# Contents

# Corporate Information

**Directors as at 28th April 2000**

Zhang Ruchun *(Executive Chairman)*
Xu Tianshu
Lin Jingao
Lau Wah Sum, LLD, JP
Aubrey Li Kwok Sing

**Secretary**

Lau Hak Woon

**Bermuda Resident Representative**

Codan Services Limited
Clarendon House
Church Street
Hamilton HM11, Bermuda

**Auditors**

PricewaterhouseCoopers

**Bankers**

Bank of Bermuda Limited
Standard Chartered Bank
Bank of China
International Bank of Asia

**Solicitors**

Baker & McKenzie

**Registered Office**

Clarendon House
Church Street
Hamilton HM11, Bermuda

**Principal Office**

Room 3907-3910, 39/F.
118 Connaught Road West
Hong Kong
Telephone: 2522 2282
E-mail : info@cnpc.com.hk
Fax: 2868 1741

**Principal Registrars**

Bank of Bermuda Limited
6 Front Street
Hamilton HM11, Bermuda

**Registrars in Hong Kong**

Secretaries Limited
5th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the Company will be convened at Coral Room 2, 3/F, Furama Hotel, One Connaught Road Central, Hong Kong on Tuesday, 13th June 2000 at 11:00 a.m. for the following purposes:–

1. To receive, consider and adopt the Financial Statements and the reports of Directors and of the Auditors for the year ended 31st December 1999.

2. To elect Directors and to authorise directors to fix the remuneration of the Directors.

3. To appoint auditors for the ensuing year and to authorise directors to fix their remuneration.

4. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution by way of special business:

   "**THAT**

   (a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as defined in paragraph (c) of this Resolution) of all the powers of the Company to purchase shares of HK$0.01 each in the capital of the Company be and is hereby generally and unconditionally approved;

   (b) the total nominal amount of the shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of this Resolution, and the said approval shall be limited accordingly; and

   (c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

      (i) the conclusion of the next Annual General Meeting of the Company;

      (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Bye-laws of the Company or any applicable law of Bermuda to be held; or

      (iii) the revocation or variation of this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

5. To consider and, if thought fit, pass with or without amendment, the following resolution as ordinary resolution by way of special business:–

“**THAT** there be granted to the Directors of the Company an unconditional general mandate to allot, issue and deal with additional shares in the capital of the Company, and to make or grant offers, agreements and options in respect thereof, subject to the following conditions:–

(A) such mandate shall not extend beyond the Relevant Period save that the Directors may during the Relevant Period make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(B) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors otherwise than pursuant to a Rights Issue or the Company’s Executive Share Option Scheme (the “Share Option Scheme”), shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution.

(C) such mandate shall be additional to the authority to be given to the Directors to grant options under the Share Option Scheme and, at any time, to allot and issue additional shares in the capital of the Company arising from the exercise of subscription rights under such options; and

(D) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:–

(i) the conclusion of the next Annual General Meeting of the Company;

(ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Bye-laws of the Company or any applicable law of Bermuda to be held; or

(iii) the revocation or variation of this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the Directors made to holders of shares on the Register of Members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restriction or obligation under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, or in any territory outside, Hong Kong and Bermuda)."

6. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution by way of special business:

   "**THAT** the general mandate granted to the Directors of the Company to exercise the powers of the Company to issue, allot and dispose of shares pursuant to Resolution 5 above be and is hereby extended by the addition to the total nominal amount of share capital and any shares which may be issued, allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to such general mandate an amount representing the total nominal amount of shares in the capital of the Company which has been purchased by the Company since the granting of such general mandate pursuant to Resolution 4 above, provided that such amount shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of this Resolution."

By Order of the Board
**Lau Hak Woon**
*Company Secretary*

Hong Kong, 28th April 2000

*Notes:*

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

2. To be valid, the form of proxy, together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's principal office at Room 3907-3910, 39/F., 118 Connaught Road West, Hong Kong not less than 48 hours before the time appointed for holding the meeting or adjourned meeting. The form of proxy must be completed strictly in accordance with the instructions set out therein.

3. Concerning item 2 above, in accordance with Article 97 of the Company's Bye-laws, Mr. Lau Wah Sum retires at the forthcoming Annual General Meeting, and being eligible, offers himself for re-election.

4. Concerning item 5 above, the directors presently have no intention to issue any new shares of the Company other than shares which may fall to be issued pursuant to the exercise of options under the Executive Share Option Scheme of the Company.

## RESULTS

On behalf of the Board, I hereby report to all shareholders that the audited consolidated results of the Group for the year ended 31st December 1999 has recorded a consolidated operating profit after taxation and minority interest of HK$221.834 million, representing an increase of 65.3% as compared with a profit of HK$134.211 million for the corresponding period of 1998.

With the effort of all staff of the Group, this year showed an increase in sales of crude oil of 28.3% and turnover of 39.5% as well as a decrease in operating expenses of 7.2% as compared with the corresponding period of the previous year. The weighted average selling price per barrel was approximately US$15.0, compared with US$13.8 per barrel of the previous year, representing an increase in weighted average oil price of approximately 8.5% and an increase in overall profit of 65.3%.

## BUSINESS REVIEW

### Liaohe Leng Jiapu Oil Field

The Liaohe Leng Jiapu Oil Contract Zone sold a total of 1.28 million tonnes of crude oil, representing an increase in sales of approximately 30.7% compared with the corresponding period of the previous year (sales for only ten months were recorded from March 1998 to December 1998), whereas operating expenses decreased by approximately 9.7%. On a 70% share basis, profit after taxation attributable to the Group was HK$191 million, or an increase of 108.2%.

Pursuant to the Leng Jiapu Contract, the Group is responsible for 70% of the development costs, and thus a contribution of RMB177 million was made by the Group during the period as part of the funds required for the drilling of new wells and construction of ground production facilities.

### Xinjiang Karamay Oil Field

The Xinjiang Karamay Contract Zone sold a total of 0.88 million tonnes of crude oil, representing an increase in sales of approximately 25.2% as compared with the corresponding period of the previous year. Operating expenses were also controlled at 3.3% less than that of the previous year. On a 54% share basis, profit after taxation attributable to the Group was HK$43.9 million, or an increase of 20.9%.

### The Sukhothai Concession in Thailand

With the unremitting effort of our staff to increase the efficiencies as well as to reduce costs since the Group's taking over of the Sukhothai Concession in Thailand in 1999, it has achieved a break-even. It is intended that seven wells will be drilled during 2000 to increase productivity and the Group will continuously focus on costs control to improve efficiencies.

### Marina Venture

The sale of club debentures and berths together with rental of berths of The Clearwater Bay Golf & Country Club continued to be seriously affected by the adverse market conditions. No revenue from the sale of berths and club debentures was recorded in 1999 and the rental of berths was HK$0.67 million, representing a decrease of 24% when compared with HK$0.88 million in 1998.

Since Marina Venture is not the core business of the Group, its performance does not have a significant impact on the Group's revenue as a whole, and income from this source will decline gradually until the assets of Marina Venture are disposed of completely. The Group will expedite the sale of these assets.

## PROSPECTS FOR 2000

The Group was at the beginning of this year informed by its ultimate controlling shareholder, China National Petroleum Corporation ("CNPC") who held 53.17% of the issued share capital of the Company through Sun World that CNPC has provided an undertaking (the "Undertaking") in favour of PetroChina Company Limited ("PetroChina"), a subsidiary of CNPC, that is relevant to the Group.

Pursuant to the Undertaking, CNPC will undertake to PetroChina that it will and will procure its subsidiaries (including the Group) not to develop, operate or assist in operating, involving and engaging in activities such as the exploitation, production and sale of oil that will or may lead to direct or indirect competition with the existing business of PetroChina without the prior written consent of PetroChina (which consent shall not be given unless reviewed and approved by the independent non-executive directors of PetroChina). For details please refer to the announcement dated 1st March 2000.

Under the Undertaking, the Group continue to be entitled to hold interest in the three projects, being the Karamay Oil Field and Leng Jiapu Oil Field in the PRC and the Sukhothai Concession in Thailand (the "Three Projects") and operate the relevant businesses. PetroChina will not be granted any pre-emptive right to acquire any shareholding of CNPC in the Group, or acquire from the Group any right and interest of the Group in the Three Projects.

CNPC has restated to the Company that the interest in the Company held through Sun World is regarded to be of strategic importance. Further, CNPC has no intention to make any change to the listing status of the Company in Hong Kong, and CNPC will continue to seek opportunities to be in line with the Group's activities subject to the Undertaking and the Listing Rules of The Stock Exchange of Hong Kong Limited.

