		
Overseas taxation	86,864	121,377
Deferred taxation (note 27)	49,840	27,784
	<u>136,704</u>	<u>149,161</u>

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2001: nil).

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% for three years 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% (2001: 33%) for the year.

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$311,562,000 (2001: HK\$1,121,085,000).

8 DIVIDEND

	2002 HK\$'000	2001 HK\$'000
Final, proposed, of HK\$0.035 (2001: HK\$0.02) per share	<u>170,842</u>	<u>98,601</u>

8 DIVIDEND (continued)

At a meeting held on 7th April 2003, the directors proposed a final dividend of HK\$0.035 per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profit for the year ending 31st December 2003.

9 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$352,641,000 (2001: HK\$457,376,000).

The basic earnings per share is based on the weighted average number of 4,913,248,827 (2001: 5,046,366,854) shares in issue during the year. The diluted earnings per share is based on 4,918,355,210 (2001: 5,062,716,060) shares which is the weighted average number of shares in issue during the year plus the weighted average number of 5,106,383 (2001: 16,349,206) shares which would be issued at no consideration on the exercise of all dilutive options.

10 STAFF COSTS, INCLUDING DIRECTORS EMOLUMENTS

	2002 HK\$'000	2001 HK\$'000
Wages and salaries	16,243	11,869
Social security costs	2,216	1,831
Pension costs – defined contribution plan	683	624
	<u>19,142</u>	<u>14,324</u>

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 Fund 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.

10 STAFF COSTS, INCLUDING DIRECTORS EMOLUMENTS (continued)

The Group also contributes to employee pension schemes established by municipal and provincial governments in respect of operations in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired employees of these operations in the PRC. Contributions to these schemes are charged to the profit and loss account as incurred. For overseas operation, the Group made contributions to pension schemes in accordance with the schemes set up by the overseas entities and/or as required by statutory requirements.

The Group's contribution to the MPF Scheme charged to the profit and loss account during the year amounted to approximately HK\$683,000 (2001: HK\$624,000). The Group has utilised HK\$85,000 unvested benefits during the year (2001: nil) to reduce contributions to the MPF Scheme, and there are HK\$5,000 (2001: HK\$88,000) unvested benefits available for future reduction of employers' contributions as at 31st December 2002.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	2002 HK\$'000	2001 HK\$'000
Fees	200	200
Basic salaries, housing allowances, other allowances and benefits in kind	3,500	3,206
Pension costs	438	401
	<u>4,138</u>	<u>3,807</u>

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)**(a) Directors' emoluments (continued)**

Directors' fees disclosed above include HK\$200,000 (2001: HK\$200,000) paid to independent non-executive directors.

The number of directors whose emoluments for the year fell within the following bands:

Emolument bands	Number of directors	
	2002	2001
Nil – HK\$1,000,000	4	4
HK\$1,000,001 – HK\$1,500,000	2	2
	<u>6</u>	<u>6</u>

During the year, no option (2001: 110,000,000 options) was granted to the directors under the Group's executive share option scheme.

None of the directors has waived the right to receive their emoluments for the years ended 31st December 2002 and 2001.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2001: three) directors whose emoluments are reflected in the analysis presented above. The emoluments received and receivable by the remaining two (2001: two) highest paid individuals during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other emoluments	1,654	1,654
Pension costs	183	183
	<u>1,837</u>	<u>1,837</u>

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)**(b) Five highest paid individuals (continued)**

The number of individual whose emoluments for the year fell within the following bands:

Emolument bands	Number of individuals	
	2002	2001
Nil – HK\$1,000,000	1	1
HK\$1,000,001 – HK\$1,500,000	1	1
	<u>2</u>	<u>2</u>

