

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"), the Sultanate of Oman, Peru, the Azerbaijan Republic and Thailand.

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

In the current year, the Group adopted the Statement of Standard Accounting Practice 12 (revised) "Income Taxes" ("SSAP 12") issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group's accounting policies and effect of adopting this revised standard are set out in the accounting policies below.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Group accounting

(i) Consolidation

The consolidated accounts comprise the accounts of the Company and its subsidiaries made up to 31st December.

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.

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.

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 any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) 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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Group accounting (continued)

(iii) *An associated company*

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

(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, motor vehicles and construction in progress.

(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%.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Property, plant and equipment (continued)

(i) Oil and gas properties (continued)

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.

(iii) Construction in progress

Construction in progress represents oil and gas properties under construction, and is stated at cost. When the assets concerned are brought into use, the costs will be reclassified to oil and gas properties and depleted in accordance with the policies as stated in note (c) (i).

(iv) 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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(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.

(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 provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Deferred taxation (continued)

In prior year, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of SSAP 12 represents a change in accounting policy, and there is no material impact to the financial statements except for certain presentational changes.

(k) Revenue recognition

Revenue from the sale of crude oil and natural 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.

(l) 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.

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.

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

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Employee benefits (continued)

(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.

(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, the Sultanate of Oman, Peru, the Azerbaijan Republic and Thailand. Revenues recognised during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sale of crude oil and natural gas	2,098,452	1,663,409
Others	234	182
	<u>2,098,686</u>	<u>1,663,591</u>
Other revenues		
Interest income	15,041	16,748
Refund of PRC income tax resulting from reinvestment of profits generated from oil production sharing contracts	27,492	39,988
Others	846	—
	<u>43,379</u>	<u>56,736</u>
Total revenues	<u>2,142,065</u>	<u>1,720,327</u>

Notes to the Accounts

For the year ended 31st December 2003

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

Primary reporting format – geographical segments

For the year ended 31st December 2003

	PRC HK\$'000	South America HK\$'000	Central and South East Asia HK\$'000	Middle East HK\$'000	Total HK\$'000
Turnover	1,564,220	283,930	250,536	–	2,098,686
Segment results	580,331	59,667	35,301	520	675,819
Interest income					15,041
Unallocated costs					(15,993)
Operating profit					674,867
Finance costs					(7,495)
Share of profits less losses of					
Jointly controlled entities	14,664	–	(3,169)	33,759	45,254
An associated company	–	–	(1,303)	–	(1,303)
Profit before taxation					711,323
Taxation					(175,993)
Profit after taxation					535,330
Minority interests					(18,927)
Profit attributable to shareholders					516,403
Segment assets	2,641,176	384,960	620,873	20,432	3,667,441
Investments in jointly controlled entities	193,803	–	134,004	228,759	556,566
Investment in an associated company	–	–	84,107	–	84,107
Unallocated assets					161,172
Total assets					4,469,286
Segment liabilities	254,995	221,685	34,369	–	511,049
Unallocated liabilities					562,693
Total liabilities					1,073,742
Capital expenditure	306,361	42,705	74,465	–	423,531
Depletion and depreciation	428,851	37,094	38,039	–	503,984

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

Primary reporting format – geographical segments (continued)

For the year ended 31st December 2002

	PRC HK\$'000	South America HK\$'000	Central and South East Asia HK\$'000	Middle East HK\$'000	Total HK\$'000
Turnover	1,263,217	259,158	141,216	–	1,663,591
Segment results	450,142	36,794	13,565	(331)	500,170
Interest income					16,748
Unallocated costs					(21,312)
Operating profit					495,606
Finance costs					(5,757)
Share of profits less losses of					
Jointly controlled entities	9,036	–	(25)	–	9,011
An associated company	–	–	–	–	–
Profit before taxation					498,860
Taxation					(136,704)
Profit after taxation					362,156
Minority interests					(9,515)
Profit attributable to shareholders					352,641
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
Investment in an associated company	–	–	–	–	–
Unallocated assets					71,121
Total assets					4,168,290
Segment liabilities	231,935	82,729	31,350	–	346,014
Unallocated liabilities					690,114
Total liabilities					1,036,128
Capital expenditure	304,486	6,502	335,448	–	646,436
Depletion and depreciation	311,666	37,987	27,656	–	377,309