Given the above, the Board considers year 2000 to be a year of challenge to the Group, and is aggressively considering the Group's future development. The Group will continue to improve the management of the existing Three Projects, control costs, improve efficiencies and stablise income, grasp any new opportunities that arise and endeavour to invest in assets of good quality.

## DIVIDEND

The directors do not recommend the payment of a dividend for the year, given that cash shall be retained for continuous business development purpose.

## YEAR 2000 COMPLIANCE

To ensure that the year 2000 issue will not have an impact on the transition of business of the Group through year 2000, the upgrading and replacement of computer system and software has been completed and commissioned in 1999 as scheduled, and no problem has been identified so far. The directors of the Group have confidence in minimizing the effect of the year 2000 issue on the operation of the Group.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the year under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any ordinary shares of the Group.

## CORPORATE GOVERNANCE

The Group has fully complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited during the year.

By Order of the Board

**Zhang Ruchun**
*Executive Chairman*

Hong Kong, 28th April 2000

## RESULTS OF OPERATIONS

The turnover for the Group of HK$1,084 million for the year ended 31st December 1999 reflected an increase of 39.5% when compared to the previous year of HK$777 million. The increase in turnover was a direct result of the increase of weighted average unit crude oil price from US$13.8/barrel to US$15.0/barrel and the share of a full year crude oil production from the Liaohe Leng Jiapu oil field.

The profit after taxation for the current year was HK$222 million as compared to HK$134 million for the previous year, an increase of HK$88 million or 65.3%. The increase in profit was attributable to an increase of gross profit as a result of unit crude oil price increase and sales volume increase.

## LIQUIDITY AND CAPITAL RESOURCES

As at 31st December 1999, the Group's total assets amounted to HK$2,701 million, an increase of HK$271 million or 11% over that of last year.

The major changes are summarised below:

| | **Increase/(decrease)**<br>**HK$'000** |
|---|---|
| Oil property | 69,952 |
| Amount due from Liaohe Petroleum Exploration Bureau | 238,484 |
| Cash & bank balances | (36,851) |
| | 271,585 |

From the date of commencement of the Leng Jiapu Contract to 31st December 1999, the full acquisition cost RMB1,008 million was paid according to the Leng Jiapu Contract. RMB177 million was paid for the development of the said oil field in 1999 in accordance with the contract.

According to the production sharing contract for the development of Karamay oil field, from the date of commencement of the contract to 31st December 1999, a total of US$66 million cash (approximately HK$511 million) was injected into Karamay for the Infill Development Programme. An addition of US$21 million (approximately HK$166 million) was further injected out of investment recovery and profits.

As at 31st December 1999, the Group was in a net cash position and its total liabilities represented 0.24 times of the Group's shareholders' funds.

## USE OF PROCEEDS

In 1999, the Company has not issued any new shares to the public.

After taking into account the cashflow from operating activities, cash and bank balances of HK$386 million were retained in the Group as at 31st December 1999.

The directors submit their report together with the audited accounts for the year ended 31st December 1999.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its subsidiaries are the exploration and production of crude oil in the People’s Republic of China (“PRC”) and Thailand, holding of wet berths and marina club debentures and the leasing of wet berths.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December 1999 are set out in the consolidated profit and loss account on page 21.

The directors do not recommend the payment of a dividend in respect of the year ended 31st December 1999.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 24 to the accounts.

## DONATIONS

The Group has not made any charitable and other donations in the year (1998: HK$10,000).

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 61.

## FIXED ASSETS

Details of the movements in fixed assets and oil property are shown in notes 12 and 13 to the accounts.

## DIRECTORS

The directors during the year and up to the date of this report are:

Mr Zhang Ruchun
Mr Xu Tianshu
Mr Lin Jingao
Dr Lau Wah Sum
Mr Aubrey Li Kwok Sing
Mr Xu Xiaolu (resigned on 1st January 2000)

In accordance with Article 97 of the Company's Bye-Laws, Dr Lau Wah Sum retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

None of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation.

Dr Lau Wah Sum, Independent Non-Executive Director, was appointed for a two-year term expiring on 31st December 2000.

Mr Aubrey Li Kwok Sing, Independent Non-Executive Director, was appointed for a two-year term expiring on 29th July 2000.

The terms of office of the Independent Non-Executive Directors are subject to retirement as required by the Company's Bye-Laws.

## BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

### Directors

**Mr Zhang Ruchun** *(Executive Chairman)*
Age 59, graduated from the Beijing College of Petroleum, Department of Business Management in 1965. Mr Zhang has more than 30 years' experience in the petroleum industry. He has worked at Sheng Li Petroleum Administration Bureau as the Chief of Division of Planning, Chief Economist, Deputy Director and Chief Economist. He was appointed as the Chief Representative of China National Petroleum Corporation ("CNPC") Hong Kong Office from 1996. In 1997, he joined the Company as Executive Chairman; and CNPC Hong Kong (Holdings) Limited, a fellow subsidiary of the Company as Vice-Chairman and President.

**Mr Xu Tianshu** *(Executive Director)*
Age 33, graduated from Petroleum University of Beijing with Bachelor and Master Degree of Science in Management Engineering. Mr Xu joined China National Petroleum Corporation in 1990. He has worked at the former Shanghai Petroleum Exchange and Beijing Petroleum Exchange as Director of a division. Since July 1997, Mr Xu worked as Deputy Director of Petroleum Economy Division of CNPC Economy and Information Research Centre. He joined the Company in July 1998 and was appointed as Executive Director in December 1998.

**Mr Lin Jingao** *(Non-Executive Director)*
Age 55, graduated from the Beijing College of Petroleum, Department of Economics in 1967. Mr Lin has more than 30 years' experience in petroleum economics and financial management. He has worked at Sichuan Petroleum Administration Bureau as Deputy Chief of Economic Research. Since August 1994, Mr Lin worked as the Chief Financial Controller and Deputy Director of CNPC's Finance Department. In 1997, he joined the Company and CNPC Hong Kong (Holdings) Limited as Non-Executive Director.

## BRIEF BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT (continued)

### Directors (continued)

**Dr Lau Wah Sum,** LLD, JP *(Independent Non-Executive Director)*
Age 72, is a registered Investment Adviser and Fellow of the Chartered Institute of Management Accountants. He is currently the President of W S Lau & Associates Limited and Chairman of Equity Holdings Limited. He serves the community as Chairman of The Land Development Corporation, Treasurer and Council Member of the University of Science and Technology of Hong Kong. He also sits on the Board of several listed companies in Hong Kong. He joined the Company as an Independent Non-Executive Director in August 1994.

**Mr Aubrey Li Kwok Sing** *(Independent Non-Executive Director)*
Age 50, was appointed as an Independent Non-Executive Director of the Company in 1998. He is a director of Management Capital Limited and has over 26 years' experience in merchant banking and commercial banking. He is also a non-executive director of The Bank of East Asia, Limited, Café de Coral Holdings Limited and China Everbright International Limited. Mr Li has a Master of Business Administration from Columbia University and a Bachelor of Science in Civil Engineering from Brown University.

### Senior Management

**Mr Lau Hak Woon** *(General Manager – Finance and Company Secretary)*
Age 47, member of Hong Kong Society of Accountants (HK); fellow member of The Chartered Association of Certified Accountants (UK) and Certified Management Accountant of the Society of Management Accountants of Ontario (Canada). He has more than 20 years' experience in accounting and financial management. He joined the Company in 1997. Before joining the Company, he was the Financial Controller of a large trading company in Hong Kong.

## DIRECTORS' INTERESTS IN CONTRACTS

On 15th January 1997, the Company entered into a consultancy agreement with W S Lau & Associates Limited of which Mr Lau Wah Sum is a shareholder and director. Pursuant to the agreement, W S Lau & Associates Limited will provide general consultancy services to the Company with effect from 1st January 1997 in return for a consultancy fee of HK$350,000 per annum. The agreement shall continue until terminated by either party by six months' written notice.

Save for the above, no other contracts of significance in relation to the Company's business to which the Company, its fellow subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN SHARES

At 31st December 1999, the interests of the directors and chief executive in the shares of the Company as recorded in the register maintained under section 29 of the Securities (Disclosure of Interests) Ordinance or as notified to the Company were as follows:

(a) Messrs Zhang Ruchun and Xu Xiaolu are directors of Sun World Limited ("Sun World") which beneficially owned 2,817,897,342 shares in the Company as at 31st December 1999. Sun World is a wholly owned subsidiary of CNPC, the Company's ultimate holding company incorporated in the PRC.

(b) Pursuant to a resolution passed on 23rd October 1991, the directors of the Company may, at their discretion, invite executives of any companies within the Group, including executive directors, to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Company's executive share option scheme.

