

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 the Kingdom of Thailand ("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 30 and 31.

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 Institute of Certified Public Accountants ("HKICPA"). The accounts have been prepared under the historical cost convention.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

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 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.

(v) *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 operations expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Property, plant and equipment

Property, plant and equipment comprise oil and gas properties, other fixed assets 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 exploration 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 and contracts governing such activities.

(ii) Other fixed assets

Other fixed assets, comprising land and buildings, furniture and fixtures and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses.

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated 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:

Leasehold land	1.7% to 3.6%
Buildings	4%
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) 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 property, plant and equipment 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) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables 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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(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) 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.

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.

2 PRINCIPAL ACCOUNTING POLICIES (continued)

(k) 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.

(l) 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.

(m) 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 and an associated company. Segment liabilities comprise operating liabilities and exclude items such as taxation, deferred taxation, minority interests 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.

(n) 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.

For the year ended 31st December 2004

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:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sale of crude oil and natural gas	2,533,312	2,098,452
Rental income	138	234
	2,533,450	2,098,686
Other revenues		
Interest income	21,599	15,041
Refund of PRC income tax resulting from reinvestment of profits generated from oil production sharing contracts	45,586	27,492
Others	1,139	846
	68,324	43,379
Total revenues	2,601,774	2,142,065

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)**Primary reporting format – geographical segments****For the year ended 31st December 2004**

	PRC HK\$'000	South America HK\$'000	Central and South East Asia HK\$'000	Middle East HK\$'000	Total HK\$'000
Turnover	<u>1,797,175</u>	<u>391,017</u>	<u>345,258</u>	<u>–</u>	<u>2,533,450</u>
Segment results	<u>840,236</u>	<u>125,980</u>	<u>65,682</u>	<u>(14)</u>	<u>1,031,884</u>
Interest income					21,599
Unallocated costs					<u>(23,723)</u>
Operating profit					1,029,760
Finance costs					<u>(10,735)</u>
Share of profits less losses of					
Jointly controlled entities	26,464	–	(88,053)	63,013	1,424
An associated company	–	–	66,143	–	<u>66,143</u>
Profit before taxation					1,086,592
Taxation					<u>(275,974)</u>
Profit after taxation					810,618
Minority interests					<u>(35,374)</u>
Profit attributable to shareholders					<u>775,244</u>
Segment assets	2,792,978	390,468	689,271	–	3,872,717
Investments in jointly controlled entities	290,358	–	119,513	291,772	701,643
Investment in an associated company	–	–	150,250	–	150,250
Unallocated assets					<u>524,651</u>
Total assets					<u>5,249,261</u>
Segment liabilities	291,667	62,320	47,215	23,415	424,617
Unallocated liabilities					<u>766,648</u>
Total liabilities					<u>1,191,265</u>
Capital expenditure	392,229	33,049	130,549	–	555,827
Unallocated capital expenditure					<u>5,767</u>
Total capital expenditure					<u>561,594</u>
Depletion and depreciation	405,560	54,099	44,565	–	504,224
Unallocated depletion and depreciation					<u>166</u>
Total depletion and depreciation					<u>504,390</u>

For the year ended 31st December 2004

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)**Primary reporting format – geographical segments (continued)**

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	<u>1,564,220</u>	<u>283,930</u>	<u>250,536</u>	<u>–</u>	<u>2,098,686</u>
Segment results	<u>580,331</u>	<u>59,667</u>	<u>37,485</u>	<u>520</u>	678,003
Interest income					15,041
Unallocated costs					<u>(18,177)</u>
Operating profit					674,867
Finance costs					<u>(7,495)</u>
Share of profits less losses of					
Jointly controlled entities	14,664	–	(3,169)	33,759	45,254
An associated company	–	–	(1,303)	–	<u>(1,303)</u>
Profit before taxation					711,323
Taxation					<u>(175,993)</u>
Profit after taxation					535,330
Minority interests					<u>(18,927)</u>
Profit attributable to shareholders					<u>516,403</u>
Segment assets	2,641,176	408,079	615,707	20,432	3,685,394
Investments in jointly controlled entities	193,803	–	134,004	228,759	556,566
Investment in an associated company	–	–	84,107	–	84,107
Unallocated assets					<u>143,219</u>
Total assets					<u>4,469,286</u>
Segment liabilities	254,995	41,912	31,543	–	328,450
Unallocated liabilities					<u>745,292</u>
Total liabilities					<u>1,073,742</u>
Capital expenditure	342,027	42,705	75,015	–	459,747
Unallocated capital expenditure					<u>57</u>
Total capital expenditure					<u>459,804</u>
Depletion and depreciation	428,851	37,094	38,065	–	504,010
Unallocated depletion and depreciation					<u>287</u>
Total depletion and depreciation					<u>504,297</u>