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

Secondary reporting format – business segments

For the year ended 31st December 2003

	Turnover HK\$'000	Segment results HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
Sale of crude oil and natural gas	2,098,452	684,747	3,652,948	423,531
Others	234	(8,928)	14,493	–
	<u>2,098,686</u>	<u>675,819</u>	<u>3,667,441</u>	<u>423,531</u>
Interest income		15,041		
Unallocated costs		(15,993)		
Operating profit		<u>674,867</u>		
Investments in jointly controlled entities			556,566	
Investment in an associated company			84,107	
Unallocated assets			161,172	
Total assets			<u>4,469,286</u>	

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

Secondary reporting format – business segments (continued)

For the year ended 31st December 2002

	Turnover 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	
Investment in an associated company			–	
Unallocated assets			71,121	
Total assets			<u>4,168,290</u>	

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2003 HK\$'000	2002 HK\$'000
Crediting		
Net exchange gains	3,394	2,257
Charging		
Cost of inventories sold	963,005	844,998
Depletion and depreciation of property, plant and equipment	504,297	377,812
Operating lease rental expense in respect of land and buildings	689	753
Staff costs, including directors' emoluments (note 10)	26,811	19,142
Write-down of inventories to net realisable value	7,767	–
Auditors' remuneration	2,638	2,846

5 FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on loan from a related company wholly repayable within five years	2,527	1,287
Interest on bank loan	4,968	4,470
	<u>7,495</u>	<u>5,757</u>

6 TAXATION

	2003 HK\$'000	2002 HK\$'000
Company and subsidiaries		
Overseas taxation	153,021	100,810
Deferred taxation (note 27)	22,972	35,894
	<u>175,993</u>	<u>136,704</u>

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2002: 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.

Taxation charge does not include any share of taxation from jointly controlled entities because the jointly controlled entities are either at loss positions or on tax holidays, except for Mazoon Petrogas (BVI) Limited since the company has no liability in respect of taxation as taxation is deducted from the Government of the Sultanate of Oman's share of production.

The taxable income in respect of the oil production under the Leng Jiapu Contract is subjected to the income tax rate of 33% (2002: 33%) for the year.

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% (2002: 15%) for three years from 1st January 2000 to 31st December 2002. The tax rate is under review and the preferential tax rate is still applicable in current year.

Notes to the Accounts

For the year ended 31st December 2003

6 TAXATION (continued)

The differences between the Group's expected tax charge, using the weighted average applicable tax rate, and the Group's tax charge for the years were as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	711,323	498,860
Calculated at the weighted average applicable tax rate	217,676	154,530
Effect of different tax rates	(18,918)	(10,078)
Income not subject to taxation	(18,780)	(2,899)
Utilisation of previously unrecognised tax losses	(8,471)	(5,393)
Under/(over) provision in prior years	542	(904)
Tax losses not recognised	3,944	1,448
	175,993	136,704

The weighted average applicable tax rate is the average of the aggregate of all domestic rates in each of the Group companies.

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$423,708,000 (2002: HK\$311,562,000).

8 DIVIDEND

	2003 HK\$'000	2002 HK\$'000
Final, proposed, of HK\$0.02 (2002: HK\$0.035) per share	95,130	170,842

At a meeting held on 14th April 2004, 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 profit for the year ending 31st December 2004.

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\$516,403,000 (2002: HK\$352,641,000).