## DIRECTORS' INTERESTS IN SHARES (continued)

Details of options granted by the Company are as follows:

| Name | Date of issue | Exercise price | Options outstanding at year end | Expiry date |
|---|---|---|---|---|
| | | HK$ | | |
| Zhang Ruchun | 16th June 1997 | 1.31 | 20,000,000 | 15th June 2002 |
| Lin Jingao | 16th June 1997 | 1.31 | 20,000,000 | 15th June 2002 |
| Lau Hak Woon | 16th June 1997 | 1.39 | 5,000,000 | 15th June 2002 |
| | 3rd March 1998 | 1.61 | 5,000,000 | 3rd March 2003 |
| Xu Tianshu | 12th May 1999 | 0.91 | 20,000,000 | 11th May 2004 |

Save for the above, at no time during the year was the Company, its fellow subsidiaries or its holding company a party to any arrangements to enable the directors or chief executive or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

At 31st December 1999, the register of substantial shareholders maintained under section 16(1) of the Securities (Disclosure of Interests) Ordinance, showed that the Company has been notified of the following interests, being 10% or more of the Company's issued share capital:

| Name | Number of shares |
|---|---|
| Sun World | 2,817,897,342* |

* *2,468,432,468 shares are registered under the name of HKSCC Nominees Limited.*

Sun World is a wholly owned subsidiary of CNPC, accordingly CNPC is deemed to be interested in the 2,817,897,342 shares held by Sun World.

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

No pre-emptive rights exist under Bermuda Law in relation to issues of new shares of the Company.

## CONNECTED TRANSACTIONS

During the year, the Group entered into certain transactions with related parties, which are set out in note 26 to the accounts and constitute connected transactions under the Chapter 14 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, on normal commercial terms and in the normal course of the Group's business activities.

The Independent Non-Executive Directors, Dr Lau Wah Sum and Mr Aubrey Li Kwok Sing, have reviewed the above transactions and confirm that these transactions are in the ordinary and usual course of business, on normal commercial terms and are fair and reasonable so far as the interests of shareholders of the Company are concerned.

## MANAGEMENT CONTRACTS

Save for the various contracts mentioned in the section headed "Connected Transactions" in relation to the management of the oil production under the Xinjiang Contract and the Leng Jiapu Contract, no other contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentage of the Group's purchases and sales attributable to major suppliers and customers are as follows:

| | |
|---|---|
| Percentage of purchases attributable to the Group's largest supplier | 42% |
| Percentage of purchases attributable to the Group's five largest suppliers | 72% |
| Percentage of sales attributable to the Group's largest customer | 66% |
| Percentage of sales attributable to the Group's five largest customers | 99% |

Xinjiang Petroleum Administration Bureau is the Group's largest supplier.

Liaohe Petroleum Exploration Bureau is the Group's largest customer.

Save for the above, none of the directors, their associates or any shareholders which to the knowledge of the directors owns more than 5% of the Company's share capital has an interest in the major suppliers or customers noted above.

## CORPORATE GOVERNANCE

During the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

## AUDIT COMMITTEE

Pursuant to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited, an audit committee, comprising two independent non-executive directors, namely Dr Lau Wah Sum and Mr Aubrey Li Kwok Sing was established on 8th December 1998.

By reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the Board of the Company on the same date. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

## YEAR 2000

Details of the Group's assessment of the Year 2000 problem, structure and progress of the compliance project have been disclosed in the interim report dated 22nd September 1999. The Group became Year 2000 compliant in mid-1999. The total costs of the Year 2000 projects which amounted to HK$300,000, have been fully expensed to the profit and loss account. The Group has no further commitments in respect of the Year 2000 project.

The Group has not experienced any Year 2000 non-compliance issues and the directors are confident that the effects of the Year 2000 issue to the Group's business are minimal.

## SUBSEQUENT EVENTS

Details of significant subsequent events are set out in note 32 to the accounts.

## AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

PricewaterhouseCoopers replaced Price Waterhouse in 1999 following the merger with Coopers & Lybrand.

On behalf of the Board

**Zhang Ruchun**
*Executive Chairman*

Hong Kong, 28th April 2000

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

**TO THE SHAREHOLDERS OF CNPC (HONG KONG) LIMITED**
*(Incorporated in Bermuda with limited liability)*

We have audited the accounts on pages 21 to 60 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

## BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion the accounts give a true and fair view, in all material respects, of the state of affairs of the Company and the Group as at 31st December 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 28th April 2000

# Consolidated Profit and Loss Account

**For the year ended 31st December, 1999**

| | Note | **1999** **HK$'000** | 1998 HK$'000 |
|---|---|---|---|
| Turnover | 3 | **1,083,948** | 776,854 |
| Cost of sales | | **730,410** | 604,425 |
| Gross profit | | **353,538** | 172,429 |
| Other operating income | 4 | **4,832** | 12,673 |
| Administrative expenses | | **(20,015)** | (23,424) |
| Net finance income | 5 | **1,802** | 30,016 |
| Profit before taxation | 6 | **340,157** | 191,694 |
| Taxation | 8 | **118,323** | 57,483 |
| Profit for the year retained | 9 & 24 | **221,834** | 134,211 |
| Earnings per share | 10 | **4.19 cents** | 2.71 cents |

# Consolidated Balance Sheet

**As at 31st December, 1999**

| | *Note* | **1999** | 1998 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| Fixed assets | 12 | **1,694** | 1,427 |
| Oil property | 13 | **2,013,644** | 1,943,692 |
| Other non-current assets | | **8,896** | 13,188 |
| Current assets | | | |
| Inventories | 15 | **28,067** | 18,630 |
| Trade and other receivables | | **12,540** | 17,282 |
| Amount due from Xinjiang Petroleum Administration Bureau | 16 | **6,393** | 7,728 |
| Amount due from Liaohe Petroleum Exploration Bureau | 17 | **243,887** | 5,403 |
| Amounts due from other related parties | 18 | **401** | 743 |
| Cash and bank balances | | **385,814** | 422,665 |
| | | **677,102** | 472,451 |
| Current liabilities | | | |
| Trade and other payables | | **92,844** | 90,777 |
| Amount due to the ultimate holding company | 19 | **1,661** | 190,187 |
| Loan from the immediate holding company | 20 | **100,190** | – |
| Amount due to a fellow subsidiary | 21 | **270** | – |
| Amounts due to other related parties | 18 | **49,370** | 16,380 |
| Deferred charge | 22 | **127,624** | 121,170 |
| Taxation payable | | **77,721** | 23,942 |
| | | **449,680** | 442,456 |
| Net current assets | | **227,422** | 29,995 |
| | | **2,251,656** | 1,988,302 |
| Financed by: | | | |
| Share capital | 23 | **53,002** | 53,002 |
| Reserves | 24 | **2,133,332** | 1,910,386 |
| Shareholders' funds | | **2,186,334** | 1,963,388 |
| Deferred taxation | 25 | **65,322** | 24,914 |
| | | **2,251,656** | 1,988,302 |

**Zhang Ruchun**
*Executive Chairman*

**Xu Tianshu**
*Executive Director*

As at 31st December, 1999

| | Note | 1999 HK$'000 | 1998 HK$'000 |
|---|---|---|---|
| Fixed assets | 12 | **1,694** | 1,427 |
| Subsidiaries | 14 | **2,114,845** | 1,759,102 |
| Current assets | | | |
| Debtors and prepayments | | **54** | 646 |
| Cash and bank balances | | **2,362** | 109,776 |
| | | **2,416** | 110,422 |
| Current liabilities | | | |
| Creditors and accruals | | **1,750** | 2,845 |
| Loan from the immediate holding company | 20 | **100,190** | – |
| Amount due to a fellow subsidiary | 21 | **270** | – |
| | | **102,210** | 2,845 |
| Net current (liabilities)/assets | | **(99,794)** | 107,577 |
| | | **2,016,745** | 1,868,106 |
| Financed by: | | | |
| Share capital | 23 | **53,002** | 53,002 |
| Reserves | 24 | **1,963,743** | 1,815,104 |
| Shareholders' funds | | **2,016,745** | 1,868,106 |

**Zhang Ruchun**
*Executive Chairman*

**Xu Tianshu**
*Executive Director*

# Consolidated Cash Flow Statement

**For the year ended 31st December, 1999**

| | *Note* | **1999** **HK$'000** | 1998 HK$'000 |
|---|---|---|---|
| Net cash inflow from operating activities | 29 | **227,101** | 360,489 |
| Returns on investments and servicing of finance | | | |
| Interest received | | **8,125** | 28,136 |
| Taxation | | | |
| Overseas income tax paid | | **(23,943)** | (35,957) |
| Hong Kong profits tax paid | | **(75)** | – |
| Total taxation paid | | **(24,018)** | (35,957) |
| Investing activities | | | |
| Additions to oil property | | **(247,780)** | (1,260,779) |
| Purchases of fixed assets | | **(689)** | (1,423) |
| Proceeds on disposal of oil producing properties | | **404** | – |
| Proceeds on disposal of fixed assets | | **6** | 20 |
| Net cash outflow from investing activities | | **(248,059)** | (1,262,182) |
| Net cash outflow before financing | | **(36,851)** | (909,514) |
| Financing | | | |
| Issue of shares for cash, net of share issue expenses | | **–** | 989,466 |
| Net cash inflow from financing | | **–** | 989,466 |
| (Decrease)/increase in cash and bank balances | | **(36,851)** | 79,952 |
| Cash and bank balances at beginning of year | | **422,665** | 342,713 |
| Cash and bank balances at end of year | | **385,814** | 422,665 |

