

Management Discussion and Analysis

LIQUIDITY AND CAPITAL RESOURCES

As at 31st December 2003, the aggregate assets value of the Group was HK\$4,469,286,000, representing an increase of HK\$300,996,000 or 7.22% as compared with 31st December 2002.

The major changes of the assets are as follows:

| | Increase/(decrease) |
|-------------------------------------------|---------------------|
| | HK\$'000 |
| Fixed assets | 309 |
| Oil and gas properties | (38,783) |
| Investment in jointly controlled entities | 192,140* |
| Investment in an associated company | 84,107† |
| Deferred tax assets | 5,335 |
| Other current assets | 882 |
| Bank balances and cash | 57,006 |
| | <hr/> |
| Total increase in assets | <u>300,996</u> |

* Investment in Commonwealth Gobustan Ltd ("CGL") (Azerbaijan Gobustan oilfield).

† Investment in CNPC International (Caspian) Ltd ("Caspian") (Kazakhstan oilfield).

The gearing ratio of the Group maintained at 10.46% as at 31st December 2003 compared to 11.96% of 2002. It is computed by dividing the total borrowings of HK\$354,120,000 (2002: HK\$374,408,000) by the shareholders' funds of HK\$3,395,544,000 (2002: HK\$3,132,162,000).

As at 31st December 2003, a bank borrowing denominated in United States Dollars amounted to HK\$312,000,000 is fully repayable before 17th July 2005.

In accordance with the Leng Jiapu Contract, RMB336,420,000 (approximately HK\$317,198,000) was paid out of profit and re-invested as development costs of the Leng Jiapu oil field during the year.

During the year, RMB21,082,000 (approximately HK\$19,878,000) was injected out of profits into Karamay oilfield as development costs.

The Group made a shareholder's loan of US\$3,596,000 (approximately HK\$28,048,000) to the jointly controlled entity, Qingdao Qingxin Plastic Limited Liability Company, on 29th May 2003, which was in proportion to the equity interest held by the Group in the company.

Dividend of RMB9,000,000 (approximately HK\$8,500,000) for the year 2002 was received from 華油鋼管有限公司("North China") during the year.

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The Group contributed RMB40,000,000 (approximately HK\$37,700,000) to the registered capital of North China for setting up a branch factory in Shanghai Pudong Economic Development Zone, the People's Republic of China ("PRC") at the end of 2002. Due to market changes, North China decides to relocate the branch factory to Yangzhou Hanjiang Industrial Park, the PRC. It is expected that the construction work will be completed at the end of 2004 and with the production commences in 2005.

In June 2003, 2002 final dividend of HK\$0.035 per share amounting HK\$170,842,000 was distributed to the shareholders of the Group.

USE OF PROCEEDS

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

Taking into account the cashflow from the operating activities, the Group as at 31st December 2003 had bank balances and cash of HK\$1,007,646,000.

EMPLOYEE

On 31st December 2003, the Group had approximately 341 staff (excluding the staff entrustment contracts) globally. Remuneration package and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the staff. In addition, the Group set up a share option scheme, pursuant to which the directors and employees of the Company were granted options to subscribe shares of the Company.

NEW INVESTMENTS

On 24th January 2003, the Group entered into the Sales and Purchase Agreement to purchase 31.41% issued share capital of CGL which has 80% participating interest in the Agreement on the Exploration, Development and Production Sharing for Three Blocks of the South-West Gobustan in the Azerbaijan Republic. The Group also agreed to purchase 30% of the aggregate amount of all outstanding loans advanced to CGL by the original shareholder. A total of US\$15,600,000 (approximately HK\$121,680,000) was paid during the year representing the acquisition consideration of US\$10,500,000 (approximately HK\$81,900,000) and the loan of US\$5,100,000 (approximately HK\$39,780,000).

On 17th July 2003, CNPCHK (Thailand) Limited ("CNPCHK (Thailand)"), an indirect wholly-owned subsidiary of the Company, was awarded the Petroleum concession by the Minister of Energy of Thailand. Under the Petroleum Concession, CNPCHK (Thailand) has been granted the right to carry out exploration, development and production of petroleum on Onshore Exploration Block No. L21/43 and CNPCHK (Thailand) is required to carry out certain physical work obligations with a minimum expenditure obligation of US\$13,140,000 (approximately HK\$102,492,000) for six years commencing from 17th July 2003.

On 10th December 2003, the Group acquired 40% shareholding interest in Caspian at a consideration of US\$10,950,000 (approximately HK\$85,410,000) and the completion took place on the same date. Caspian holds 25.12% of the entire issued share capital in CNPC International Aktobe Petroleum Joint-Stock Company which has been granted the right to explore for and produce petroleum from the Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt) oil fields located in the north-western region of the Republic of Kazakhstan.