The basic earnings per share is based on the weighted average number of 4,809,148,034 shares (2002: 4,913,248,827 shares) in issue during the year. The diluted earnings per share is based on 4,839,411,192 shares (2002: 4,918,355,210 shares) which is the weighted average number of shares in issue during the year plus the weighted average number of 30,263,158 shares (2002: 5,106,383 shares) which would be issued at no consideration on the exercise of all dilutive options.

10 STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	2003 HK\$'000	2002 HK\$'000
Wages and salaries	19,414	16,243
Social security costs	6,824	2,216
Pension costs – defined contribution plan	573	683
	26,811	19,142

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 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 operations, 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\$573,000 (2002: HK\$683,000). The Group has utilised unvested benefits of HK\$5,000 during the year (2002: HK\$85,000) to reduce contributions to the MPF Scheme, and there is no (2002: HK\$5,000) unvested benefits available for future reduction of employers' contributions as at 31st December 2003.

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:

	2003 HK\$'000	2002 HK\$'000
Fees	550	200
Basic salaries, housing allowances, share options, other allowances and benefits in kind	2,726	3,500
Pension contributions	341	438
	3,617	4,138

All directors' fees are paid to independent non-executive directors for the year ended 31st December 2003 and 2002.

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

Emolument bands	Number of directors	
	2003	2002
Nil – HK\$1,000,000	4	4
HK\$1,000,001 – HK\$1,500,000	2	2
	6	6

During the year, no option (2002: nil) was granted to 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 2003 and 2002.

11 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 (2002: three) directors whose emoluments are reflected in the analysis presented above. The emoluments received and receivable by the remaining two (2002: two) highest paid individuals during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other emoluments	1,654	1,654
Pension costs	183	183
Benefits from share options exercised	4,780	—
	6,617	1,837

An employee exercised all his options to purchase 10,000,000 shares in the Company on 19th November 2003 when the Company's closing share price was HK\$1.07. The difference between the exercise price of the options and the market value of the shares on the date they were exercised has been included in above.

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

Emolument bands	2003	2002
Nil – HK\$1,000,000	1	1
HK\$1,000,001 – HK\$1,500,000	—	1
HK\$6,000,001 – HK\$6,500,000	1	—
	2	2

12 PROPERTY, PLANT AND EQUIPMENT

Group

	Oil and gas properties HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost					
At 1st January 2003	4,006,172	1,992	1,710	–	4,009,874
Translation differences	13,684	2	17	–	13,703
Additions	423,531	110	497	35,666	459,804
Disposals	(172)	(38)	–	–	(210)
At 31st December 2003	<u>4,443,215</u>	<u>2,066</u>	<u>2,224</u>	<u>35,666</u>	<u>4,483,171</u>
Accumulated depletion and depreciation					
At 1st January 2003	1,306,285	1,694	1,660	–	1,309,639
Translation differences	7,680	–	1	–	7,681
Charge for the year	503,984	239	74	–	504,297
Disposals	(172)	(35)	–	–	(207)
At 31st December 2003	<u>1,817,777</u>	<u>1,898</u>	<u>1,735</u>	<u>–</u>	<u>1,821,410</u>
Net book value					
At 31st December 2003	<u>2,625,438</u>	<u>168</u>	<u>489</u>	<u>35,666</u>	<u>2,661,761</u>
At 31st December 2002	<u>2,699,887</u>	<u>298</u>	<u>50</u>	<u>–</u>	<u>2,700,235</u>

12 PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost			
At 1st January 2003	1,941	403	2,344
Additions	58	–	58
Disposals	(38)	–	(38)
At 31st December 2003	1,961	403	2,364
Accumulated depreciation			
At 1st January 2003	1,643	353	1,996
Charge for the year	237	50	287
Disposals	(35)	–	(35)
At 31st December 2003	1,845	403	2,248
Net book value			
At 31st December 2003	116	–	116
At 31st December 2002	298	50	348

13 INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares		
– at 1991 directors' valuation	156,034	156,034
Less: Provision for impairment loss	(110,087)	(110,087)
	45,947	45,947
Amounts due from subsidiaries less provision	2,255,710	2,306,654
Dividends receivable	424,288	320,573
	2,725,945	2,673,174

Details of principal subsidiaries, which in the directors' opinion, materially affect the results and/or net assets of the Group at 31st December 2003 are given in note 35.