# Statement of Recognised Gains and Losses

For the year ended 31st December, 1999

| | Note | 1999 HK$'000 | 1998 HK$'000 |
|---|---|---|---|
| Exchange differences arising on translation of subsidiaries and not recognised in the profit and loss account | 24 | **1,112** | 10,962 |
| Profit for the year | 24 | **221,834** | 134,211 |
| Total recognised gains | | **222,946** | 145,173 |

## 1 PRINCIPAL ACTIVITIES

The principal activities of the Group are the exploration and production of crude oil in the People's Republic of China ("PRC") and Thailand, holding of wet berths and marina club debentures and the leasing of wet berths.

The oil operation in the PRC is conducted through production sharing arrangements with operational entities wholly owned and operated by 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 these entities.

The Group presently has two production sharing arrangements. 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 accounts have been prepared in accordance with the accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention.

### (a) Consolidation

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

### (b) Goodwill on consolidation

Goodwill on consolidation represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries acquired and is written off directly to reserves in the year of acquisition.

### (c) Subsidiaries

A company is a subsidiary if more than 50% of its issued capital is held for the long term.

Investments in subsidiaries are carried at cost or directors' valuation less provision for any permanent diminution in value.

## 2 PRINCIPAL ACCOUNTING POLICIES (continued)

### (d) 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:

(i) the assets that the Group controls and the liabilities that the Group incurs; and

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

### (e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation.

Depreciation is provided at rates sufficient to write off their cost over their estimated useful lives on a straight line basis at the following annual rates.

| | |
|---|---|
| Furniture and fixtures | 25% |
| Motor vehicles | 25% |

### (f) Oil property

Oil property is 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 oil producing 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 property) is provided on a straight line basis at annual rates of between 16.67% and 20%.

## 2 PRINCIPAL ACCOUNTING POLICIES (continued)

### (g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sale proceeds less estimated selling expenses.

### (h) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases and rentals payable are charged to the profit and loss account over the periods of the respective leases on a straight line basis.

### (i) Deferred taxation

Deferred taxation is accounted for at the current tax 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 asset is expected to be payable or recoverable in the foreseeable future.

### (j) 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 accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising therefrom are dealt with as a movement in reserves.

### (k) Retirement benefit costs

During the year, the Group established a defined contribution scheme which is available to certain employees in Hong Kong. Contributions to the scheme by the Group and employees are calculated on 5% to 12.5% of employee's basic salaries.

The Group's contributions to this scheme are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

## 2 PRINCIPAL ACCOUNTING POLICIES (continued)

### (l) Revenue recognition

Revenue from the sale of crude oil 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.

### (m) Related parties

Related parties are companies or operational entities, outside the Group, which are wholly owned and operated, whether directly or indirectly, by CNPC.

### (n) Comparatives

Certain comparative figures have been adjusted or extended as a result of the adoption of the revised Statement of Standard Accounting Practice (“SSAP”) No. 2.101, “Presentation of Financial Statements” which was issued by the Hong Kong Society of Accountants and became effective for accounting periods commencing on or after 1st January 1999.

## 3 TURNOVER AND CONTRIBUTION TO OPERATING PROFIT

Turnover represents proceeds from the sale of crude oil (net of sales tax) and sale of marina club debentures and wet berths and rental income on wet berths.

Analyses of the Group's turnover and contribution to profit before taxation by principal activity and by geographical segment are as follows:

| | 1999 HK$'000 | 1998 HK$'000 |
|---|---|---|
| **(a) Analysis by principal activity** | | |
| (i) Turnover | | |
| Sale of crude oil | **1,083,275** | 775,975 |
| Leasing of wet berths | **673** | 879 |
| | **1,083,948** | 776,854 |
| (ii) Contribution to profit before taxation | | |
| Sale of crude oil | **364,383** | 170,660 |
| Leasing of wet berths | **415** | 511 |
| Sale of marina club debentures and wet berths | **–** | (21) |
| | **364,798** | 171,150 |
| Net interest and corporate (expenses)/income | **(24,641)** | 20,544 |
| | **340,157** | 191,694 |

## 3 TURNOVER AND CONTRIBUTION TO OPERATING PROFIT (continued)

| | 1999<br>HK$'000 | 1998<br>HK$'000 |
|---|---|---|
| **(b) Analysis by geographical segment** | | |
| (i) Turnover | | |
| PRC (excludes Hong Kong) | **1,061,480** | 762,362 |
| Thailand | **21,795** | 13,613 |
| Hong Kong | **673** | 879 |
| | **1,083,948** | 776,854 |
| (ii) Contribution to profit before taxation, before interest and corporate (expenses)/income | | |
| PRC (excludes Hong Kong) | **364,399** | 174,690 |
| Thailand | **(16)** | (4,030) |
| Hong Kong | **415** | 490 |
| | **364,798** | 171,150 |

## 4 OTHER OPERATING INCOME

Other operating income includes a refund of PRC income tax as a result of the reinvestment of profit generated from the Xinjiang Contract of HK$4,607,000 (1998: HK$10,931,000). The Group has adopted the revised SSAP No. 2.102 "Net profit or loss for the period, fundamental errors and changes in accounting policies" and accordingly the refund of PRC income tax, which was previously accounted for as an exceptional item separately, has been reclassified to other operating income to conform with the current year's presentation.

## 5 NET FINANCE INCOME

| | 1999 HK$'000 | 1998 HK$'000 |
|---|---|---|
| Bank interest income | **8,125** | 30,016 |
| Interest expense on loan from the immediate holding company *(note 20)* | **(6,323)** | – |
| | **1,802** | 30,016 |

## 6 PROFIT BEFORE TAXATION

| | 1999 HK$'000 | 1998 HK$'000 |
|---|---|---|
| Profit before taxation is arrived at after charging the following: | | |
| Auditors' remuneration | | |
| Charge for the year | **1,981** | 1,778 |
| Underprovision for previous year | **–** | 97 |
| Depreciation of fixed assets | **418** | 292 |
| Depletion and depreciation of oil property | **176,536** | 108,980 |
| Operating lease rental expense in respect of land and buildings | **970** | 1,482 |
| Staff costs *(note 11)* | **7,445** | 7,110 |

## 7 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

### (a) Directors' emoluments

| | **1999** | 1998 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Fees | **200** | 142 |
| Salaries and other emoluments | **3,500** | 4,440 |
| Benefits from share options exercised | **–** | 9,100 |
| Retirement benefit costs | **304** | – |
| | **4,004** | 13,682 |

The emoluments were paid to the directors as follows:

| | **Number of individuals** | |
|---|---|---|
| Emolument bands (HK$) | **1999** | 1998 |
| Nil – 1,000,000 | **4** | 5 |
| 1,000,001 – 1,500,000 *(note)* | **2** | 3 |
| | **6** | 8 |

*Note:* The band analysed above excludes benefits from share options exercised by a director of HK$9.1 million in 1998.

Remuneration paid to non-executive directors for the year represents fees amounting to HK$200,000 (1998: HK$142,000). None of the directors has waived the right to receive their emoluments.

## 7 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

### (b) Senior management emoluments

Details of the emoluments paid to the five individuals, including three directors (1998: four), whose emoluments were the highest in the Group are as follows:

| | **1999** | 1998 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other emoluments | **5,132** | 5,616 |
| Benefits from share options exercised | **–** | 9,100 |
| Retirement benefit costs | **445** | – |
| | **5,577** | 14,716 |

| | **Number of individuals** | |
|---|---|---|
| Emolument bands (HK$) | **1999** | 1998 |
| Nil – 1,000,000 | **1** | 1 |
| 1,000,001 – 1,500,000 *(note)* | **4** | 4 |
| | **5** | 5 |

*Note:* The band analysed above excludes benefits from share options exercised by a director of HK$9.1 million in 1998.

## 8 TAXATION

| | 1999 HK$'000 | 1998 HK$'000 |
|---|---|---|
| Hong Kong profits tax | | |
| Underprovision in prior years | **75** | – |
| PRC income tax | | |
| Current | **77,802** | 32,569 |
| Deferred *(note 25)* | **40,446** | 24,914 |
| | **118,323** | 57,483 |

No provision for Hong Kong profits tax has been made as the Group has no assessable profit for the year (1998: nil).