12 PROPERTY, PLANT AND EQUIPMENT**Group**

	Oil and gas properties HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost				
At 1st January 2002	3,355,560	1,950	1,710	3,359,220
Translation difference	4,176	–	–	4,176
Additions	646,436	68	–	646,504
Disposals	–	(26)	–	(26)
At 31st December 2002	<u>4,006,172</u>	<u>1,992</u>	<u>1,710</u>	<u>4,009,874</u>
Accumulated depletion and depreciation				
At 1st January 2002	926,699	1,304	1,560	929,563
Translation difference	2,277	–	–	2,277
Charge for the year	377,309	403	100	377,812
Disposals	–	(13)	–	(13)
At 31st December 2002	<u>1,306,285</u>	<u>1,694</u>	<u>1,660</u>	<u>1,309,639</u>
Net book value				
At 31st December 2002	<u>2,699,887</u>	<u>298</u>	<u>50</u>	<u>2,700,235</u>
At 31st December 2001	<u>2,428,861</u>	<u>646</u>	<u>150</u>	<u>2,429,657</u>

12 PROPERTY, PLANT AND EQUIPMENT (continued)**Company**

	Furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000
Cost			
At 1st January 2002	1,899	403	2,302
Additions	68	–	68
Disposals	(26)	–	(26)
	<u> </u>	<u> </u>	<u> </u>
At 31st December 2002	1,941	403	2,344
	<u> </u>	<u> </u>	<u> </u>
Accumulated depreciation			
At 1st January 2002	1,253	253	1,506
Charge for the year	403	100	503
Disposals	(13)	–	(13)
	<u> </u>	<u> </u>	<u> </u>
At 31st December 2002	1,643	353	1,996
	<u> </u>	<u> </u>	<u> </u>
Net book value			
At 31st December 2002	298	50	348
	<u> </u>	<u> </u>	<u> </u>
At 31st December 2001	646	150	796
	<u> </u>	<u> </u>	<u> </u>

13 INVESTMENTS IN SUBSIDIARIES

	Company	
	2002	2001
	HK\$'000	HK\$'000
Unlisted shares		
– at 1991 directors' valuation	156,034	156,034
– at cost	–	195
Less: Provision for impairment loss	(110,087)	(110,087)
	45,947	46,142
Amounts due from subsidiaries less provision	2,306,654	1,950,246
Dividends receivable	320,573	377,145
	<u>2,673,174</u>	<u>2,373,533</u>

Details of principal subsidiaries, which in the directors' opinion, materially affect the results and/or net assets of the Group at 31st December 2002 are given in note 36.

14 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–	151,656	46,769
Share of net assets	354,507	45,608	–	–
Amounts due from jointly controlled entities	9,919	503	9,919	503
	<u>364,426</u>	<u>46,111</u>	<u>161,575</u>	<u>47,272</u>

The amounts due from jointly controlled entities are unsecured, interest free and have no fixed terms of repayment.

Details of principal jointly controlled entities, which in the directors' opinion, materially affect the results and/or net assets of the Group at 31st December 2002 are given in note 37.

15 OTHER NON-CURRENT ASSETS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Unlisted investments, at cost	1,496	1,496
Club debentures, at cost	432	432
Payments on account of proposed investment	—	1,950
	<u>1,928</u>	<u>3,878</u>

16 INVENTORIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Crude oil in tanks	14,842	9,577
Marina club debentures and wet berths	17,022	17,022
	<u>31,864</u>	<u>26,599</u>

17 TRADE RECEIVABLES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Trade receivables from third parties	40,142	25,725
Amount due from related parties (note (a))	8,265	19,720
	<u>48,407</u>	<u>45,445</u>

Notes:

(a) The amount represents trade receivables arising from transactions entered into in the normal course of business.

17 TRADE RECEIVABLES (continued)

- (b) The Group granted a credit period of 30 to 60 days to its customers. At 31st December 2001 and 2002, all trade receivables are aged within three months.

18 BANK BALANCES AND CASH

As at 31st December 2002, the bank balances and cash of the Group of RMB153,773,000 (approximately HK\$144,977,000) (2001: RMB211,137,000, approximately HK\$199,073,000) and RMB755,824,000 (approximately HK\$712,638,000) (2001: RMB559,802,000, approximately HK\$527,817,000) were deposited in the bank accounts of 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.