14 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted investments, at cost	–	–	151,656	151,656
Share of net assets	472,714	354,507	–	–
Amounts due from jointly controlled entities	83,852	9,919	42,948	9,919
	556,566	364,426	194,604	161,575

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 2003 are given in note 36.

15 INVESTMENT IN AN ASSOCIATED COMPANY

	Group
	2003 HK\$'000
	2002 HK\$'000
Share of net assets	84,107
	—

On 10th December 2003, Bestory Company Inc., a wholly owned subsidiary of the Company, entered into a Sale and Purchase Agreement with CNPC International Limited to acquire a 40% shareholding interest in CNPC International (Caspian) Ltd. ("Caspian") for a consideration of US\$10,950,000 (equivalent to HK\$85,410,000).

Caspian is an investment holding company established to hold an approximate 25.12% interests in CNPC International Aktobe Petroleum Joint-Stock Company ("Aktobe"), a joint stock company listed on the Kazakhstan Stock Exchange, the principal activity of which is the exploration and production of petroleum in Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt) oil fields located in the north-western region of the Republic of Kazakhstan. The investment in Aktobe is accounted for by Caspian as a long-term investment and is carried at cost on the basis that the directors do not believe that Caspian has significant influence over the operations of Aktobe. Caspian will account for the results of Aktobe in future periods on the basis of dividends received and receivable.

According to the latest financial statements of Aktobe, prepared under the Kazakhstani Accounting Standards promulgated in the Republic of Kazakhstan, for the year ended 31st December 2002, the profit before taxation and net asset value of Aktobe were 26,262,412,000 Kazakhstan Tenge (approximately HK\$1,321,592,000) and 63,432,630,000 Kazakhstan Tenge (approximately HK\$3,192,094,000) respectively. However, the latest financial statements, were also qualified with respect to the valuation methodology used for determining the carrying value of certain property, plant and equipment, and validity of depreciation amounts accrued.

Details of the associated company are given in note 37.

16 OTHER NON-CURRENT ASSETS

	Group
	2003 HK\$'000
	2002 HK\$'000
Unlisted investments, at cost	1,496
Club debentures, at cost	432
	1,928

17 INVENTORIES

	2003 HK\$'000	Group 2002 HK\$'000
Crude oil in tanks	20,074	14,842
Marina club debentures and wet berths	9,255	17,022
	29,329	31,864

As at 31st December 2003, the carrying amount of inventories that are carried at net realisable value amounted to HK\$8,720,000 (2002: nil).

18 TRADE RECEIVABLES

	2003 HK\$'000	Group 2002 HK\$'000
Trade receivables from third parties	42,128	40,142
Amounts due from related parties (note (a))	26,961	8,265
	69,089	48,407

Notes:

- (a) The amounts represent trade receivables arising from transactions entered into in the normal course of business.
- (b) The Group granted a credit period of 30 to 60 days to its customers. As at 31st December 2003 and 31st December 2002, all trade receivables are aged within three months.

19 BANK BALANCES AND CASH

As at 31st December 2003, the bank balances of the Group of RMB193,203,000 (approximately HK\$182,164,000) (2002: RMB153,773,000, approximately HK\$144,977,000) and RMB618,338,000 (approximately HK\$583,008,000) (2002: RMB755,824,000, approximately HK\$712,638,000) 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

	2003	Group
	HK\$'000	2002
		HK\$'000
Trade payables to third parties	62,737	46,655
Amounts due to related parties (note)	29,327	8,020
	92,064	54,675

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

The ageing analysis of trade payables is as follows:

	2003	Group
	HK\$'000	2002
		HK\$'000
Within three months	82,321	35,767
Between three to six months	2,749	4,106
Over six months	6,994	14,802
	92,064	54,675

21 OTHER PAYABLES AND ACCRUALS

Amounts due to related parties of HK\$28,861,000 (2002: HK\$8,839,000) are included in the other payables and accruals which are unsecured, interest free and have no fixed terms of repayment.