PRC income tax has been calculated at the rates of 30% and 33% on the estimated assessable profit for the year in respect of the oil production under the Xinjiang Contract and the Leng Jiapu Contract, respectively.

## 9 PROFIT FOR THE YEAR

The profit for the year is dealt with in the accounts of the Company to the extent of HK$148,639,000 (1998: HK$230,461,000).

## 10 EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year of HK$221,834,000 (1998: HK$134,211,000) and the weighted average number of 5,300,233,512 shares (1998: 4,953,056,019 shares) in issue during the year.

Diluted earnings per share is not presented as the potential ordinary shares are anti-dilutive (1998: no diluting effect).

## 11 STAFF COSTS

The staff costs include the Group's contribution of HK$558,000 (1998: nil) to the Group's employee retirement scheme. At 31st December 1999, no forfeited contributions were available to reduce the Group's future contributions to the employee retirement scheme.

## 12 FIXED ASSETS

**Group**

| | Furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|
| Cost | | | |
| At 1st January 1999 | 1,798 | 1,668 | 3,466 |
| Additions | 286 | 403 | 689 |
| Disposals | (219) | (361) | (580) |
| At 31st December 1999 | 1,865 | 1,710 | 3,575 |
| Accumulated depreciation | | | |
| At 1st January 1999 | 371 | 1,668 | 2,039 |
| Charge for the year | 367 | 51 | 418 |
| Written back on disposals | (215) | (361) | (576) |
| At 31st December 1999 | 523 | 1,358 | 1,881 |
| Net book value | | | |
| At 31st December 1999 | 1,342 | 352 | 1,694 |
| At 31st December 1998 | 1,427 | – | 1,427 |

## 12 FIXED ASSETS (continued)

### Company

| | Furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|
| Cost | | | |
| At 1st January 1999 | 1,603 | – | 1,603 |
| Additions | 286 | 403 | 689 |
| Disposals | (75) | – | (75) |
| At 31st December 1999 | 1,814 | 403 | 2,217 |
| Accumulated depreciation | | | |
| At 1st January 1999 | 176 | – | 176 |
| Charge for the year | 367 | 51 | 418 |
| Written back on disposals | (71) | – | (71) |
| At 31st December 1999 | 472 | 51 | 523 |
| Net book value | | | |
| At 31st December 1999 | 1,342 | 352 | 1,694 |
| At 31st December 1998 | 1,427 | – | 1,427 |

## 13 OIL PROPERTY

| | Group | |
|---|---|---|
| | **1999** | 1998 |
| | **HK$'000** | HK$'000 |
| Cost | | |
| At 1st January | **2,129,415** | 654,711 |
| Translation differences | **(2,060)** | 25,127 |
| Additions | **247,780** | 1,449,577 |
| Disposals | **(457)** | – |
| At 31st December | **2,374,678** | 2,129,415 |
| Accumulated depletion and depreciation | | |
| At 1st January | **185,723** | 61,117 |
| Translation differences | **(1,166)** | 15,626 |
| Charge for the year | **176,536** | 108,980 |
| Written back on disposals | **(59)** | – |
| At 31st December | **361,034** | 185,723 |
| Net book value | | |
| At 31st December | **2,013,644** | 1,943,692 |

## 14 SUBSIDIARIES

| | Company | |
|---|---|---|
| | **1999** | 1998 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at 1991 directors' valuation | **156,034** | 156,034 |
| Provision for diminution in value | **(110,087)** | (110,087) |
| | **45,947** | 45,947 |
| Amounts due from subsidiaries less provision | **1,912,319** | 1,567,083 |
| Dividends receivable from subsidiaries | **156,579** | 146,072 |
| | **2,114,845** | 1,759,102 |

Details of principal subsidiaries, which in the directors' opinion, materially affect the results or net assets of the Group are given in note 35.

## 15 INVENTORIES

| | Group | |
|---|---|---|
| | **1999** | 1998 |
| | **HK$'000** | HK$'000 |
| Crude oil | **10,305** | 868 |
| Marina club debentures and wet berths | **17,762** | 17,762 |
| | **28,067** | 18,630 |

## 16 AMOUNT DUE FROM XINJIANG PETROLEUM ADMINISTRATION BUREAU

The amount receivable represents a trade balance arising from transactions entered in the normal course of business.

## 17 AMOUNT DUE FROM LIAOHE PETROLEUM EXPLORATION BUREAU

The amount receivable represents a trade balance arising from transactions entered in the normal course of business.

## 18 AMOUNTS DUE FROM/TO OTHER RELATED PARTIES

The amounts receivable/payable represent trade balances arising from transactions entered in the normal course of business.

## 19 AMOUNT DUE TO THE ULTIMATE HOLDING COMPANY

| | Group | |
|---|---|---|
| | **1999** | 1998 |
| | **HK$'000** | HK$'000 |
| Accounts payable | **1,661** | 1,389 |
| Acquisition cost payable | **–** | 188,798 |
| | **1,661** | 190,187 |

## 20 LOAN FROM THE IMMEDIATE HOLDING COMPANY

The loan from the immediate holding company is unsecured, bears interest at prime rate in Hong Kong for US Dollars borrowing and is repayable on demand.

## 21 AMOUNT DUE TO A FELLOW SUBSIDIARY

The amount due to a fellow subsidiary represents a trade balance arising from transactions entered in the normal course of business.

## 22 DEFERRED CHARGE

| | Group | |
|---|---|---|
| | **1999** | 1998 |
| | **HK$'000** | HK$'000 |
| At 1st January | **121,170** | 65,026 |
| Translation differences | **(77)** | 151 |
| Addition *(note 30(a))* | **6,531** | 55,993 |
| At 31st December | **127,624** | 121,170 |
| Representing: | | |
| Group's share of investment recovery of oil property recorded by the Joint Development Department ("JDD") | **191,688** | 138,073 |
| Depletion and depreciation charge incurred by the Group | **(64,064)** | (16,903) |
| | **127,624** | 121,170 |

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 property charged for the year in the accounts of JDD. However, pursuant to the terms of the Xinjiang Contract, CNPC has contributed all of its share of the oil property assets at the commencement of the Xinjiang Contract whereas the Group will contribute its share over a period of 2 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 during the year, resulting in a deferred charge which is carried forward.

## 23 SHARE CAPITAL

| | 1999 HK$'000 | 1998 HK$'000 |
|---|---|---|
| *Authorised:* | | |
| 8,000,000,000 shares of HK$0.01 each | **80,000** | 80,000 |
| *Issued and fully paid:* | | |
| At 1st January | **53,002** | 46,708 |
| Subscription | **–** | 6,094 |
| Exercise of share options | **–** | 200 |
| At 31st December | | |
| 5,300,233,512 (1998: 5,300,233,512) shares of HK$0.01 each | **53,002** | 53,002 |

At 31st December 1999, the Company had outstanding options granted under the Company's executive share option scheme to directors and a senior executive to subscribe for a total of 70,000,000 shares of the Company of which 45,000,000 options are exercisable at HK$1.31 and HK$1.39 per share at any time prior to 15th June 2002, 5,000,000 options are exercisable at HK$1.61 per share at any time prior to 3rd March 2003 and the remaining 20,000,000 options are exercisable at HK$0.91 per share at any time prior to 11th May 2004.

## 24 RESERVES

| Group | Contributed surplus HK$'000 | Share premium HK$'000 | Exchange reserve HK$'000 | Retained profit/ (loss) HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1st January 1998 | 134,323 | 663,436 | (30,753) | 15,035 | 782,041 |
| Translation differences | – | – | 10,962 | – | 10,962 |
| Premium on shares issued, net of share issue expenses | – | 983,172 | – | – | 983,172 |
| Profit for the year retained | – | – | – | 134,211 | 134,211 |
| At 31st December 1998 | 134,323 | 1,646,608 | (19,791) | 149,246 | 1,910,386 |
| At 1st January 1999 | 134,323 | 1,646,608 | (19,791) | 149,246 | 1,910,386 |
| Translation differences | – | – | 1,112 | – | 1,112 |
| Profit for the year retained | – | – | – | 221,834 | 221,834 |
| At 31st December 1999 | 134,323 | 1,646,608 | (18,679) | 371,080 | 2,133,332 |
| **Company** | | | | | |
| At 1st January 1998 | 133,795 | 663,436 | – | (195,760) | 601,471 |
| Premium on shares issued, net of share issue expenses | – | 983,172 | – | – | 983,172 |
| Profit for the year | – | – | – | 230,461 | 230,461 |
| At 31st December 1998 | 133,795 | 1,646,608 | – | 34,701 | 1,815,104 |
| At 1st January 1999 | 133,795 | 1,646,608 | – | 34,701 | 1,815,104 |
| Profit for the year | – | – | – | 148,639 | 148,639 |
| At 31st December 1999 | 133,795 | 1,646,608 | – | 183,340 | 1,963,743 |

The contributed surplus 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$317,135,000 (1998: HK$168,496,000) as at 31st December 1999.