19 TRADE PAYABLES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Trade payables to third parties	46,655	16,737
Amounts due to related parties (note)	8,020	12,523
	54,675	29,260

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

19 TRADE PAYABLES (continued)

The ageing analysis of trade payables is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within three months	35,767	18,489
Between three to six months	4,106	7,489
Over six months	14,802	3,282
	<u>54,675</u>	<u>29,260</u>

20 OTHER PAYABLES AND ACCRUALS

Amounts due to related parties of HK\$8,839,000 (2001: HK\$16,520,000) are included in the other payables and accruals which are unsecured, interest free and have no fixed terms of repayment.

21 DEFERRED CHARGE

	Group	
	2002	2001
	HK\$'000	HK\$'000
At 1st January	100,566	124,887
Movement for the year (note 31)	(22,719)	(24,321)
At 31st December	<u>77,847</u>	<u>100,566</u>
Representing:		
Group's share of investment recovery of oil properties recorded by the Joint Development Department ("JDD")	340,654	284,643
Depletion and depreciation charge incurred by the Group	(262,807)	(184,077)
	<u>77,847</u>	<u>100,566</u>

21 DEFERRED CHARGE (continued)

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.

22 SHORT TERM LOAN FROM A RELATED COMPANY

The short term loan from a related company was unsecured, carried interest at 6 months London Interbank Offered Rate ("LIBOR") plus 0.6508% and was wholly repaid in November 2002.

23 LOAN FROM A MINORITY SHAREHOLDER

The loan from a minority shareholder, China Petroleum Technology Development Company ("CPTDC"), is unsecured, interest free and has no fixed terms of repayment.

24 SHARE CAPITAL

	2002 HK\$'000	2001 HK\$'000
Authorised:		
8,000,000,000 shares of HK\$0.01 each	<u>80,000</u>	<u>80,000</u>
Issued and fully paid:		
At 1st January	49,300	51,903
Repurchase of own shares	<u>(488)</u>	<u>(2,603)</u>
At 31st December		
4,881,213,512 (2001: 4,930,033,512) shares of HK\$0.01 each	<u>48,812</u>	<u>49,300</u>

24 SHARE CAPITAL (continued)

During the year, 48,820,000 shares of HK\$0.01 each were repurchased by the Company through The Stock Exchange of Hong Kong Limited and all of these shares were cancelled during the year.

On 3rd June 2002, the shareholders of the Company approved the termination (to the effect that no further options shall be offered) of the 2001 Share Option Scheme and the adoption of a new share option scheme (the "2002 Share Option Scheme"). As at 31st December 2002, options to subscribe for a total of 140,000,000 option shares were still outstanding under the 1991 Share Option Scheme. No option has been granted under the 2001 Share Option Scheme and 2002 Share Option Scheme.

Under the 2002 Share Option Scheme, share options may be granted to the directors and full-time employees of the Company. No amount shall be payable by the grantee to the Company in exercising the right to accept an offer of the option. Options may be exercised at any time, but not less than 3 months and not more than 10 years from the date on which the option is granted and accepted by the grantee.

The 2002 Share Option Scheme will expire on 2nd June 2012.

Movement in the number of share options outstanding during the year are as follows:

	Number of options	
	2002	2001
At 1st January	185,000,000	70,000,000
Granted	–	115,000,000
Lapsed	(45,000,000)	–
At 31st December	140,000,000	185,000,000

24 SHARE CAPITAL (continued)

Share options outstanding at the end of the year have the following terms:

Exercisable period	Exercise price	Number of options	
		2002	2001
Directors			
16th September 1997 to 15th June 2002	1.31	—	40,000,000
12th August 1999 to 11th May 2004	0.91	20,000,000	20,000,000
8th June 2001 to 7th March 2006	0.41	40,000,000	40,000,000
26th July 2001 to 25th April 2006	0.61	70,000,000	70,000,000
		130,000,000	170,000,000
		-----	-----
Other employee			
16th September 1997 to 15th June 2002	1.39	—	5,000,000
3rd June 1998 to 3rd March 2003	1.61	5,000,000	5,000,000
26th July 2001 to 25th April 2006	0.61	5,000,000	5,000,000
		10,000,000	15,000,000
		-----	-----
		140,000,000	185,000,000
		=====	=====

No share option was granted, exercised or cancelled during the year.