22 DEFERRED CHARGE

	2003 HK\$'000	Group 2002 HK\$'000
At 1st January	77,847	100,566
Movement for the year (note 31)	(26,536)	(22,719)
At 31st December	51,311	77,847
Representing:		
Group's share of investment recovery of oil properties recorded by the Joint Development Department ("JDD")	421,505	340,654
Depletion and depreciation charge incurred by the Group	(370,194)	(262,807)
	51,311	77,847

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 LOAN FROM A MINORITY SHAREHOLDER

The loan from the minority shareholder, China Petroleum Technology Development Company ("CPTDC"), is unsecured, interest free and has no fixed terms of repayment. The loan was fully repaid in 2003.

24 SHARE CAPITAL

	2003 HK\$'000	2002 HK\$'000
Authorised:		
8,000,000,000 shares of HK\$0.01 each	80,000	80,000
Issued and fully paid:		
At 1st January	48,812	49,300
Repurchase of own shares	(1,347)	(488)
Exercise of share options	100	—
At 31st December	47,565	48,812
4,756,503,512 (2002: 4,881,213,512) shares of HK\$0.01 each		

During the year, 134,710,000 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 Options Scheme"). As at 31st December 2003, options to subscribe for a total of 100,000,000 option shares were still outstanding under the 1991 Share Option Scheme. No option has been granted under the 2001 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.

On 9th April 2003, 5,000,000 options were granted to an employee at an exercise price of HK\$0.574 per share expiring on 8th April 2008.

On 19th November 2003, 2 lots of 5,000,000 options were exercised at HK\$0.61 and HK\$0.574 respectively for a total amount of HK\$5,920,000.

24 SHARE CAPITAL (CONTINUED)

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

	Number of options	
	2003	2002
At 1st January	140,000,000	185,000,000
Granted	5,000,000	—
Exercised	(10,000,000)	—
Lapsed	(5,000,000)	(45,000,000)
Cancelled	(30,000,000)	—
At 31st December	100,000,000	140,000,000

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

Exercisable period	Exercise price	Number of options	
		2003	2002
Directors:			
12th August 1999 to 11th May 2004	0.91	—	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	60,000,000	70,000,000
		100,000,000	130,000,000
Employee:			
3rd June 1998 to 3rd March 2003	1.61	—	5,000,000
26th July 2001 to 25th April 2006	0.61	—	5,000,000
		—	10,000,000
		100,000,000	140,000,000

Notes to the Accounts

For the year ended 31st December 2003

25 RESERVES

	Contributed surplus HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000
Group					
At 1st January 2002	134,323	1,423,559	(5,850)	1,303,728	2,855,760
Translation differences	–	–	(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)
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	134,323	1,397,379	(6,120)	1,549,918	3,075,500
Jointly controlled entities	–	–	–	7,850	7,850
An associated company	–	–	–	–	–
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>
At 1st January 2003	134,323	1,397,379	(6,120)	1,557,768	3,083,350
Translation differences	–	–	2,590	–	2,590
Repurchase of own shares	–	(90,120)	–	–	(90,120)
Exercise of share options	–	5,820	–	–	5,820
Profit for the year	–	–	–	516,403	516,403
2002 final dividend paid	–	–	–	(170,064)	(170,064)
At 31st December 2003	<u>134,323</u>	<u>1,313,079</u>	<u>(3,530)</u>	<u>1,904,107</u>	<u>3,347,979</u>
Representing:					
2003 final dividend proposed					95,130
Reserves at 31st December 2003					<u>3,252,849</u>
At 31st December 2003					<u>3,347,979</u>
Company and subsidiaries	134,323	1,313,079	(3,530)	1,861,253	3,305,125
Jointly controlled entities	–	–	–	44,157	44,157
An associated company	–	–	–	(1,303)	(1,303)
At 31st December 2003	<u>134,323</u>	<u>1,313,079</u>	<u>(3,530)</u>	<u>1,904,107</u>	<u>3,347,979</u>