## 25 DEFERRED TAXATION

| | Group | |
|---|---|---|
| | **1999** | 1998 |
| | **HK$'000** | HK$'000 |
| At 1st January | **24,914** | – |
| Translation differences | **(38)** | – |
| Transfer from profit and loss account *(note 8)* | **40,446** | 24,914 |
| At 31st December | **65,322** | 24,914 |

At the balance sheet date, deferred taxation benefits not recognised in the accounts comprised the following timing differences:

| | Group | |
|---|---|---|
| | **1999** | 1998 |
| | **HK$'000** | HK$'000 |
| Taxation losses | **59,000** | 78,000 |
| Excess of depletion and depreciation of oil property charged in the accounts over depreciation allowances claimed for tax purposes in Thailand | **1,500** | 5,800 |
| | **60,500** | 83,800 |

## 26 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 with CNPC in July 1996, the Group has entered into the following transactions with Xinjiang Petroleum Administration Bureau ("XPAB"), an operational entity wholly owned and operated by CNPC, the ultimate holding company of the Company and certain entities wholly owned and operated by XPAB:

| | *Note* | **1999** **HK$'000** | 1998 HK$'000 |
|---|---|---|---|
| Sale of crude oil | (i) | **351,123** | 293,292 |
| Operations and support services fee | (ii) | **251** | 219 |
| Operation management fee | (iii) | **222,105** | 182,092 |
| Drilling fee | | **–** | 7,755 |
| Construction fee | (iv) | **36,491** | 14,559 |
| Perforation fee | (v) | **1,438** | 3,654 |
| Surveying fee | | **–** | 5,158 |
| Development costs | (vi) | **7,033** | 865 |
| Testing fee | | **–** | 1,454 |

*Notes:*

(i) There is no contractual obligation upon XPAB to purchase production from the contract area although, from a commercial perspective, the Group believes that XPAB would accept all deliveries to utilise its refining capacity. The oil price was based on the monthly oil price set by CNPC for the purpose of matching the trend of the international oil price.

(ii) Under an Entrustment Contract entered into with XPAB in 1996. XPAB was entrusted to take up the responsibility as an operator under the Xinjiang Contract. A Joint Development Department ("JDD") was also established by XPAB for the performance of its contractual responsibilities under the operatorship. In return for the operations and support services rendered, a service fee was paid to XPAB on the basis of 30% of the aggregate remuneration (salaries and welfare fees) for JDD's employees. The Contract was renewed in July 1999 with similar terms.

(iii) Under an operating contract between the Group and XPAB, XPAB is responsible for all the operating costs in return for a fee of RMB455 (approximately HK$427) (1998: RMB514) per tonne of oil produced and a bonus of RMB10 (approximately HK$9) (1998: RMB20) for each tonne of crude oil produced in excess of 804,000 tonnes.

(iv) A construction contract was entered into with an operational entity wholly owned and operated by XPAB to construct 5 ground stations, 13 oil tanks and together with an extension project of an operational station in the contract area.

## 26 RELATED PARTY TRANSACTIONS (continued)

(v) An engineering contract was entered into with an operational entity wholly owned and operated by XPAB to perforate holes in 64 wells of 12 metres each at RMB2,051 (approximately HK$1,921) (1998: RMB2,051) per metre.

(vi) Various other development contracts were entered into with certain operational entities wholly owned and operated by XPAB in relation to the development of oil property in the contract area.

In accordance with the Xinjiang Contract, items (i) to (iii) above represent the Group's 54% share of oil production and the respective cost items. The remaining amounts represent the Group's 100% share of the respective cost items.

(b) In connection with the Leng Jiapu Contract entered into with CNPC in December 1997, the Group has entered into the following transactions with Liaohe Petroleum Exploration Bureau ("LPEB"), an operational entity wholly owned and operated by CNPC, the ultimate holding company of the Company and certain entities wholly owned and operated by LPEB:

| | *Note* | **1999** | 1998 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| Sale of crude oil | (i) | **710,357** | 469,070 |
| Operations and support services fee | (ii) | **427** | 357 |
| Assistance fee | (iii) | **272** | 226 |
| Signature fee | | **–** | 1,162 |
| Operating management | (iv) | **174,529** | 168,403 |
| Drilling fee | (v) | **85,542** | 171,099 |
| Surveying fee | (vi) | **1,584** | 5,316 |
| Perforation fee | (vii) | **5,441** | 12,201 |
| Quantifying fee | (viii) | **980** | 2,474 |
| Construction work | (ix) | **14,471** | 1,242 |
| Purchase of equipment | (x) | **9,998** | 14,789 |

*Notes:*

(i) There is no contractual obligation upon LPEB to purchase production from the contract area although, from a commercial perspective, the Group believes that LPEB would accept all deliveries. The oil price was based on the monthly oil price set by CNPC for the purpose of matching the trend of the international oil price.

(ii) Under an Entrustment Contract entered into with LPEB in March 1998, LPEB was entrusted to take up the responsibility as an operator under the Leng Jiapu Contract. A Joint Development Management Organisation ("JDMO") was also established by LPEB for the performance of its contractual responsibilities under the operatorship. In return for the operations and support services rendered, a service fee was paid to LPEB on the basis of 30% of the aggregate remuneration (salaries and welfare fees) for JDMO's employees.

## 26 RELATED PARTY TRANSACTIONS (continued)

(iii) Pursuant to the Leng Jiapu Contract, CNPC has agreed to provide assistance to the Group in return for an annual assistance fee of US$50,000 (approximately HK$387,000) (1998: US$50,000).

(iv) Under the Entrustment Contract, LPEB was entrusted to take up the responsibility as an operator. A significant proportion of the provision of operating crews, purchase of materials and supplies, provision of utilities, repair and maintenance was provided by LPEB. The provision of the above was partly governed by contracts. The pricing of principal transactions, including those with contracts, is set with reference to the rates used by LPEB in the region.

(v) Oil drilling contracts were entered into with two operational entities wholly owned and operated by LPEB to drill a total of 74 wells by the end of December 1999 at fees ranged from RMB908 (approximately HK$850) to RMB929 (approximately HK$870) (1998: RMB829 to RMB908) per metre.

(vi) Surveying contracts were entered into with an operational entity wholly owned and operated by LPEB to perform surveys for 39 wells with a total of 2,535,594 conditioned metre each at a fee of RMB0.72 (approximately HK$0.68) (1998: RMB0.72) per conditioned metre by the end of December 1999.

(vii) Engineering contracts were entered into with an operational entity wholly owned and operated by LPEB to perforate holes in 206 wells resulting in a total of 31,210 standard shoots each at a fee of RMB266 (approximately HK$249) (1998: RMB266) per standard shoot by the end of December 1999.

(viii) Quantifying contracts were entered into with an operational entity wholly owned and operated by LPEB to obtain geographic data for 45 wells with a total of 90,510 metres each at fees ranged from RMB15.7 (approximately HK$15) to RMB19.6 (approximately HK$18) (1998: RMB15.7 to RMB19.2) per metre by the end of December 1999.

(ix) Various construction contracts were entered into with certain operational entities wholly owned and operated by LPEB to build 3 oil tanks and various oil pipes by the end of December 1999.

(x) Various purchasing contracts were entered into with certain operational entities wholly owned and operated by LPEB to purchase equipment, such as oil pumps and steam injection machines, for the development of oil property in the contract area.

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.

## 26 RELATED PARTY TRANSACTIONS (continued)

(c) Agreements dated 28th June 1994 and 10th May 1998 were entered into with Great Wall Drilling Company, a wholly owned subsidiary of CNPC, to lease a complete set of drilling rig, logging equipment and certain cementing equipment respectively for operations in the oil concession in Thailand and to purchase any consumables required under the continued operation of such equipment. The agreements were initially set for a term of six months and are extendable automatically on a monthly basis until termination by mutual consent with one month prior notice; and for successive six month periods with written consent no less than one month notice, respectively.

The following amounts were paid in respect of the year ended 31st December:

| | **1999** | 1998 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Great Wall Drilling Company | | |
| Lease rental of rig and logging equipment | **–** | 4,258 |
| Lease rental of cementing equipment | **–** | 864 |
| Other entities owned by CNPC | | |
| Purchase of consumables | **–** | 308 |

(d) Interest expense amounting to HK$6,323,000 (1998: nil) was payable to the immediate holding company, Sun World for the year ended 31st December 1999 on an unsecured loan of US$12,078,753 which bears interest at prime rate in Hong Kong for US Dollars borrowings and is repayable on demand.