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)**Secondary reporting format – business segments****For the year ended 31st December 2004**

	Turnover HK\$'000	Segment results HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
Sale of crude oil and natural gas	2,533,312	1,031,993	3,863,374	555,827
Rental income	138	(339)	9,343	–
	<u>2,533,450</u>	<u>1,031,654</u>	<u>3,872,717</u>	<u>555,827</u>
Interest income		21,599		
Unallocated costs		(23,493)		
Operating profit		<u>1,029,760</u>		
Investments in jointly controlled entities			701,643	
Investment in an associated company			150,250	
Unallocated assets			524,651	
Total assets			<u>5,249,261</u>	
Unallocated capital expenditure				<u>5,767</u>
Total capital expenditure				<u>561,594</u>

For the year ended 31st December 2004

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)**Secondary reporting format – business segments** (continued)

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	685,909	3,676,067	459,747
Rental income	234	(7,906)	9,327	–
	<u>2,098,686</u>	<u>678,003</u>	<u>3,685,394</u>	<u>459,747</u>
Interest income		15,041		
Unallocated costs		(18,177)		
Operating profit		<u>674,867</u>		
Investments in jointly controlled entities			556,566	
Investment in an associated company			84,107	
Unallocated assets			<u>143,219</u>	
Total assets			<u>4,469,286</u>	
Unallocated capital expenditure				<u>57</u>
Total capital expenditure				<u>459,804</u>

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

Crediting

Gain on disposal of property, plant and equipment
Net exchange gains

Charging

Cost of inventories sold
Depletion and depreciation of property, plant and equipment
Operating lease rental in respect of land and buildings
Staff costs, including directors' emoluments (note 10)
Write-down of inventories to net realisable value
Auditors' remuneration

2004
HK\$'000

2003
HK\$'000

1,714

—

1,952

3,394

1,060,179

963,005

504,390

504,297

1,445

689

57,101

29,371

—

7,767

3,141

2,638

5 FINANCE COSTS

Interest on loan from a related company wholly repayable within five years
Interest on bank loan

2004
HK\$'000

2003
HK\$'000

4,641

2,527

6,094

4,968

10,735

7,495

6 TAXATION

	2004	2003
	HK\$'000	HK\$'000
Overseas taxation	273,422	152,479
Deferred taxation (note 26)	(3,039)	22,972
Under provision in prior years	5,591	542
	275,974	175,993

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (2003: 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, and the jointly controlled entity, Mazoon Petrogas (BVI) Limited, has no tax liability 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% (2003: 33%) for the year.

Pursuant to an approval from Karamay Tax Bureau on 6th July 2004, the taxable income in respect of the oil production under the Xinjiang Contract is entitled to preferential income tax rate of 15% for six years from 1st January 2003 to 31st December 2008.

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

	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	1,086,592	711,323
Calculated at the weighted average applicable tax rate	335,248	217,676
Effect of different tax rates	(21,441)	(18,918)
Income not subject to taxation	(34,254)	(18,780)
Utilisation of previously unrecognised tax losses	(11,095)	(8,471)
Under provision in prior years	5,591	542
Tax losses not recognised	1,925	3,944
Taxation charge	275,974	175,993

The weighted average applicable tax rate is the average of the aggregate of all domestic rates applicable for 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\$668,726,000 (2003: HK\$423,708,000).

8 DIVIDEND

Final, proposed, of HK\$0.035 (2003: HK\$0.02) per share

2004	2003
HK\$'000	HK\$'000
165,693	95,130

At a meeting held on 25th April 2005, 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 2005.

9 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$775,244,000 (2003: HK\$516,403,000).

The basic earnings per share is based on the weighted average number of 4,742,266,717 shares (2003: 4,809,148,034 shares) in issue during the year. The diluted earnings per share is based on 4,798,347,798 shares (2003: 4,839,411,192 shares) which is the weighted average number of shares in issue during the year plus the weighted average number of 56,081,081 shares (2003: 30,263,158 shares) which would be issued at no consideration on the exercise of all dilutive options.