25 RESERVES (continued)

	Contributed surplus HK\$'000	Share premium HK\$'000	Retained profit HK\$'000	Total HK\$'000
Company				
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				
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>
At 1st January 2003	133,795	1,397,379	1,308,847	2,840,021
Repurchase of own shares	–	(90,120)	–	(90,120)
Exercise of share options	–	5,820	–	5,820
Profit for the year	–	–	423,708	423,708
2002 final dividend paid	–	–	(170,064)	(170,064)
	<u>133,795</u>	<u>1,313,079</u>	<u>1,562,491</u>	<u>3,009,365</u>
At 31st December 2003				
Representing:				
2003 final dividend proposed				95,130
Reserves at 31st December 2003				<u>2,914,235</u>
At 31st December 2003				<u>3,009,365</u>

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 amounted to HK\$1,696,286,000 (2002: HK\$1,442,642,000) as at 31st December 2003.

Notes to the Accounts

For the year ended 31st December 2003

26 LONG TERM BORROWINGS

	2003	Group
	HK\$'000	2002 HK\$'000
Bank loan, unsecured (note a)	312,000	312,000
Loan from a related company (note b)	62,400	7,800
	374,400	319,800
Current portion	(20,280)	—
	354,120	319,800

Notes:

- (a) The bank loan, denominated in US dollars, bears interest at London Interbank Offered Rate ("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 in 2003 for working capital purpose. The loan is unsecured, bears interest at LIBOR plus 6.5% per annum and is repayable in full in 2006.

The loan balance of HK\$7,800,000 as at 31st December 2002 was fully repaid in 2003.

27 DEFERRED TAXATION

The movement in net deferred tax liabilities is as follows:

	2003	Group
	HK\$'000	2002 HK\$'000
At 1st January	169,452	133,558
Charged to profit and loss account (note 6)	22,972	35,894
At 31st December	192,424	169,452

27 DEFERRED TAXATION (continued)

The movement in deferred tax assets and liabilities during the year is as follows:

Deferred tax assets

	2003 HK\$'000	Others 2002 HK\$'000
At 1st January	17,784	20,381
Credited/(charged) to profit and loss account	5,335	(2,597)
At 31st December	23,119	17,784

Deferred tax liabilities

	2003 HK\$'000	Accelerated tax depreciation and deferred development costs 2002 HK\$'000
At 1st January	187,236	153,939
Charged to profit and loss account	28,307	33,297
At 31st December	215,543	187,236

As at 31st December 2003, the Group's overseas subsidiaries had unrecognised tax losses carried forward for the Thailand income tax purposes amounting to HK\$88,638,000 (2002: HK\$96,933,000). The tax losses are available to reduce future taxable income, if any, however, the deferred tax effect amounting to HK\$44,319,000 (2002: HK\$48,467,000) has not been accounted for as the losses would not, in the opinion of the Directors, be utilised in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts disclosed on the consolidated balance sheet are stated after appropriate offsetting.

All deferred tax assets and liabilities are to be recovered and settled after more than 12 months.