25 RESERVES

	Contributed surplus	Share premium	Exchange reserve	Retained profit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Group					
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)	—	—	—	204,458	204,458
	<u>134,323</u>	<u>1,587,438</u>	<u>(6,420)</u>	<u>1,050,810</u>	<u>2,766,151</u>
At 1st January 2001, as restated	134,323	1,587,438	(6,420)	1,050,810	2,766,151
Translation difference	—	—	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)
	<u>134,323</u>	<u>1,423,559</u>	<u>(5,850)</u>	<u>1,303,728</u>	<u>2,855,760</u>
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>
At 1st January 2002	<u>134,323</u>	<u>1,423,559</u>	<u>(5,850)</u>	<u>1,303,728</u>	<u>2,855,760</u>
Translation difference	—	—	(270)	—	(270)
Repurchase of own shares	—	(26,180)	—	—	(26,180)
Profit for the year	—	—	—	352,641	352,641
2001 final dividend paid	—	—	—	(98,601)	(98,601)
	<u>134,323</u>	<u>1,397,379</u>	<u>(6,120)</u>	<u>1,557,768</u>	<u>3,083,350</u>
At 31st December 2002	<u>134,323</u>	<u>1,397,379</u>	<u>(6,120)</u>	<u>1,557,768</u>	<u>3,083,350</u>
Representing:					
2002 final dividend proposed					170,842
Reserves at 31st December 2002					<u>2,912,508</u>
At 31st December 2002					<u>3,083,350</u>
Company and subsidiaries	<u>134,323</u>	<u>1,397,379</u>	<u>(6,120)</u>	<u>1,549,918</u>	<u>3,075,500</u>
Jointly controlled entities	—	—	—	7,850	7,850
	<u>134,323</u>	<u>1,397,379</u>	<u>(6,120)</u>	<u>1,557,768</u>	<u>3,083,350</u>
At 31st December 2002	<u>134,323</u>	<u>1,397,379</u>	<u>(6,120)</u>	<u>1,557,768</u>	<u>3,083,350</u>

25 RESERVES (continued)

	Contributed surplus HK\$'000	Share premium HK\$'000	Retained profit HK\$'000	Total HK\$'000
Company				
At 1st January 2001,				
as previously reported	133,795	1,587,438	729,091	2,450,324
Effect of adopting SSAP 9 (revised)				
– Dividend proposed	–	–	204,458	204,458
– Dividend income	–	–	(754,290)	(754,290)
	<u>133,795</u>	<u>1,587,438</u>	<u>179,259</u>	<u>1,900,492</u>
At 1st January 2001, as restated	133,795	1,587,438	179,259	1,900,492
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)
	<u>133,795</u>	<u>1,423,559</u>	<u>1,095,886</u>	<u>2,653,240</u>
At 31st December 2001	<u>133,795</u>	<u>1,423,559</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>
At 1st January 2002	133,795	1,423,559	1,095,886	2,653,240
Repurchase of own shares	–	(26,180)	–	(26,180)
Profit for the year	–	–	311,562	311,562
2001 final dividend paid	–	–	(98,601)	(98,601)
	<u>133,795</u>	<u>1,397,379</u>	<u>1,308,847</u>	<u>2,840,021</u>
At 31st December 2002	<u>133,795</u>	<u>1,397,379</u>	<u>1,308,847</u>	<u>2,840,021</u>
Representing:				
2002 final dividend proposed				170,842
Reserves at 31st December 2002				<u>2,669,179</u>
At 31st December 2002				<u>2,840,021</u>

25 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\$1,442,642,000 (2001: HK\$1,229,681,000) as at 31st December 2002.