(e) Rental expense amounting to HK$560,000 (1998: nil) was paid to a fellow subsidiary in accordance with a lease agreement at a monthly rate of HK$46,650 for the year ended 31st December 1999.

## 27 CONTINGENCIES

(a)

| | Group | |
|---|---|---|
| | **1999** | 1998 |
| | **HK$'000** | HK$'000 |
| Claims from contractors for additional costs incurred on a marina project due to suspension of work and interest on delayed payment | **1,979** | 1,979 |

(b) The Company was the subject of an investigation by an Inspector appointed by the Financial Secretary on 12th August 1992 under the Hong Kong Companies Ordinance. The investigation by the Inspector was completed and the Company received a copy of the Inspector's Report dated 28th August 1993.

The completed investigation by the Inspector of the affairs of the Company since 1st January 1990 and the on-going investigations by the Commercial Crime Bureau ("CCB") may uncover losses suffered by the Company or claims by or against it, and to that extent there may be contingent assets or liabilities to be brought into account. The directors are, however, of the opinion, that based on the evidence made available to them there are no contingent liabilities that would have a material effect on the financial position of the Company. No recognition of any contingent assets that may exist has been made in the accounts as the recovery is uncertain. The contents of the Inspector's Report is presently being investigated by CCB and the Company will, on advice, and in the light of any new facts which may still emerge, take such action as the directors deem appropriate having regard to the best interests of the Company.

## 28 COMMITMENTS

### (a) Capital commitments

| | Group | |
|---|---|---|
| | **1999** | 1998 |
| | **HK$'000** | HK$'000 |
| Contracted but not provided for | | |
| Development cost under the Xinjiang Contract | **–** | 8,000 |
| Development cost under the Leng Jiapu Contract | **14,000** | 180,000 |
| | **14,000** | 188,000 |

### (b) Lease commitments

| | Group | | Company | |
|---|---|---|---|---|
| | **1999** | 1998 | **1999** | 1998 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Operating lease commitments in respect of land and buildings at 31st December payable in the next twelve months, analysed according to the period in which the lease expires, are as follows: | | | | |
| Expiring in the first year | **410** | – | **–** | – |
| Expiring in the second to fifth years inclusive | **746** | 1,040 | **746** | 1,040 |
| | **1,156** | 1,040 | **746** | 1,040 |

Pursuant to a drilling rig lease agreement and a cementing equipment lease agreement entered into with Great Wall Drilling Company dated 28th June 1994 and 10th May 1998 respectively, the Group leased a complete set of drilling rig and logging equipment at the rate of US$6,652 (approximately HK$51,000) per day and certain cementing equipment at the rate of US$595 (approximately HK$4,600) per day. The lease payments are calculated on the basis of actual usage of these equipment.

## 28 COMMITMENTS (continued)

(c) In September 1993, a stock purchase agreement was entered into by the Group to purchase the entire issued capital of North Central International, Inc. (now known as Sino-U.S. Petroleum Inc.) which owns a one-third interest in the oil concession in Thailand. According to the agreement, an additional cash consideration of US$350,000 (approximately HK$2.7 million) shall be payable within 30 days after production of 5 million barrels of crude oil or natural gas and the total production would be accumulated from 30th September 1993.

## 29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before taxation to net cash inflow from operating activities

| | **1999** | 1998 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit before taxation | **340,157** | 191,694 |
| Depletion and depreciation of oil property | **176,536** | 108,980 |
| Depreciation of fixed assets | **418** | 292 |
| Gain on disposal of | | |
| Fixed assets | **(2)** | (18) |
| Oil producing properties | **(6)** | – |
| Minority interests' share of loss written back | **–** | (1,671) |
| Net interest income | **(1,802)** | (30,016) |
| Decrease/(increase) in other non-current assets | **4,299** | (1,438) |
| Increase in inventories | **(9,437)** | (326) |
| Decrease in trade and other receivables | **4,742** | 6,185 |
| Decrease in amount due from XPAB | **1,335** | 4,093 |
| Increase in amount due from LPEB | **(238,484)** | (5,403) |
| Decrease/(increase) in amounts due from other related parties | **342** | (743) |
| Increase in trade and other payables | **2,067** | 21,398 |
| (Decrease)/increase in amount due to the ultimate holding company | **(188,526)** | 1,389 |
| Increase in loan from the immediate holding company | **93,874** | – |
| Increase in amount due to fellow subsidiary | **270** | – |
| Increase in amounts due to other related parties | **32,990** | 8,468 |
| Increase in deferred charge | **6,454** | 55,993 |
| Exchange difference | **1,874** | 1,612 |
| Net cash inflow from operating activities | **227,101** | 360,489 |

## 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$66.0 million (approximately HK$510 million), in exchange for a 54% share in the oil production from the Contract Area.

Pursuant to the Xinjiang Contract, the Group shall bear all the costs required for the Infill Development Programme and share in the production from the Contract Area which shall be allocated (after deduction of local taxes and corporate income tax) firstly towards operating costs recovery and thereafter in the proportion of 54% to the Group and 46% to CNPC 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 CNPC 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 XPAB, an operational entity wholly owned and operated by CNPC, whereby XPAB is entrusted to take up the responsibility as an operator. Under the Entrustment Contract, XPAB has established the JDD for the performance of its contractual responsibilities under the operatorship.

## 30 OIL PRODUCTION SHARING CONTRACT – XINJIANG CONTRACT (continued)

Set out below is the summary of assets, liabilities and results for the year recognised in the consolidated accounts in relation to the Group's interest in the Xinjiang Contract:

| | **1999** | 1998 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **(a) Results for the year** | | |
| Turnover | **351,123** | 293,292 |
| Operating profit | **67,003** | 37,123 |
| Operating profit is arrived at after charging the following: | | |
| Depletion and depreciation of oil property | **47,513** | 14,029 |
| Deferred charge *(note 22)* | **6,531** | 55,993 |
| **(b) Assets and liabilities** | | |
| Oil property | **611,279** | 605,844 |
| Current assets | **134,243** | 158,099 |
| Current liabilities | **(250,291)** | (175,326) |
| Net assets | **495,231** | 588,617 |
| **(c) Commitments** | | |
| Contracted but not provided for | **–** | 8,000 |

## 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 million (approximately HK$942 million) and to fund its share of cost of the development carried out for the realisation of petroleum production (the "Development Operations") in the area as defined in the Leng Jiapu Contract (the "Contract Area"), at an estimated cost of US$65.5 million (approximately HK$506 million) in the first two years of the development period and be further responsible for 70% of the development costs after the first two years, in exchange for a 70% share in the oil production from the Contract Area.

Pursuant to the Leng Jiapu Contract, the Group shall bear 70% of the costs required for the Development Operations in the Contract Area 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 70% to the Group and 30% to CNPC 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 LPEB, an operational entity wholly owned and operated by CNPC, whereby LPEB is entrusted to take up the responsibility as an operator. Under the Entrustment Contract, LPEB has established the JDMO for the performance of its contractual responsibilities under the operatorship.

## 31 OIL PRODUCTION SHARING CONTRACT – LENG JIAPU CONTRACT (continued)

Set out below is the summary of assets, liabilities and results for the year recognised in the consolidated accounts in relation to the Group's interest in the Leng Jiapu Contract:

| | **1999** | 1998 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **(a) Results for the year** | | |
| Turnover | **710,357** | 469,070 |
| Operating profit | **297,396** | 137,567 |
| Operating profit is arrived at after charging the following: | | |
| Depletion and depreciation of oil property | **118,513** | 85,373 |
| **(b) Assets and liabilities** | | |
| Oil property | **1,249,082** | 1,173,760 |
| Current assets | **498,793** | 166,769 |
| Current liabilities | **(455,811)** | (235,608) |
| Net assets | **1,292,064** | 1,104,921 |
| **(c) Commitments** | | |
| Authorised but not contracted for | **14,000** | 180,000 |

## 32 SUBSEQUENT EVENT

On 10th March 2000, CNPC, the Company's ultimate holding Company, entered into the following agreements with PetroChina Company Limited ("PetroChina"), a subsidiary of CNPC listed on The Stock Exchange of Hong Kong Limited since 7th April 2000:

(i) Pursuant to a transfer agreement, CNPC has transferred to PetroChina the entrusted responsibilities as operators in connection with entrustment contracts under the Xinjiang Contract and Leng Jiapu Contract subsequent to the transfer of CNPC's rights and obligations under the above-mentioned contracts to PetroChina in December 1999.

Management has indicated its intention to issue confirmation letters to CNPC and PetroChina confirming its consent to the above-mentioned transfers of the entrustment contracts and production sharing contracts.