10 STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

Wages and salaries
Social security costs
Unutilised annual leave
Termination benefits
Pension costs – defined contribution plan
Other staff costs

2004	2003
HK\$'000	HK\$'000
44,695	19,414
6,983	6,824
624	240
897	667
923	573
2,979	1,653
57,101	29,371

10 STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS (continued)

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 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\$923,000 (2003: HK\$573,000).

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:

	2004	2003
	HK\$'000	HK\$'000
Fees	927	550
Basic salaries, housing allowances, other allowances and benefits in kind	6,156	2,726
Pension contributions	769	341
	7,852	3,617

All directors' fees are paid to independent non-executive directors for the years ended 31st December 2004 and 2003.

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

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

Emolument bands	Number of directors	
	2004	2003
Nil – HK\$1,000,000	4	4
HK\$1,000,001 – HK\$2,000,000	1	2
HK\$2,000,001 – HK\$3,000,000	1	–
HK\$3,000,001 – HK\$4,000,000	1	–
	<u>7</u>	<u>6</u>

During the year, 27,000,000 options (2003: nil) were 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 2004 and 2003.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2003: three) directors whose emoluments are reflected in the analysis presented above. The emoluments received and receivable by the remaining two (2003: two) highest paid individuals during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other emoluments	1,918	1,654
Pension costs	216	183
Benefits from share options exercised	–	4,780
	<u>2,134</u>	<u>6,617</u>

For the year ended 31st December 2004

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

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

Emolument bands	Number of individuals	
	2004	2003
Nil – HK\$1,000,000	1	1
HK\$1,000,001 – HK\$2,000,000	1	–
HK\$6,000,001 – HK\$7,000,000	–	1
	<u>2</u>	<u>2</u>

12 PROPERTY, PLANT AND EQUIPMENT**Group**

	Oil and gas properties HK\$'000	Leasehold land and buildings HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost						
At 1st January 2004	4,443,215	–	2,066	2,224	35,666	4,483,171
Translation differences	7,049	–	–	–	3	7,052
Additions	501,080	5,407	360	422	54,325	561,594
Disposals	(73,453)	–	(30)	–	–	(73,483)
Transfers	36,234	–	(55)	(513)	(35,666)	–
	<u>4,914,125</u>	<u>5,407</u>	<u>2,341</u>	<u>2,133</u>	<u>54,328</u>	<u>4,978,334</u>
At 31st December 2004						
Accumulated depletion and depreciation						
At 1st January 2004	1,817,777	–	1,898	1,735	–	1,821,410
Translation differences	3,548	–	–	–	–	3,548
Charge for the year	504,181	96	69	44	–	504,390
Disposals	(66,069)	–	(27)	–	–	(66,096)
Transfers	26	–	(2)	(24)	–	–
	<u>2,259,463</u>	<u>96</u>	<u>1,938</u>	<u>1,755</u>	<u>–</u>	<u>2,263,252</u>
At 31st December 2004						
Net book value						
At 31st December 2004	<u>2,654,662</u>	<u>5,311</u>	<u>403</u>	<u>378</u>	<u>54,328</u>	<u>2,715,082</u>
At 31st December 2003	<u>2,625,438</u>	<u>–</u>	<u>168</u>	<u>489</u>	<u>35,666</u>	<u>2,661,761</u>

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

At 1st January 2004

Additions

Disposals

At 31st December 2004

Accumulated depreciation

At 1st January 2004

Charge for the year

Disposals

At 31st December 2004

Net book value

At 31st December 2004

At 31st December 2003

	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At 1st January 2004	1,961	403	2,364
Additions	108	–	108
Disposals	(30)	–	(30)
At 31st December 2004	2,039	403	2,442
At 1st January 2004	1,845	403	2,248
Charge for the year	59	–	59
Disposals	(27)	–	(27)
At 31st December 2004	1,877	403	2,280
At 31st December 2004	162	–	162
At 31st December 2003	116	–	116

13 INVESTMENTS IN SUBSIDIARIES**Company**

Unlisted shares

– at 1991 directors' valuation

Less: Provision for impairment loss

Amounts due from subsidiaries less provision

Dividends receivable

2004 HK\$'000	2003 HK\$'000
156,034	156,034
(110,087)	(110,087)
45,947	45,947
2,099,122	2,255,710
660,004	424,288
2,805,073	2,725,945

Details of principal subsidiaries, which in the directors' opinion, materially affect the results and/or net assets of the Group at 31st December 2004 are given in note 34.