26 LONG TERM BORROWINGS

	Group	
	2002 HK\$'000	2001 HK\$'000
Bank loan, unsecured (note (a))	312,000	—
Loan from a related company (note (b))	7,800	—
	<u>319,800</u>	<u>—</u>

Notes:

- (a) The bank loan, denominated in U.S. Dollar, bears interest at LIBOR plus 0.4% per annum payable semi-annually in arrears. The bank loan is unsecured and repayable in full on 18th July 2005.
- (b) The loan is borrowed from a related company for working capital purpose. The loan is unsecured, bears interest at LIBOR plus 6.5% per annum and repayable in full in June 2004.

27 DEFERRED TAXATION

Deferred tax liabilities are provided for the excess of depreciation allowances claimed for tax purposes in the PRC and South America over the depletion and depreciation of oil and gas properties of the Group. The movement of deferred tax liabilities is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
At 1st January	133,558	82,647
Acquisition of a subsidiary	—	23,127
Transfer from profit and loss account (note 6)	49,840	27,784
At 31st December	183,398	133,558

As at 31st December 2002, the Group's overseas subsidiaries had tax losses carried forward for the Thailand income tax purposes amounting to HK\$96,933,000 (2001: HK\$107,106,000). The tax losses are available to reduce future taxable income, if any, however, the deferred tax effect amounting to HK\$48,467,000 (2001: HK\$53,553,000) 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	2002 HK\$'000	2001 HK\$'000
Sale of crude oil	(i)	<u>314,997</u>	<u>410,688</u>
Operating management	(ii)	111,465	172,841
Perforation fees	(iii)	1,000	1,335
Construction work	(iv)	5,425	2,058
Purchase of equipment		–	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) (2001: RMB2,051) per standard shoot metre which was in accordance with the terms of the perforation contract.
- (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.

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.

28 RELATED PARTY TRANSACTIONS (continued)

- (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	2002 HK\$'000	2001 HK\$'000
Sale of crude oil	(i)	948,220	995,945
Operating management	(ii)	234,310	229,706
Drilling fees	(iii)	112,311	91,375
Surveying fees	(iv)	10,320	8,309
Perforation fees	(v)	9,191	3,187
Quantifying fees	(vi)	3,932	3,347
Construction work	(vii)	8,224	76,887
Purchase of equipment	(viii)	25,008	11,491
Operation and support services fee		1,010	931
Assistance fee		272	272
Training fee		272	272

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 RMB640 (approximately HK\$603) to RMB2,570 (approximately HK\$2,423) (2001: RMB850 to RMB1,439) per metre.
- (iv) The surveying fees were paid at RMB0.82 (approximately HK\$0.77) (2001: 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) (2001: 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 RMB23.3 (approximately HK\$21.9) to RMB27.7 (approximately HK\$26.1) (2001: RMB15.1 to RMB27.7) per metre.

28 RELATED PARTY TRANSACTIONS (continued)

Notes: (continued)

- (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.
- (viii) 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.

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

	Note	2002 HK\$'000	2001 HK\$'000
Lease rental of rig and logging equipment	(i)	5,118	4,574
Lease rental of cementing equipment	(ii)	<u>629</u>	<u>297</u>

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\$52,000) (2001: US\$6,652) 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) (2001: US\$595) per day.
- (d) Rental expense amounting to HK\$560,000 (2001: 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\$1,287,000 (2001: HK\$369,000) was paid to China Petroleum Finance Company Limited, a subsidiary of CNPC (note 22).
- (f) Technical services fees amounting to HK\$4,009,000 (2001: HK\$540,000) was paid to CPTDC by SAPET Development Corporation for the year. Such fee was charged in accordance with the terms stipulated in the technical services contract.