(ii) Pursuant to a non-competition undertaking, CNPC has undertaken to PetroChina that its subsidiaries including the Company shall not, without the prior written consent of PetroChina, be involved in any businesses within or outside the PRC that are directly or indirectly in competition with the existing businesses of PetroChina. The Company has been allowed to continue to own the interests in, and carry on the businesses relating to the three existing projects of the Company. They are the oilfields in Xinjiang, Leng Jiapu and Thailand.

## 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 28th April 2000.

## 35 PRINCIPAL SUBSIDIARIES

**As at 31st December 1999**

| | Place of incorporation | Particulars of issued shares held | Percentage of equity shares held By the Company | Percentage of equity shares held By the Group |
|---|---|---|---|---|
| **Investment holding** | | | | |
| **Operated in Hong Kong** | | | | |
| First South China Capital Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 100 |
| Fore-Tech Company Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 100 |
| FSC (B.V.I.) Limited | British Virgin Islands | 50,000 ordinary shares of US$1 each | 100 | 100 |
| FSC Investment Holdings Limited | Hong Kong | 2,223,966,170 ordinary shares of HK$0.10 each | – | 100 |
| **Operated in Thailand** | | | | |
| Thai Offshore Petroleum Limited | Thailand | 1,750,000 ordinary shares of Baht100 each (fully paid up) 1,250,000 ordinary shares of Baht100 each (25% paid up) | – | 74 |

## 35 PRINCIPAL SUBSIDIARIES (continued)

**As at 31st December 1999**

| | Place of incorporation | Particulars of issued shares held | Percentage of equity shares held By the Company | Percentage of equity shares held By the Group |
|---|---|---|---|---|
| **Oil exploration and production** | | | | |
| **Operated in Thailand** | | | | |
| Central Place Company Limited | Hong Kong | 160 ordinary shares of HK$10 each | – | 100 |
| Sino-Thai Energy Limited | Thailand | 1,200,000 ordinary shares of Baht100 each | – | 100 |
| Sino-U.S. Petroleum Inc. | United States of America | 1,000 ordinary shares of US$1 each | – | 100 |
| Thai Energy Resources Limited | Thailand | 1,000 ordinary shares of Baht 100 each | – | 74 |
| **Operated in the PRC** | | | | |
| Hafnium Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | 100 |
| Beckbury International Limited | British Virgin Islands | 1 ordinary share of US$1 | 100 | 100 |

## 35 PRINCIPAL SUBSIDIARIES (continued)

**As at 31st December 1999**

| | Place of incorporation | Particulars of issued shares held | Percentage of equity shares held By the Company | Percentage of equity shares held By the Group |
|---|---|---|---|---|
| **Marina club debentures and wet berths holding** | | | | |
| **Operated in Hong Kong** | | | | |
| Breener Holdings Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 65 |
| Clavell Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 65 |
| Cumberland Trading Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 65 |
| Halcon Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 65 |
| Helium Holdings Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 65 |
| Henden Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 65 |
| Linsan Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 65 |
| Marina Ventures Hong Kong Limited | Hong Kong | 1,000 ordinary shares of HK$1 each | – | 65 |
| Mindel Investments Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 65 |
| Osaba Holdings Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 65 |

## 35 PRINCIPAL SUBSIDIARIES (continued)

**As at 31st December 1999**

| | Place of incorporation | Particulars of issued shares held | Percentage of equity shares held By the Company | Percentage of equity shares held By the Group |
|---|---|---|---|---|
| Stolt Investments Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 65 |
| Tensor Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 65 |
| Tradear Investments Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 65 |
| Visck Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 65 |
| Wade Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 65 |
| York Hire Investments Limited | Hong Kong | 2 ordinary shares of HK$1 each | – | 65 |

| | Year ended 31st December | | | | |
|---|---|---|---|---|---|
| | **1999** | 1998 | 1997 | 1996 | 1995 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| RESULTS | | | | | |
| Turnover | **1,083,948** | 776,854 | 323,239 | 108,650 | 11,756 |
| Profit/(loss) before taxation | **340,157** | 191,694 | 89,458 | 32,684 | (20,652) |
| Taxation | **118,323** | 57,483 | 26,351 | 10,753 | 65 |
| Profit/(loss) after taxation | **221,834** | 134,211 | 63,107 | 21,931 | (20,717) |
| Minority interests | **–** | – | – | – | 64 |
| Profit/(loss) for the year | **221,834** | 134,211 | 63,107 | 21,931 | (20,781) |
| Earnings/(loss) per share | **4.19¢** | 2.71¢ | 1.37¢ | 0.72¢ | (0.77¢) |

| | As at 31st December | | | | |
|---|---|---|---|---|---|
| | **1999** | 1998 | 1997 | 1996 | 1995 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| ASSETS AND LIABILITIES | | | | | |
| Total assets | **2,701,336** | 2,430,758 | 1,000,067 | 620,943 | 199,505 |
| Total liabilities | **(515,002)** | (467,370) | (171,318) | (69,696) | (67,648) |
| Shareholders' funds | **2,186,334** | 1,963,388 | 828,749 | 551,247 | 131,857 |

## PROVED RESERVES

| | PRC | Thailand (million barrels) | Total |
|---|---|---|---|
| As at 1st January 1999 | 119.8 | 4.4* | 124.2 |
| Production for the year | (9.8) | (0.2) | (10.0) |
| As at 31st December 1999 | 110.0 | 4.2 | 114.2 |

* *Assessed on a low estimate basis.*

**CNPC (HONG KONG) LIMITED**
(incorporated in Bermuda with limited liability)
中國(香港)石油有限公司

# FORM OF PROXY FOR ANNUAL GENERAL MEETING

I / We *(Note 1)* ..........................................................................................
of ..........................................................................................................
being the registered holder(s) of *(Note 2)* ................................... shares of HK$0.01 each in the capital of CNPC (Hong Kong) Limited ("the Company") hereby appoint *(Note 3)* the Chairman of the Meeting or ..........................................................................................................
of ..........................................................................................................
as my / our proxy to vote for me / us on my / our behalf at the Annual General Meeting of the Company to be held at Coral Room 2, 3 / F, Furama Hotel, One Connaught Road Central, Hong Kong on Tuesday, 13th June 2000 at 11:00 a.m. and at any adjournment thereof on the resolutions as hereunder indicated:

| **RESOLUTIONS** | **FOR** *(Note 4)* | **AGAINST** *(Note 4)* |
|---|---|---|
| 1. To adopt the audited Financial Statement and the Reports of the Directors and Auditors for the year ended 31st December 1999. | | |
| 2. a) To re-elect Mr. Lau Wah Sum as Director. | | |
| b) To authorise the Directors to fix the remuneration of the Directors. | | |
| 3. To appoint PricewaterhouseCoopers as Auditor for the ensuing year in place of the retiring auditors PricewaterhouseCoopers and to authorise the Directors to fix their remuneration. | | |
| 4. To approve the share repurchase mandate (Ordinary Resolution on item 4 of the Notice of Annual General Meeting). | | |
| 5. To approve the share issue mandate (Ordinary Resolution on item 5 of the Notice of Annual General Meeting). | | |
| 6. To approve extension of the share issue mandate (Ordinary Resolution on item 6 of the Notice of Annual General Meeting). | | |

Dated this ............. day of ..............., 2000     Signature *(Note 5)*: ................................

*Notes:*

1. Full name(s) and address(es) to be inserted in BLOCK CAPITALS.
2. Please insert the number of shares registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the capital of the Company registered in your name(s).
3. Any member entitled to attend and vote at this Meeting is entitled to appoint a proxy or proxies to attend and vote in their stead. The proxy need not be a member of the Company but must attend the meeting in person to represent the appointor. If you wish to appoint a proxy other than the Chairman of the Meeting, strike out the words "Chairman of the Meeting" and insert the name and address of the person desired in the spaces provided. Any alteration made to this Form of Proxy must be initialled by the person(s) signing it. In the case of joint holders, if more than one of such joint holders be present, personally or by proxy, one of the persons so present whose name stands first in the Register of Members in respect of the relevant joint holding shall alone be entitled to vote.
4. Please indicate with an "x" in the space provided how you wish your vote(s) to be cast on a poll. Should this form be returned duly signed but without a specific direction, the proxy will vote or abstain at his discretion.
5. The form of proxy must be signed by you or your attorney duly authorised in writing or, in case of a corporation, must be either under seal or under the hand of an officer or attorney duly authorised.
6. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of authority must be deposited at the principal office of the Company at room 3907–3910, 39 / F., 118 Connaught Road West, Hong Kong not less than 48 hours before the time appointed for holding the Meeting.
7. Completion and delivery of this Form of Proxy will not preclude you from attending and voting at the Annual General Meeting if you so wish.