For the year ended 31st December 2004

14 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	—	—	236,364	151,656
Share of net assets	542,827	472,714	—	—
Amounts due from jointly controlled entities	158,816	83,852	79,199	42,948
	701,643	556,566	315,563	194,604

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 2004 are given in note 35.

15 INVESTMENT IN AN ASSOCIATED COMPANY

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	142,138	84,107
Amount due from an associated company	8,112	—
	150,250	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, a subsidiary of CNPC, to acquire a 40% shareholding interest in CNPC International (Caspian) Limited. ("Caspian") for a consideration of US\$10,950,000 (equivalent to HK\$85,410,000). Caspian became an associated company of the Group after this transaction.

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, Kenyak (pre-salt) and Kenyak (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 accounts for the results of Aktobe on the basis of dividends received and receivable.

15 INVESTMENT IN AN ASSOCIATED COMPANY (continued)

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 2004, the profit before taxation and net asset value of Aktobe were US\$487,561,000 (approximately HK\$3,802,976,000) and US\$901,404,000 (approximately HK\$7,030,951,000) respectively. However, the latest financial statements were qualified with respect to an under accrual of a provision for a lawsuit in 2003. During the year, Caspian received dividend of US\$33,004,000 (approximately HK\$257,428,000) from Aktobe.

Details of the associated company are given in note 36.

16 OTHER NON-CURRENT ASSETS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Unlisted investments, at cost	1,496	1,496
Club debentures, at cost	666	432
	2,162	1,928

17 INVENTORIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Crude oil in tanks	10,799	20,074
Marina club debentures and wet berths	9,256	9,255
	20,055	29,329

As at 31st December 2004, the carrying amount of inventories that are carried at net realisable value amounted to HK\$8,720,000 (2003: HK\$8,720,000).

18 TRADE RECEIVABLES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Trade receivables from third parties	45,326	42,128
Amounts due from related parties (note (a))	34,188	26,961
	79,514	69,089

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 2004 and 31st December 2003, all trade receivables were aged within three months.

19 BANK BALANCES AND CASH

As at 31st December 2004, the bank balances of the Group of RMB203,792,000 (approximately HK\$192,148,000) (2003: RMB193,203,000, approximately HK\$182,164,000) and RMB787,337,000 (approximately HK\$742,350,000) (2003: RMB618,338,000, approximately HK\$583,008,000) 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.

49

20 TRADE PAYABLES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Trade payables to third parties	40,921	62,737
Amounts due to related parties (note)	13,829	29,327
	54,750	92,064

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

20 TRADE PAYABLES (continued)

The ageing analysis of trade payables is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within three months	45,999	82,321
Between three to six months	2,154	2,749
Over six months	6,597	6,994
	54,750	92,064

21 OTHER PAYABLES AND ACCRUALS

Amounts due to related parties of HK\$181,371,000 (2003: HK\$28,861,000) are included in the other payables and accruals which are unsecured, interest free and have no fixed terms of repayment.

22 DEFERRED CHARGE

	Group	
	2004	2003
	HK\$'000	HK\$'000
At 1st January	51,311	77,847
Movement for the year (note 30)	(26,353)	(26,536)
At 31st December	24,958	51,311
Representing:		
Group's share of investment recovery of oil properties recorded by the Joint Development Department ("JDD")	501,798	421,505
Depletion and depreciation charge incurred by the Group	(476,840)	(370,194)
	24,958	51,311

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.

For the year ended 31st December 2004

23 SHARE CAPITAL

	2004 HK\$'000	2003 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	47,565	48,812
Repurchase of own shares	(224)	(1,347)
Exercise of share options	<u>–</u>	<u>100</u>
At 31st December		
4,734,093,512 (2003: 4,756,503,512) shares of HK\$0.01 each	<u>47,341</u>	<u>47,565</u>

During the year, 22,410,000 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 2004, 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, 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 8th January 2004, a total of 7,000,000 options were granted to two independent directors at an exercise price of HK\$1.362 per share expiring on 7th January 2009.

On 25th June 2004, a total of 25,000,000 options were granted to a director and an employee at an exercise price of HK\$0.94 per share expiring on 24th June 2009.