29 COMMITMENTS

(a) Capital commitments

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted but not provided for				
Development cost under the Leng Jiapu Contract	317,198	237,601	—	—
Development cost under the Xinjiang Contract	19,878	42,963	—	—
Investment in production sharing contracts in the Union of Myanmar	—	5,070	—	—
	<u>337,076</u>	<u>285,634</u>	<u>—</u>	<u>—</u>
Authorised but not contracted for				
Investment in Kursangi & Karabagli oil fields in the Azerbaijan Republic	—	202,800	—	—
Investment in joint ventures	—	37,715	—	37,715
	<u>—</u>	<u>240,515</u>	<u>—</u>	<u>37,715</u>

29 COMMITMENTS (continued)**(b) Operating lease commitments**

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

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	743	1,815	373	560
Later than one year and not later than five years	400	373	—	373
Later than five years	170	—	—	—
	<u>1,313</u>	<u>2,188</u>	<u>373</u>	<u>933</u>

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of operating profit to net cash generated from operations**

	2002	2001
	HK\$'000	HK\$'000
Operating profit	495,606	608,612
Depletion and depreciation of property, plant and equipment	377,812	304,775
Loss on disposal of property, plant and equipment	12	4
Interest income	(16,748)	(31,883)
Decrease in inventories	(5,265)	(1,328)
(Increase)/decrease in trade and other receivables	(45,428)	48,070
Increase/(decrease) in trade and other payables	68,735	(189,035)
Decrease in deferred charge	(22,719)	(24,321)
Exchange difference	(2,334)	2,470
Net cash generated from operations	<u>849,671</u>	<u>717,364</u>

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(b) Deconsolidation of a subsidiary**

	2002 HK\$'000
Net assets deconsolidated:	
Other non-current assets	1,950
Bank balances and cash	390
Other payables and accruals	(15)
Minority interests	(1,164)
	<hr/>
	1,161
	<hr/>
Net outflow of cash and cash equivalents in respect of deconsolidation of a subsidiary	(390)
	<hr/>

The deconsolidated subsidiary was reclassified to jointly controlled entity during the year since there was a change of the Group's ability to exercise control over its operation.

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(c) Analysis of changes in financing during the year**

	Share capital including share premium HK\$'000	Long term borrowings HK\$'000	Minority interests HK\$'000	Balances with minority shareholders HK\$'000	Short term loan from a related company HK\$'000
As 1st January 2001	1,639,341	—	—	—	—
Acquisition of a subsidiary	—	—	108,660	74,365	49,920
Minority interests' share of profits less losses	—	—	545	—	—
Cash inflows/(outflows) from financing	(166,482)	—	195	3,089	—
As 31st December 2001	<u>1,472,859</u>	<u>—</u>	<u>109,400</u>	<u>77,454</u>	<u>49,920</u>
As 1st January 2002	1,472,859	—	109,400	77,454	49,920
Minority interests' share of profits less losses	—	—	9,515	—	—
Deconsolidation of a subsidiary	—	—	(189)	(975)	—
Cash inflows/(outflows) from financing	(26,668)	319,800	—	(21,653)	(49,920)
As 31st December 2002	<u>1,446,191</u>	<u>319,800</u>	<u>118,726</u>	<u>54,826</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 PetroChina 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 PetroChina 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.

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:

	2002 HK\$'000	2001 HK\$'000
(a) Results for the year		
Turnover	<u>314,997</u>	<u>410,688</u>
Operating profit	<u>111,237</u>	<u>134,832</u>
Operating profit is arrived at after charging/(crediting) the following :		
Depletion and depreciation of oil properties	72,827	74,868
Deferred charge (note 21)	<u>(22,719)</u>	<u>(24,321)</u>
(b) Assets and liabilities		
Oil properties	506,686	540,503
Current assets	152,110	221,053
Current liabilities (excluding amount due to a group company)	(120,433)	(146,390)
Amount due to a group company	<u>(104,145)</u>	<u>(162,733)</u>
Net assets	<u>434,218</u>	<u>452,433</u>
(c) Capital commitments		
Authorised but not contracted for	<u>19,878</u>	<u>42,963</u>

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 PetroChina 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.