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	2003 HK\$'000	2002 HK\$'000
Sale of crude oil	(i)	430,947	314,997
Operating management	(ii)	123,149	111,465
Perforation fees	(iii)	1,235	1,000
Construction work	(iv)	–	5,425
Assistance fee		211	211
Training fee		211	211

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\$1,934) (2002: 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	2003 HK\$'000	2002 HK\$'000
Sale of crude oil	(i)	1,133,273	948,220
Operating management	(ii)	262,246	234,310
Drilling fees	(iii)	187,876	112,310
Surveying fees	(iv)	12,629	10,320
Perforation fees	(v)	3,201	9,191
Quantifying fees	(vi)	4,546	3,932
Construction work	(vii)	8,192	8,224
Purchases of equipment	(viii)	46,545	25,008
Operations and support services fee		1,845	1,010
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 RMB863 (approximately HK\$814) to RMB3,998 (approximately HK\$3,770) (2002: RMB640 to RMB2,570) per metre.
- (iv) The surveying fees were paid at RMB0.82 (approximately HK\$0.77) (2002: RMB0.82) per conditioned metre which was in accordance with the terms of the surveying contracts.
- (v) The perforation fees were charged at RMB279 (approximately HK\$263) (2002: RMB278) per standard shot which was in accordance with the terms of the perforation contract.
- (vi) The quantifying fees were charged at RMB25.9 (approximately HK\$24.4) (2002: ranged from RMB23.3 to RMB27.7) per metre which was in accordance with the terms of the quantifying contracts.

28 RELATED PARTY TRANSACTIONS (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:

	2003 HK\$'000	2002 HK\$'000
Lease rental of rig and logging equipment	—	5,118
Lease rental of cementing equipment	—	629
	<u> </u>	<u> </u>

- (d) Rental expense amounting to HK\$498,000 (2002: HK\$560,000) was paid to a fellow subsidiary in accordance with a lease agreement at a monthly rate of HK\$46,650 until August 2003, and HK\$31,100 from September 2003 onwards.
- (e) Interest expense amounting to HK\$2,527,000 (2002: HK\$1,287,000) was paid to China Petroleum Finance Company Limited, a subsidiary of CNPC (note 26).
- (f) Technical services fees amounting to HK\$3,863,000 (2002: HK\$4,009,000) 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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Contracted but not provided for				
Development cost under the Leng Jiapu Contract	316,802	317,198	—	—
Development cost under the Xinjiang Contract	53,887	19,878	—	—
Development cost for Onshore Exploration Block No. L21/43 in Thailand (note)	102,492	—	—	—
Development cost for the Azerbaijan Republic Kursangi and Karabagli oil field	84,138	—	—	—
	557,319	337,076	—	—

Note: The amount represents the remaining minimum work obligation, as required to be incurred before the end of the Petroleum Exploration Period, 17th July 2009, in the Petroleum Concession awarded by The Minister of Energy of Thailand.

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For the year ended 31st December 2003

29 COMMITMENTS (continued)

(b) Operating lease commitments

At 31st December 2003, 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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Not later than one year	867	743	373	373
Later than one year and not later than five years	2,224	400	1,369	—
Later than five years	1,056	170	—	—
	4,147	1,313	1,742	373

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow generated from operations

	2003 HK\$'000	2002 HK\$'000
Operating profit	674,867	495,606
Depletion and depreciation of property, plant and equipment	504,297	377,812
Loss on disposal of property, plant and equipment	3	12
Interest income	(15,041)	(16,748)
Operating profit before working capital changes	1,164,126	856,682
Decrease/(increase) in inventories	2,535	(5,265)
Increase in trade receivables, deposits, prepayments and other receivables	(4,221)	(45,428)
Increase in trade payables, other payables and accruals	48,144	68,735
Decrease in deferred charge	(26,536)	(22,719)
Net cash inflow generated from operations	1,184,048	852,005

30 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Deconsolidation of a subsidiary

	2003 HK\$'000	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)
	<u>-</u>	<u>-</u>
	-	1,161
	<u>-</u>	<u>-</u>
Net outflow of cash and cash equivalents in respect of deconsolidation of a subsidiary	-	(390)
	<u>-</u>	<u>-</u>