23 SHARE CAPITAL (continued)

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

	Number of options	
	2004	2003
At 1st January	100,000,000	140,000,000
Granted	32,000,000	5,000,000
Exercised	—	(10,000,000)
Lapsed	—	(5,000,000)
Cancelled	—	(30,000,000)
At 31st December	132,000,000	100,000,000

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

Exercisable period	Exercise price	Number of options	
		2004	2003
Directors:			
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	60,000,000
8th April 2004 to 7th January 2009	1.362	7,000,000	—
25th September 2004 to 24th June 2009	0.94	20,000,000	—
		127,000,000	100,000,000
Employees:			
25th September 2004 to 24th June 2009	0.94	5,000,000	—
		132,000,000	100,000,000

For the year ended 31st December 2004

24 RESERVES

Group	Contributed surplus HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000
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>
At 1st January 2004	134,323	1,313,079	(3,530)	1,904,107	3,347,979
Translation differences	—	—	2,655	—	2,655
Repurchase of own shares	—	(20,542)	—	—	(20,542)
Profit for the year	—	—	—	775,244	775,244
2003 final dividend paid	—	—	—	(94,681)	(94,681)
At 31st December 2004	<u>134,323</u>	<u>1,292,537</u>	<u>(875)</u>	<u>2,584,670</u>	<u>4,010,655</u>
Representing:					
2004 final dividend proposed					165,693
Reserves at 31st December 2004					<u>3,844,962</u>
At 31st December 2004					<u>4,010,655</u>
Company and subsidiaries	134,323	1,292,537	(875)	2,498,380	3,924,365
Jointly controlled entities	—	—	—	29,562	29,562
An associated company	—	—	—	56,728	56,728
At 31st December 2004	<u>134,323</u>	<u>1,292,537</u>	<u>(875)</u>	<u>2,584,670</u>	<u>4,010,655</u>

24 RESERVES (continued)

Company	Contributed surplus HK\$'000	Share premium HK\$'000	Retained profit HK\$'000	Total HK\$'000
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)
At 31st December 2003	<u>133,795</u>	<u>1,313,079</u>	<u>1,562,491</u>	<u>3,009,365</u>
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>
At 1st January 2004	133,795	1,313,079	1,562,491	3,009,365
Repurchase of own shares	–	(20,542)	–	(20,542)
Profit for the year	–	–	668,726	668,726
2003 final dividend paid	–	–	(94,681)	(94,681)
At 31st December 2004	<u>133,795</u>	<u>1,292,537</u>	<u>2,136,536</u>	<u>3,562,868</u>
Representing:				
2004 final dividend proposed				165,693
Reserves at 31st December 2004				<u>3,397,175</u>
At 31st December 2004				<u>3,562,868</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 amount to HK\$2,270,331,000 (2003: HK\$1,696,286,000) as at 31st December 2004.

25 LONG TERM BORROWINGS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Bank loan, unsecured (note a)	312,000	312,000
Loan from a related company (note b)	42,120	62,400
	354,120	374,400
Current portion of long term borrowings	(332,280)	(20,280)
	21,840	354,120

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 or before 17th 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 US\$2,600,000 (approximately HK\$20,280,000) is repayable before 31st December 2005 whilst the remainder is repayable before 31st December 2006.

26 DEFERRED TAXATION

The movement in net deferred tax liabilities is as follows:

	2004	2003
	HK\$'000	HK\$'000
At 1st January	192,424	169,452
(Credited)/charged to profit and loss account (note 6)	(3,039)	22,972
At 31st December	189,385	192,424

26 DEFERRED TAXATION (continued)

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

Deferred tax assets

	Others
	2004 HK\$'000
	2003 HK\$'000
At 1st January	23,119
(Charged)/credited to profit and loss account	(5,694)
At 31st December	17,425

Deferred tax liabilities

	Accelerated tax depreciation and deferred development costs
	2004 HK\$'000
	2003 HK\$'000
At 1st January	215,543
(Credited)/charged to profit and loss account	(8,733)
At 31st December	206,810

As at 31st December 2004, the Group had tax losses carried forward for Thailand income tax purpose and Hong Kong profits tax purpose amounting to HK\$66,721,000 (2003: HK\$88,638,000) and HK\$21,047,000 (2003: HK\$20,226,000), respectively. The tax losses are available to reduce future taxable income, if any, however, the deferred tax effect amounting to HK\$37,044,000 (2003: HK\$47,858,000) 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.