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:

	2002 HK\$'000	2001 HK\$'000
(a) Results for the year		
Turnover	<u>948,220</u>	<u>995,945</u>
Operating profit	<u>301,985</u>	<u>387,124</u>
Operating profit is arrived at after charging the following:		
Depletion and depreciation of oil properties	<u>238,838</u>	<u>208,191</u>
(b) Assets and liabilities		
Oil properties	1,401,970	1,375,333
Current assets	758,167	542,871
Current liabilities (excluding amount due to a group company)	(155,203)	(134,138)
Amount due to a group company	<u>(725,972)</u>	<u>(501,993)</u>
Net assets	<u>1,278,962</u>	<u>1,282,073</u>
(c) Capital commitments		
Authorised but not contracted for	<u>317,198</u>	<u>237,601</u>

33 SUBSEQUENT EVENT

On 24th January 2003, Smart Achieve Developments Limited, a wholly owned subsidiary of the Company, entered into a Sale and Purchase Agreement with Rosco S.A. ("RSA") to acquire:

- (a) 31.41% of the issued share capital of Commonwealth Gobustan Limited ("CGL") ("the Sale Shares") who has an undivided 80% participating interest in the right to explore, develop and produce oil in the Three Blocks of the South-West Gobustan in the Azerbaijan Republic; and
- (b) 30% of all the outstanding loans advanced by RSA to CGL under the Loan Agreement dated 26th March 2002 ("the Loan").

The consideration for the acquisition of the Sale Shares and the Loan are US\$10,500,000 (approximately HK\$81,900,000) and 30% of the aggregate amount (plus interest thereon) advanced to CGL by RSA respectively.

On the same date, CNPC International Ltd, a wholly owned subsidiary of CNPC, entered into a separate Sale and Purchase Agreement to acquire RSA's another 31.41% interest in the issued share capital of CGL and remaining 70% of the outstanding loans advanced by RSA to CGL under the same Loan Agreement mentioned above.

34 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.

35 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 7th April 2003.

36 PRINCIPAL SUBSIDIARIES**As at 31st December 2002**

Name	Place of incorporation and kind of legal entity	Particulars of issued shares held	Percentage of equity shares held	
			By the Company	By the Group
(a) Investment holding				
Operated in Hong Kong				
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
Operated in Peru				
Goldstein International Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1	100	100
Operated in Thailand				
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

36 PRINCIPAL SUBSIDIARIES (continued)**As at 31st December 2002**

Name	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 and gas exploration and production				
Operated in the PRC				
Hafnium Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1	100	100
Beckbury International Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1	100	100
Operated in Peru				
SAPET Development Corporation	United States of America, limited liability company	100 ordinary shares of US\$50 each	–	50
SAPET Development Peru Inc.	United States of America, limited liability company	100 ordinary shares no par value	–	50

36 PRINCIPAL SUBSIDIARIES (continued)**As at 31st December 2002**

Name	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 and gas exploration and production (continued)				
Operated in Thailand				
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
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
Operated in the Azerbaijan Republic				
Fortunemate Assets Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1	100	100
(c) Marina club debentures and wet berths holding				
Operated in Hong Kong				
Marina Ventures Hong Kong Limited	Hong Kong, limited liability company	1,000 ordinary shares of HK\$1 each	—	65

37 PRINCIPAL JOINTLY CONTROLLED ENTITIES**As at 31st December 2002**

Name	Place of incorporation and kind of incorporation	Principal activities and place of operation	Percentage of interest in ownership and profit sharing
華油鋼管有限公司	PRC, equity joint venture	Manufacturing of steel pipes in the PRC	50%
北京中油聯合信息技 術有限公司	PRC, equity joint venture	Operation of a web portal in the PRC	32%
青島慶昕塑料有限公司	PRC equity joint venture	Production of petro- chemical products in the PRC	25%
Chinnery Assets Limited	British Virgin Islands, limited liability company	Crude oil exploration and production in the Union of Myanmar	50%
Mazoon Petrogas (BVI) Limited	British Virgin Islands, limited liability company	Crude oil exploration and production in the Sultanate of Oman	50%