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	Balance with a minority shareholder HK\$'000	Short term loan from a related company HK\$'000	Dividend payable HK\$'000
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)	–	–
Dividends	–	–	–	–	–	98,601
Cash inflows/(outflows) from financing	(26,668)	319,800	–	(21,653)	(49,920)	(98,601)
As 31st December 2002	<u>1,446,191</u>	<u>319,800</u>	<u>118,726</u>	<u>54,826</u>	<u>–</u>	<u>–</u>
As 1st January 2003	1,446,191	319,800	118,726	54,826	–	–
Minority interests' share of profits less losses	–	–	18,927	–	–	–
Dividends	–	–	–	–	–	170,842
Effect of share repurchase	–	–	–	–	–	(778)
Cash inflows/(outflows) from financing	(85,547)	54,600	–	(54,826)	–	(170,064)
As 31st December 2003	<u>1,360,644</u>	<u>374,400</u>	<u>137,653</u>	<u>–</u>	<u>–</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\$66,000,000 (approximately HK\$510,000,000), 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.

31 OIL PRODUCTION SHARING CONTRACT – XINJIANG CONTRACT (continued)

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.

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:

	2003 HK\$'000	2002 HK\$'000
(a) Results for the year		
Turnover	430,947	314,997
Operating profit	158,756	111,237
Operating profit is arrived at after charging/(crediting) the following:		
Depletion and depreciation of oil properties	107,821	72,827
Deferred charge (note 22)	(26,536)	(22,719)
(b) Assets and liabilities		
Oil properties	423,069	506,686
Current assets	212,378	152,110
Current liabilities (excluding amount due to a group company)	(94,055)	(120,433)
Amount due to a group company	(173,186)	(104,145)
Net assets	368,206	434,218
(c) Capital commitments		
Authorised but not contracted for	53,887	19,878

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 RMB1,008,000,000 (approximately HK\$942,000,000) 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\$65,500,000 (approximately HK\$506,000,000) 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. The Entrustment Contract expired on 20th March 2003 and further extended for 3 years to 20th March 2005.

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:

	2003 HK\$'000	2002 HK\$'000
(a) Results for the year		
Turnover	1,133,273	948,220
Operating profit	397,797	301,985
Operating profit is arrived at after charging the following:		
Depletion and depreciation of oil properties	321,030	238,838
(b) Assets and liabilities		
Oil properties	1,398,763	1,401,970
Current assets	606,966	758,167
Current liabilities (excluding amount due to a group company)	(171,329)	(155,203)
Amount due to a group company	(577,708)	(725,972)
Net assets	1,256,692	1,278,962

32 OIL PRODUCTION SHARING CONTRACT – LENG JIAPU CONTRACT (continued)**(c) Capital commitments**

Authorised but not contracted for

2003 HK\$'000	2002 HK\$'000
316,802	317,198

33 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.

34 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 14th April 2004.

35 PRINCIPAL SUBSIDIARIES

As at 31st December 2003

Name	Place of incorporation and type 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

35 PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation and type of legal entity	Particulars of issued shares held	Percentage of equity shares held	
			By the Company	By the Group
(a) Investment holding (continued)				
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
(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

35 PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation and type 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 Baht 100 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
CNPCHK (Thailand) Limited	Thailand, limited liability company	100,000 ordinary shares of Baht 1,000 each	—	100
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 share of HK\$1 each	—	65

36 JOINTLY CONTROLLED ENTITIES

As at 31st December 2003

Name	Place of incorporation and type of legal entity	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 pipe 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%
Commonwealth Gobustan Limited	Anguilla, limited liability company	Crude oil exploration and production in the Azerbaijan Republic	31.41%

37 ASSOCIATED COMPANY

As at 31st December 2003

Name	Place of incorporation	Principal activity and place of operation	Particulars of issued shares held	Percentage of interest in ownership and profit sharing
CNPC International (Caspian) Limited	British Virgin Islands, limited liability company	Investment holding in the Republic of Kazakhstan	100 ordinary shares of US\$1 each	40%