27 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	2004 HK\$'000	2003 HK\$'000
Sale of crude oil	(i)	529,605	430,947
Operating management	(ii)	132,242	123,149
Perforation fees	(iii)	1,283	1,235
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 in accordance with the terms of the perforation contract.

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.

27 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	2004 HK\$'000	2003 HK\$'000
Sale of crude oil	(i)	1,267,570	1,133,273
Operating management	(ii)	249,024	262,246
Drilling fees	(iii)	167,565	187,876
Surveying fees	(iv)	13,556	12,629
Perforation fees	(v)	10,585	3,201
Quantifying fees	(vi)	3,692	4,546
Construction work	(vii)	17,468	8,192
Purchases of equipment	(viii)	45,109	46,545
Operation and support services fee		1,759	1,845
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 RMB116 (approximately HK\$109) to RMB4,070 (approximately HK\$3,837) (2003: RMB863 to RMB3,998) per metre.
- (iv) The surveying fees were paid at RMB0.82 (approximately HK\$0.77) (2003: 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) (2003: RMB279) per standard shot 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 RMB26 (approximately HK\$25) to RMB31 (approximately HK\$29) (2003: RMB25.9) per metre.
- (vii) The fees paid for construction services in respect of the construction of oil pipes were governed by contracts which were set with reference to the rates used in the region.
- (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.

27 RELATED PARTY TRANSACTIONS (continued)

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

	Note	2004 HK\$'000	2003 HK\$'000
Lease rental of oil field equipment	(i)	17,260	—
Purchase of materials	(ii)	20,190	—
Purchase of drilling spare parts	(ii)	2,074	—
		<u> </u>	<u> </u>

Notes:

- (i) The lease rental of oil field equipment was charged in accordance with the terms of the lease agreement which ranged from US\$595 (approximately HK\$4,641) to US\$6,143 (approximately HK\$47,915) per day.
- (ii) The prices of materials and drilling spare parts were charged in accordance with the terms of the sales contract.

- (d) In connection with the Onshore Exploration Block No. L21/43 in Thailand, the Group entered into the following transactions with related parties:

	Note	2004 HK\$'000	2003 HK\$'000
Geophysical and geological studies	(i)	2,919	—
Geophysical services	(i)	7,277	—
Purchase of seamless steel casing and tubing	(ii)	2,595	—
		<u> </u>	<u> </u>

Notes:

- (i) The geophysical and geological studies and geophysical services were charged in accordance with the terms of the geophysical and geological studies agreement and geophysical service contract respectively.
- (ii) The prices of seamless steel casing and tubing were charged at USD1.10 (approximately HK\$8.56) and USD1.21 (approximately HK\$9.44) per kilogram, respectively in accordance with the term of the sales contract.

- (e) Rental expense amounting to HK\$373,000 (2003: HK\$498,000) was paid to a fellow subsidiary in accordance with a lease agreement at a monthly rate of HK\$31,000.
- (f) Interest expense amounting to HK\$4,641,000 (2003: HK\$2,527,000) was paid to China Petroleum Finance Company Limited, a subsidiary of CNPC (note 25).
- (g) Technical services fee amounting to HK\$3,893,000 (2003: HK\$3,863,000) was paid to China Petroleum Technology & Development Corporation by SAPET Development Corporation for the year. Such fee was charged in accordance with the terms stipulated in the technical services contract.

28 COMMITMENTS**(a) Capital commitments**

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted but not provided for				
Development cost under the Leng Jiapu Contract	290,402	316,802	—	—
Development cost under the Xinjiang Contract	65,233	53,887	—	—
Development cost for Onshore Exploration Block No. L21/43 in Thailand (note)	77,307	102,492	—	—
Development cost for Azerbaijan Kursangi and Kurabagli oil field	141,720	84,138	—	—
Development cost for Peru Talara oil field	18,486	—	—	—
Development cost for Thailand Sukhothai oil field	39,780	—	—	—
	632,928	557,319	—	—

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.

(b) Operating lease commitments

At 31st December 2004, 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	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Not later than one year	781	867	373	373
Later than one year and not later than five years	2,264	2,224	995	1,369
Later than five years	924	1,056	—	—
	3,969	4,147	1,368	1,742

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

	2004	2003
	HK\$'000	HK\$'000
Operating profit	1,029,760	674,867
Depletion and depreciation of property, plant and equipment	504,390	504,297
(Gain)/loss on disposal of property, plant and equipment	(1,714)	3
Interest income	(21,599)	(15,041)
Operating profit before working capital changes	1,510,837	1,164,126
Decrease in inventories	9,274	2,535
Decrease/(increase) in trade receivables, deposits, prepayments and other receivables	15,947	(4,221)
Increase in trade payables, other payables and accruals	107,002	48,144
Decrease in deferred charge	(26,353)	(26,536)
Net cash inflow generated from operations	1,616,707	1,184,048

(b) 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 a minority shareholder HK\$'000	Dividend payable HK\$'000
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	1,360,644	374,400	137,653	—	—
As 1st January 2004	1,360,644	374,400	137,653	—	—
Minority interests' share of profits less losses	—	—	35,374	—	—
Dividends	—	—	—	—	95,130
Effect of share repurchase	—	—	—	—	(449)
Cash outflows from financing	(20,766)	(20,280)	(39,000)	—	(94,681)
As 31st December 2004	1,339,878	354,120	134,027	—	—

30 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 enterprise 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.

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:

	2004 HK\$'000	2003 HK\$'000
(a) Results for the year		
Turnover	<u>529,605</u>	<u>430,947</u>
Operating profit	<u>241,036</u>	<u>158,756</u>
Operating profit is arrived at after charging/(crediting) the following:		
Depletion and depreciation of oil properties	109,766	107,821
Deferred charge (note 22)	<u>(26,353)</u>	<u>(26,536)</u>
(b) Assets and liabilities		
Oil properties	377,910	423,069
Current assets	197,668	212,344
Current liabilities (excluding amount due to a group company)	(67,060)	(92,695)
Amount due to a group company	(168,974)	(173,186)
Non-current liabilities	<u>(1,957)</u>	<u>(1,326)</u>
Net assets	<u>337,587</u>	<u>368,206</u>
(c) Capital commitments		
Authorised but not contracted for	<u>65,233</u>	<u>53,887</u>

31 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 enterprise 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.

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:

	2004 HK\$'000	2003 HK\$'000
(a) Results for the year		
Turnover	<u>1,267,570</u>	<u>1,133,273</u>
Operating profit	<u>557,864</u>	<u>397,797</u>
Operating profit is arrived at after charging the following:		
Depletion and depreciation of oil properties	<u>295,749</u>	<u>321,030</u>
(b) Assets and liabilities		
Oil properties	1,430,213	1,398,763
Current assets	786,729	606,966
Current liabilities (excluding amount due to a group company)	(288,200)	(182,785)
Amount due to a group company	(508,354)	(424,025)
Non-current liabilities	<u>(132,701)</u>	<u>(142,829)</u>
Net assets	<u>1,287,687</u>	<u>1,256,090</u>
(c) Capital commitments		
Authorised but not contracted for	<u>290,402</u>	<u>316,802</u>

32 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.

33 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 25th April 2005.

34 PRINCIPAL SUBSIDIARIES

As at 31st December 2004

Name	Place of incorporation and type of legal entity	Particulars of issued shares	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	—
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	—
Operated in the Sultanate of Oman				
Bestcode Company Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1	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

34 PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation and type of legal entity	Particulars of issued shares	Percentage of equity shares held	
			By the Company	By the Group
(a) Investment holding (continued)				
Operated in Thailand (continued)				
Modern Ahead Developments Limited	Thailand, limited liability company	1 ordinary share of US\$1	100	—
Operated in the Republic of Kazakhstan				
Bestory Company Inc.	British Virgin Islands, limited liability company	1 ordinary share of US\$1	100	—
Operated in the Azerbaijan Republic				
Smart Achieve Developments Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1	100	—
(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	—
Beckbury International Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1	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

34 PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation and type of legal entity	Particulars of issued shares	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	—
(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

For the year ended 31st December 2004

35 JOINTLY CONTROLLED ENTITIES**As at 31st December 2004**

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 ventures	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 ventures	Operation of a web portal in the PRC	32
青島慶昕塑料有限公司	PRC, equity joint ventures	Production of petro-chemical products in the PRC	25
青島凱姆拓塑膠 工業有限公司	PRC, equity joint ventures	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

67

36 ASSOCIATED COMPANY**As at 31st December 2004**

Name	Place of Incorporation and type of legal entity	Principal activity and place of operation	Particulars of issued shares	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